Ordinance No. 2007-00070

ORDINANCE

relating to

CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2007

Adopted: June 26, 2007

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EFFECTIVE IMMEDIATELY

AN ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF LUBBOCK, TEXAS, TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2007 IN AN AMOUNT NOT TO EXCEED $12,000,000; LEVYING A TAX AND PLEDGING SURPLUS WATERWORKS SYSTEM REVENUES IN PAYMENT THEREOF; APPROVING THE OFFICIAL STATEMENT; APPROVING EXECUTION OF A PURCHASE CONTRACT; AND ENACTING OTHER PROVISIONS RELATING THERETO

WHEREAS, under the provisions of Subchapter C, Chapter 271, Texas Local Government Code, as amended, the City of Lubbock, Texas (the "City"), after giving proper notice, is authorized to issue and sell for cash its certificates of obligation (herein defined as the "Certificates") that are secured by and payable from the ad valorem taxes and other revenues specified in Article II of this Ordinance, and that are issued in the amount, for the purposes, and with the provisions set forth in Section 3.1 of this Ordinance;

WHEREAS, pursuant to a resolution heretofore passed by the City Council, notice of intention to issue the Certificates was published in a newspaper of general circulation in the City in accordance with applicable law;

WHEREAS, no petition has been filed with the City Secretary, any member of the City Council or any other official of the City, protesting the issuance of the Certificates;

WHEREAS, the City Council is now authorized and empowered to proceed with the issuance and sale of the Certificates, and has found and determined that it is necessary and in the best interests of the City and its citizens that it authorize the issuance of the Certificates in accordance with the terms and provisions of this Ordinance at this time;

WHEREAS, the City Council desires to delegate, pursuant to Chapter 1371, Texas Government Code, as amended, and the parameters of this Ordinance, to the Authorized Officer, the authority to approve the amount, the interest rate, the price and terms of the Certificates authorized hereby and to otherwise take such actions as are necessary and appropriate to effect the sale of the Certificates;

WHEREAS, the meeting at which this Ordinance is considered is open to the public as required by law, and public notice of the time, place, and purpose of said meeting was given as required by Chapter 551, Texas Government Code, as amended; therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LUBBOCK:

ARTICLE I

DEFINITIONS AND OTHER PRELIMINARY MATTERS

Section 1.1 Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise in this Ordinance, the following terms shall have the meanings specified below:

"Authorized Officer" means the Chief Financial Officer and, in his absence, each of the City Manager and the Director of Fiscal Policy and Strategic Planning.

"Certificate" means any of the Certificates.

"Certificate Date" means the date designated as the initial date of the Certificates by Section 3.2(a) of this Ordinance.

"Certificates" means the certificates of obligation authorized to be issued by Section 3.1 of this Ordinance and designated as "City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2007."

"City" means the City of Lubbock, Texas.

"Closing Date" means the date of the initial delivery of and payment for the Certificates.

"Designated Payment/Transfer Office" means (i) with respect to the initial Paying Agent/Registrar named in this Ordinance, the Designated Payment/Transfer Office as designated in the Paying Agent/Registrar Agreement, or at such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the City and such successor.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Event of Default" means any event of default as defined in Section 10.1 of this Ordinance.

"Fiscal Year" means such fiscal year as shall from time to time be set by the City Council.

"Gross Revenues" means, with respect to any period, all income, revenues and receipts received from the operation and ownership of the System.

"Initial Certificate" means the initial certificate authorized by Section 3.4 of this Ordinance.

"Interest and Sinking Fund" means the interest and sinking fund established by Section 2.2 of this Ordinance.

"Interest Payment Date" means the date or dates on which interest on the Certificates is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being February 15 and August 15 of each year, commencing on the date set forth in the Pricing Certificate.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Net Revenues" means the Gross Revenues of the System, with respect to any period, after deducting the System's Operating and Maintenance Expenses during such period.

"Operating and Maintenance Expenses" means all reasonable and necessary expenses directly related and attributable to the operation and maintenance of the System, including, but not limited to, the costs of insurance, the purchase and carrying of stores, materials, and supplies, the payment of salaries and labor, and other expends reasonably and properly charged, under generally accepted accounting principles, to the operation and maintenance of the System or by statute deemed to be a first lien against the Gross Revenues. Depreciation charges on equipment, machinery, plants and other facilities comprising the System and expenditures classed under generally accepted accounting principles as capital expenditures shall not be considered as "Operating and Maintenance Expenses" for purposes of determining "Net Revenues."

"Owner" means the person who is the registered owner of a Certificate or Certificates, as shown in the Register.

"Paying Agent/Registrar" means initially The Bank of New York Trust Company, National Association, or any successor thereto as provided in this Ordinance.

"Pricing Certificate" means a certificate or certificates to be signed by the Authorized Officer.

"Prior Lien Obligations" means all bonds or other similar obligations of the City presently outstanding or that may be hereafter issued, payable in whole or in part from and secured by a first lien on and pledge of the Net Revenues of the System or by a lien on and pledge of the Net Revenues subordinate to a first lien on and pledge of the Net Revenues but superior to the lien on and pledge of the Surplus Revenues made for the Certificates.

"Project" means the purposes for which the Certificates are issued as set forth in Section 3.1.

"Record Date" means the last business day of the month next preceding an Interest Payment Date.

"Register" means the Register specified in Section 3.6(a) of this Ordinance.

"Representations Letter" means the Blanket Letter of Representations between the City and DTC.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"SID" means any person designated by the State of Texas or an authorized department, office or agency thereof, as and determined by the SEC or its staff to be a state information depository within the meaning of the Rule from time to time.

"Surplus Revenues" means the Net Revenues of the System in an amount not to exceed $1,000 remaining after payment of all debt service, reserve and other requirements in connection with the City's Prior Lien Obligations.

"System" means the City's Waterworks System being all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment, transmission and distribution of treated, potable water, together with all future extensions, improvements, replacements and additions thereto.

"Term Certificates" has the meaning set forth in Section 4.3 hereof.

"Unclaimed Payments" means money deposited with the Paying Agent/Registrar for the payment of principal of or interest on the Certificates as the same come due and payable and remaining unclaimed by the Owners of such Certificates after the applicable payment or redemption date.

"Underwriter" means Morgan Stanley.

Section 1.2 Findings.

The declarations, determinations, and findings declared, made, and found in the preamble to this Ordinance are hereby adopted, restated, and made a part of the operative provisions hereof.

Section 1.3 Table of Contents, Titles, and Headings.

The table of contents, titles and headings of the Articles and Sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Ordinance or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.4 Interpretation.

(a) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(b) This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein.

ARTICLE II

SECURITY FOR THE CERTIFICATES; INTEREST AND SINKING FUND; PRIOR LIEN OBLIGATIONS

Section 2.1 Payment of the Certificates.

(a) Pursuant to the authority granted by the Texas Constitution and laws of the State of Texas, there shall be levied and there is hereby levied for the current year and for each succeeding year thereafter while any of the Certificates or any interest thereon is outstanding and unpaid, an ad valorem tax on each one hundred dollars valuation of taxable property within the City, at a rate sufficient, within the limit prescribed by law, to pay the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their redemption at maturity or a sinking fund of two percent per annum (whichever amount is the greater), when due and payable, full allowance being made for delinquencies and costs of collection.

(b) The ad valorem tax thus levied shall be assessed and collected each year against all property appearing on the tax rolls of the City most recently approved in accordance with law, and the money thus collected shall be deposited as collected to the Interest and Sinking Fund.

(c) Said ad valorem tax, the collections therefrom, and all amounts on deposit in or required hereby to be deposited to the Interest and Sinking Fund are hereby pledged and committed irrevocably to the payment of the principal of and interest on the Certificates when and as due and payable in accordance with their terms and this Ordinance.

(d) The City hereby covenants and agrees that the Surplus Revenues are hereby irrevocably pledged equally and ratably to the payment of the principal of and interest on the Certificates. The City reserves the right to issue Prior Lien Obligations for any lawful purpose, at any time, in one or more installments.

(e) The amount of taxes to be assessed annually for the payment of debt service on the Certificates shall be determined in the following manner:

(i) The City's annual budget shall reflect (A) the amount of debt service requirements to become due on the Certificates in the next ensuing Fiscal Year and (B) the amount on deposit in the Interest and Sinking Fund on the date such budget is approved.

(ii) The amount required to be provided in the next succeeding Fiscal Year from ad valorem taxes shall be the amount, if any, that the debt service requirements on the Certificates to be paid during the next Fiscal Year exceeds the amount then on deposit in the Interest and Sinking Fund.

(iii) Following approval of the City's annual budget, the City Council shall, by ordinance, establish a tax rate that is sufficient to produce taxes in an amount which, when added to the amount then on deposit in the Interest and Sinking Fund, will be sufficient to pay debt service on the Certificates when due during the next Fiscal Year.

(f) If the liens and provisions of this Ordinance shall be released in a manner permitted by Article XI hereof, then the collection of such ad valorem tax may be suspended or appropriately reduced, as the facts may permit, and further deposits to the Interest and Sinking Fund may be suspended or appropriately reduced, as the facts may permit. In determining the aggregate principal amount of outstanding Certificates, there shall be subtracted the amount of any Certificates that have been duly called for redemption and for which money has been deposited with the Paying Agent/Registrar for such redemption.

Section 2.2 Interest and Sinking Fund.

(a) The City hereby establishes a special fund or account to be designated the "City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2007, Interest and Sinking Fund" (the "Interest and Sinking Fund"), said fund to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City.

(b) Money on deposit in or required by this Ordinance to be deposited to the Interest and Sinking Fund shall be used solely for the purpose of paying the interest on and principal of the Certificates when and as due and payable in accordance with their terms and this Ordinance.

ARTICLE III

AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE CERTIFICATES

Section 3.1 Authorization.

The City's certificates of obligation to be designated "City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2007" (the "Certificates"), are hereby authorized to be issued and delivered in accordance with the Constitution and laws of the State of Texas, specifically Subchapter C, Chapter 271, Texas Local Government Code, as amended, and Article VIII of the City's Home-Rule Charter. The Certificates shall be issued in the aggregate principal amount designated in the Pricing Certificate, such amount not to exceed $12,000,000, for the purpose of paying contractual obligations to be incurred for the following purposes, to wit: (i) development, acquisition, furnishing, equipping, and construction of a conference/civic center including related parking at the northeast corner of Avenue X and Mac Davis Lane in the North Overton Tax Increment

Financing District (the "Project") and (ii) payment of professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

Section 3.2 Date, Denomination, Maturities, and Interest.

(a) The Certificates shall be dated the date set forth in the Pricing Certificate (the "Certificate Date"). The Certificates shall be in fully registered form, without coupons, in the denomination of $5,000 or any integral multiple thereof and shall be numbered separately from one upward, except the Initial Certificate, which shall be numbered T-1.

(b) The Certificates shall mature on February 15 in the years and in the principal amounts set forth in the Pricing Certificate provided that the maximum maturity for the Certificates shall not exceed forty years.

(c) Interest shall accrue and be paid on each Certificate respectively until its maturity or prior redemption, from the later of the Certificate Date or the most recent Interest Payment Date to which interest has been paid or provided for at the rates per annum for each respective maturity specified in the Pricing Certificate. Such interest shall be payable on each Interest Payment Date until maturity or prior redemption. Interest on the Certificates shall be calculated on the basis of a three hundred sixty (360) day year composed of twelve (12) months of thirty (30) days each.

Section 3.3 Medium, Method, and Place of Payment.

(a) The principal of and interest on the Certificates shall be paid in lawful money of the United States of America.

(b) Interest on the Certificates shall be payable to the Owners as shown in the Register at the close of business on the Record Date.

(c) Interest shall be paid by check, dated as of the Interest Payment Date, and sent United States mail, first class postage prepaid, by the Paying Agent/Registrar to each Owner, at the address thereof as it appears in the Register, or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the Owner; provided, however, that the Owner shall bear all risk and expense of such alternative banking arrangement. At the option of an Owner of at least $1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar.

(d) The principal of each Certificate shall be paid to the Owner thereof on the due date, whether at the maturity date or the date of prior redemption thereof, upon presentation and surrender of such Certificate at the Designated Payment/Transfer Office of the Paying Agent/Registrar.

(e) If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the due date thereof as specified in Section 3.2 of this Ordinance.

(f) Unclaimed Payments shall be segregated in a special escrow account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owners of the Certificates to which the Unclaimed Payments pertain. Subject to Title 6 of the Texas Property Code, Unclaimed Payments remaining unclaimed by the Owners entitled thereto for three years after the applicable payment or redemption date shall be applied to the next payment on the Certificates thereafter coming due; to the extent any such moneys remain three years after the retirement of all outstanding Certificates, such moneys shall be paid to the City to be used for any lawful purpose. Thereafter, neither the City, the Paying Agent/Registrar, nor any other person shall be liable or responsible to any Owners of such Certificates for any further payment of such unclaimed moneys or on account of any such Certificates, subject to Title 6 of the Texas Property Code.

Section 3.4 Execution and Registration of Certificates.

(a) The Certificates shall be executed on behalf of the City by the Mayor and the City Secretary or any Assistant City Secretary, by their manual or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Certificates shall have the same effect as if each of the Certificates had been signed manually and in person by each of said officers, and such facsimile seal on the Certificates shall have the same effect as if the official seal of the City had been manually impressed upon each of the Certificates.

(b) In the event that any officer of the City whose manual or facsimile signature appears on the Certificates ceases to be such officer before the authentication of such Certificates or before the delivery thereof, such manual or facsimile signature nevertheless shall be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Certificate shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Certificate of Paying Agent/Registrar substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Paying Agent/Registrar. It shall not be required that the same officer or authorized signatory of the Paying Agent/Registrar sign the Certificate of Paying Agent/Registrar on all of the Certificates. In lieu of the executed Certificate of Paying Agent/Registrar described above, the Initial Certificate delivered at the Closing Date shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided herein, manually executed by the Comptroller of Public Accounts of the State of Texas, or by his duly authorized agent, which Certificate shall be evidence that the Certificate has been duly approved by the Attorney General of the State of Texas, that it is a valid and binding obligation of the City, and that it has been registered by the Comptroller of Public Accounts of the State of Texas.

(d) On the Closing Date, one Initial Certificate reflecting the terms set forth in the Pricing Certificate and representing the entire principal amount of all Certificates, payable in stated installments to the Underwriter, or its designee, executed by the Mayor and City Secretary or any Assistant City Secretary of the City by their manual or facsimile signatures, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts, will be delivered to the Underwriter or its designee. Upon payment for the Initial Certificate, the Paying Agent/Registrar shall cancel the Initial Certificate and deliver a single registered, definitive Certificate for each maturity, in the aggregate principal amount thereof, to DTC on behalf of the Underwriter.

Section 3.5 Ownership.

(a) The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificate for the purpose of making and receiving payment as herein provided (except interest shall be paid to the person in whose name such Certificate is registered on the Record Date), and for all other purposes, whether or not such Certificate is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the Owner of a Certificate shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Certificate to the extent of the sums paid.

Section 3.6 Registration, Transfer, and Exchange.

(a) So long as any Certificates remain outstanding, the City shall cause the Paying Agent/Registrar to keep at the Designated Payment/Transfer Office a register (the "Register") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Certificates in accordance with this Ordinance.

(b) The ownership of a Certificate may be transferred only upon the presentation and surrender of the Certificate at the Designated Payment/Transfer Office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of any Certificate shall be effective until entered in the Register.

(c) The Certificates shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for a Certificate or Certificates of the same maturity and interest rate and in a denomination or denominations of any integral multiple of $5,000, and in an aggregate principal amount equal to the unpaid principal amount of the Certificates presented for exchange. The Paying Agent/Registrar is hereby authorized to authenticate and deliver Certificates exchanged for other Certificates in accordance with this Section.

(d) Each exchange Certificate delivered by the Paying Agent/Registrar in accordance with this Section shall constitute an original contractual obligation of the City and shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such exchange Certificate is delivered.

(e) No service charge shall be made to the Owner for the initial registration, subsequent transfer, or exchange for a different denomination of any of the Certificates. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer, or exchange of a Certificate.

(f) Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Certificate called for redemption, in whole or in part, where such redemption is scheduled to occur within forty-five (45) calendar days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Certificate.

Section 3.7 Cancellation.

All Certificates paid or redeemed before scheduled maturity in accordance with this Ordinance, and all Certificates in lieu of which exchange Certificates or replacement Certificates are authenticated and delivered in accordance with this Ordinance, shall be cancelled and proper records made regarding such payment, redemption, exchange, or replacement. The Paying Agent/Registrar shall then return such cancelled Certificates to the City or may in accordance with law destroy such cancelled Certificates and periodically furnish the City with certificates of destruction of such Certificates.

Section 3.8 Temporary Certificates.

(a) Following the delivery and registration of the Initial Certificate and pending the preparation of definitive Certificates, the City may execute and, upon the City's request, the Paying Agent/Registrar shall authenticate and deliver, one or more temporary Certificates that are printed, lithographed, typewritten, mimeographed, or otherwise produced, in any denomination, substantially of the tenor of the definitive Certificates in lieu of which they are delivered, without coupons, and with such appropriate insertions, omissions, substitutions, and other variations as the officers of the City executing such temporary Certificates may determine, as evidenced by their signing of such temporary Certificates.

(b) Until exchanged for Certificates in definitive form, such Certificates in temporary form shall be entitled to the benefit and security of this Ordinance.

(c) The City, without unreasonable delay, shall prepare, execute and deliver to the Paying Agent/Registrar; thereupon, upon the presentation and surrender of the Certificate or Certificates in temporary form to the Paying Agent/Registrar, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Certificate or Certificates of the same maturity and series, in definitive form, in the authorized denomination, and in the same aggregate principal amount, as the Certificate or Certificates in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any Owner.

Section 3.9 Replacement Certificates.

(a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Certificate, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding. The City or the Paying Agent/Registrar may require the Owner of such Certificate to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.

(b) In the event that any Certificate is lost, apparently destroyed or wrongfully taken, the Paying Agent/Registrar, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Certificate has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner first complies with the following requirements:

(i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction, or theft of such Certificate;

(ii) furnishes such security or indemnity as may be required by the Paying Agent/Registrar to save it and the City harmless;

(iii) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar, and any tax or other governmental charge that is authorized to be imposed; and

(iv) satisfies any other reasonable requirements imposed by the City and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Certificate, a bona fide purchaser of the original Certificate in lieu of which such replacement Certificate was issued presents for payment such original Certificate, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Certificate from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost, or expense incurred by the City or the Paying Agent/Registrar in connection therewith.

(d) In the event that any such mutilated, lost, apparently destroyed, or wrongfully taken Certificate has become or is about to become due and payable, the Paying Agent/Registrar, in its discretion, instead of issuing a replacement Certificate, may pay such Certificate when it becomes due and payable.

(e) Each replacement Certificate delivered in accordance with this Section shall constitute an original additional contractual obligation of the City and shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such replacement Certificate is delivered.

Section 3.10 <u>Book-Entry-Only System</u>.

(a) Notwithstanding any other provision hereof, upon initial issuance of the Certificates, the Certificates shall be registered in the name of Cede & Co., as nominee of DTC.

The definitive Certificates shall be initially issued in the form of a single separate certificate for each of the maturities thereof.

(b) With respect to Certificates registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the Certificates. Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Certificates, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any notice with respect to the Certificates, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown in the Register of any amount with respect to principal of or interest on the Certificates. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Certificate is registered in the Register as the absolute owner of such Certificate for the purpose of payment of principal of and interest on Certificates, for the purpose of giving notices of redemption and other matters with respect to such Certificate, for the purpose of registering transfer with respect to such Certificate, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Certificates only to or upon the order of the respective Owners as shown in the Register, as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of interest on the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Register, shall receive a certificate evidencing the obligation of the City to make payments of amounts due pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(c) The Representations Letter previously executed and delivered by the City, and applicable to the City's obligations delivered in book-entry-only form to DTC as securities depository, is hereby ratified and approved for the Certificates.

Section 3.11 Successor Securities Depository; Transfer Outside Book-Entry-Only System.

In the event that the City determines that it is in the best interest of the City and the beneficial owners of the Certificates that they be able to obtain certificated Certificates, or in the event DTC discontinues the services described herein, the City shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Certificates to such successor securities depository; or (ii) notify DTC and DTC Participants of the availability through DTC of certificated Certificates and cause the Paying Agent/Registrar to transfer one or more separate registered Certificates to DTC Participants having Certificates credited to their DTC accounts. In such event, the Certificates shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Certificates shall designate, in accordance with the provisions of this Ordinance.

Section 3.12 Payments to Cede & Co.

Notwithstanding any other provision of this Ordinance to the contrary, so long as the Certificates are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of and interest on such Certificates, and all notices with respect to such Certificates shall be made and given, respectively, in the manner provided in the Representations Letter of the City to DTC.

ARTICLE IV

REDEMPTION OF CERTIFICATES BEFORE MATURITY

Section 4.1 Redemption.

The Certificates are subject to redemption before their scheduled maturity only as provided in this Article IV.

Section 4.2 Optional Redemption.

(a) The City reserves the option to redeem Certificates in the manner provided in the Form of Certificate set forth in Section 6.2 of this Ordinance with such changes as are required by the Pricing Certificate.

(b) If less than all of the Certificates are to be redeemed pursuant to an optional redemption, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot the Certificates, or portions thereof, within such maturity or maturities and in such principal amounts for redemption.

(c) The City, at least 45 days before the redemption date, unless a shorter period shall be satisfactory to the Paying Agent/Registrar, shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Certificates to be redeemed.

Section 4.3 Mandatory Sinking Fund Redemption.

(a) Certificates designated as "Term Certificates," if any, in the Pricing Certificate are subject to scheduled mandatory redemption and will be redeemed by the City, in part at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on the dates and in the respective principal amounts as set forth in the Pricing Certificate.

(b) At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed, shall call such Term Certificates for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in Section 4.5.

The principal amount of the Term Certificates required to be redeemed on any redemption date pursuant to subparagraph (a) of this Section 4.3 shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Section 4.4 Partial Redemption.

(a) A portion of a single Certificate of a denomination greater than $5,000 may be redeemed, but only in a principal amount equal to $5,000 or any integral multiple thereof. If such a Certificate is to be partially redeemed, the Paying Agent/Registrar shall treat each $5,000 portion of the Certificate as though it were a single Certificate for purposes of selection for redemption.

(b) Upon surrender of any Certificate for redemption in part, the Paying Agent/Registrar, in accordance with Section 3.6 of this Ordinance, shall authenticate and deliver an exchange Certificate or Certificates in an aggregate principal amount equal to the unredeemed portion of the Certificate so surrendered, such exchange being without charge.

(c) The Paying Agent/Registrar shall promptly notify the City in writing of the principal amount to be redeemed of any Certificate as to which only a portion thereof is to be redeemed.

Section 4.5 Notice of Redemption to Owners.

(a) The Paying Agent/Registrar shall give notice of any redemption of Certificates by sending notice by United States mail, first class postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Certificate (or part thereof) to be redeemed, at the address shown on the Register at the close of business on the business day next preceding the date of mailing such notice.

(b) The notice shall state the redemption date, the redemption price, the place at which the Certificates are to be surrendered for payment, and, if less than all the Certificates outstanding are to be redeemed, an identification of the Certificates or portions thereof to be redeemed.

(c) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

Section 4.6 Payment Upon Redemption.

(a) Before or on each redemption date, the City shall deposit with the Paying Agent/Registrar money sufficient to pay all amounts due on the redemption date and the Paying Agent/Registrar shall make provision for the payment of the Certificates to be redeemed on such date by setting aside and holding in trust such amounts as are received by the Paying Agent/Registrar from the City and shall use such funds solely for the purpose of paying the principal of and accrued interest on the Certificates being redeemed.

(b) Upon presentation and surrender of any Certificate called for redemption at the Designated Payment/Transfer Office on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of and accrued interest on such Certificate to the date of redemption from the money set aside for such purpose.

Section 4.7 Effect of Redemption.

(a) Notice of redemption having been given as provided in Section 4.5 of this Ordinance, the Certificates or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the City defaults in its obligation to make provision for the payment of the principal thereof or accrued interest thereon, such Certificates or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Certificates are presented and surrendered for payment on such date.

(b) If the City shall fail to make provision for payment of all sums due on a redemption date, then any Certificate or portion thereof called for redemption shall continue to bear interest at the rate stated on the Certificate until due provision is made for the payment of same by the City.

Section 4.8 Lapse of Payment.

Money set aside for the redemption of Certificates and remaining unclaimed by the Owners of such Certificates shall be subject to the provisions of Section 3.3(f) hereof.

ARTICLE V

PAYING AGENT/REGISTRAR

Section 5.1 Appointment of Initial Paying Agent/Registrar.

The Bank of New York Trust Company, National Association, is hereby appointed as the initial Paying Agent/Registrar for the Certificates.

Section 5.2 Qualifications.

Each Paying Agent/Registrar shall be a commercial bank, a trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Certificates.

Section 5.3 Maintaining Paying Agent/Registrar.

(a) At all times while any of the Certificates are outstanding, the City will maintain a Paying Agent/Registrar that is qualified under Section 5.2 of this Ordinance. The Mayor is hereby authorized and directed to execute an agreement with the Paying Agent/Registrar specifying the duties and responsibilities of the City and the Paying Agent/Registrar in substantially the form presented at this meeting, such form of agreement being hereby approved. The signature of the Mayor shall be attested by the City Secretary or any Assistant City Secretary of the City.

(b) If the Paying Agent/Registrar resigns or otherwise ceases to serve as such, the City will promptly appoint a replacement.

Section 5.4 Termination.

The City, upon not less than sixty (60) days notice, reserves the right to terminate the appointment of any Paying Agent/Registrar by delivering to the entity whose appointment is to be terminated written notice of such termination.

Section 5.5 Notice of Change to Owners.

Promptly upon each change in the entity serving as Paying Agent/Registrar, the City will cause notice of the change to be sent to each Owner by United States mail, first class postage prepaid, at the address thereof in the Register, stating the effective date of the change and the name and mailing address of the replacement Paying Agent/Registrar.

Section 5.6 Agreement to Perform Duties and Functions.

By accepting the appointment as Paying Agent/Registrar and executing the Paying Agent/Registrar Agreement, the Paying Agent/Registrar is deemed to have agreed to the provisions of this Ordinance and that it will perform the duties and functions of Paying Agent/Registrar prescribed thereby.

Section 5.7 Delivery of Records to Successor.

If a Paying Agent/Registrar is replaced, such Paying Agent, promptly upon the appointment of the successor, will deliver the Register (or a copy thereof) and all other pertinent books and records relating to the Certificates to the successor Paying Agent/Registrar.

ARTICLE VI

FORM OF THE CERTIFICATES

Section 6.1 Form Generally.

(a) The Certificates, including the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of the Paying Agent/Registrar, and the Assignment form to appear on each of the Certificates, (i) shall be substantially in the form set forth in this Article, with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance and the Pricing Certificate, and (ii) may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as, consistently herewith, may be determined by the City or by the officers executing such Certificates, as evidenced by their execution thereof.

(b) Any portion of the text of any Certificates may be set forth on the reverse side thereof, with an appropriate reference thereto on the face of the Certificates.

(c) The definitive Certificates, if any, shall be typewritten, photocopied, printed, lithographed, or engraved, and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Certificates, as evidenced by their execution thereof.

(d) The Initial Certificate submitted to the Attorney General of the State of Texas may be typewritten and photocopied or otherwise reproduced.

Section 6.2 Form of the Certificates.

The form of the Certificates, including the form of the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the form of Certificate of the Paying Agent/Registrar and the form of Assignment appearing on the Certificates, shall be substantially as follows:

(a) Form of Certificate.

REGISTERED REGISTERED

No. _____ $________

United States of America
State of Texas
County of Lubbock
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM
SURPLUS REVENUE CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2007

INTEREST RATE:	MATURITY DATE:	CERTIFICATE DATE:	CUSIP NUMBER:
_____%	____________	____________[1]	____________

The City of Lubbock (the "City"), in the County of Lubbock, State of Texas, for value received, hereby promises to pay to

____

or registered assigns, on the Maturity Date specified above, the sum of

______________________ DOLLARS

and to pay interest on such principal amount from the later of the Certificate Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing _________[2].

The principal of this Certificate shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Certificate at the corporate trust office in Dallas, Texas (the "Designated Payment/Transfer Office"), of The Bank of New York Trust Company, National Association, or, with respect to a successor Paying Agent/Registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Certificate is payable by check dated as of the interest payment date, and will be mailed by the Paying Agent/Registrar to the registered owner at the address shown on the

[1] Information to be inserted from Pricing Certificate.

[2] Information to be inserted from Pricing Certificate.

registration books kept by the Paying Agent/Registrar or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner; provided, however, such registered owner shall bear all risk and expenses of such customary banking arrangement. At the option of an Owner of at least $1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar. For the purpose of the payment of interest on this Certificate, the registered owner shall be the person in whose name this Certificate is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date.

If the date for the payment of the principal of or interest on this Certificate shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

This Certificate is one of a series of fully registered certificates specified in the title hereof issued in the aggregate principal amount of $________[3] (herein referred to as the "Certificates"), issued pursuant to a certain ordinance of the City (the "Ordinance") for the purpose of paying contractual obligations to be incurred for authorized public improvements (collectively, the "Project"), as described in the Ordinance, and to pay the contractual obligations for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

[The City has reserved the option to redeem the Certificates maturing on February 15 in the years ________ through _____, inclusive, in whole or in part, before their respective scheduled maturity dates, on _________, or on any date thereafter, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date fixed for redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot or other customary method that results in a random selection the Certificates, or portions thereof, within such maturity and in such principal amounts, for redemption.][4]

[Certificates maturing on February 15 in each of the years ____ through ___, inclusive (the "Term Certificates"), are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedule:

---

[3] Information to be inserted from Pricing Certificate.

[4] Insert optional redemption provisions, if any, and revise as necessary to conform to the Pricing Certificate.

Redemption Date	Principal Amount

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

Notice of such redemption or redemptions shall be given by first class mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the registered owner of each of the Certificates to be redeemed in whole or in part. Notice having been so given, the Certificates or portions thereof designated for redemption shall become due and payable on the redemption date specified in such notice; from and after such date, notwithstanding that any of the Certificates or portions thereof so called for redemption shall not have been surrendered for payment, interest on such Certificates or portions thereof shall cease to accrue.

As provided in the Ordinance, and subject to certain limitations therein set forth, this Certificate is transferable upon surrender of this Certificate for transfer at the designated office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Certificates of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name this Certificate is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Certificate is registered on the Record Date) and for all other purposes, whether or not this Certificate be overdue, and neither the City nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Certificate and the series of which it is a part is duly authorized by law; that all acts, conditions, and things to be done precedent to and in the issuance of the Certificates have been properly done and performed and have happened in regular and due time, form, and manner as required by law; that ad

[5] Insert mandatory sinking fund redemption provisions, if any, and conform as necessary to the Pricing Certificate.

valorem taxes upon all taxable property in the City have been levied for and pledged to the payment of the debt service requirements of the Certificates within the limit prescribed by law; that, in addition to said taxes, further provisions have been made for the payment of the debt service requirements of the Certificates by pledging to such purpose Surplus Revenues, as defined in the Ordinance, derived by the City from the operation of the Waterworks System in an amount limited to $1,000; that when so collected, such taxes and Surplus Revenues shall be appropriated to such purposes; and that the total indebtedness of the City, including the Certificates, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City has caused this Certificate to be executed by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Secretary, and the official seal of the City has been duly impressed or placed in facsimile on this Certificate.

____
Mayor, City of Lubbock, Texas

____
City Secretary,
City of Lubbock, Texas

[SEAL]

(b) Form of Comptroller's Registration Certificate. The following Comptroller's Registration Certificate may be deleted from the definitive Certificates if such certificate on the Initial Certificate is fully executed.

OFFICE OF THE COMPTROLLER	§	
OF PUBLIC ACCOUNTS	§	REGISTER NO. _________
OF THE STATE OF TEXAS	§	

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Certificate has been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of the City of Lubbock, Texas; and that this Certificate has this day been registered by me.

Witness my hand and seal of office at Austin, Texas, __________________.

[SEAL]

____
Comptroller of Public Accounts
of the State of Texas

(c) Form of Certificate of Paying Agent/Registrar. The following Certificate of Paying Agent/Registrar may be deleted from the Initial Certificate if the Comptroller's Registration Certificate appears thereon.

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Certificate of this series of Certificates was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and that this is one of the Certificates referred to in the within-mentioned Ordinance.

The Bank of New York Trust Company,
National Association
as Paying Agent/Registrar

Dated: ____________________________ By: ________________________________
Authorized Signatory

(d) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address and Zip Code of transferee): ____________________________________

____

____

(Social Security or other identifying number: ___________________) the within Certificate and all rights hereunder and hereby irrevocably constitutes and appoints ___________________ attorney to transfer the within Certificate on the books kept for registration hereof, with full power of substitution in the premises.

Dated: ____________________________ ________________________________

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Certificate in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

Signature Guaranteed By:

____

____
Authorized Signatory

(e) The Initial Certificate shall be in the form set forth in paragraphs (a), (b) and (d) of this Section, except for the following alterations:

(i) immediately under the name of the Certificate the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the expression "As shown below"; and

(ii) in the first paragraph of the Certificate, the words "on the maturity date specified above" shall be deleted and the following will be inserted: "on February 15 in each of the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

Years	Principal Installments	Interest Rate

(Information to be inserted from the Pricing Certificate pursuant to Section 3.2 of this Ordinance)

)

Section 6.3 CUSIP Registration.

The City may secure identification numbers through the CUSIP Service Bureau Division of Standard & Poor's, A Division of the McGraw-Hill Companies, New York, New York, and may authorize the printing of such numbers on the face of the Certificates. It is expressly provided, however, that the presence or absence of CUSIP numbers on the Certificates shall be of no significance or effect in regard to the legality thereof and neither the City nor the attorneys approving said Certificates as to legality are to be held responsible for CUSIP numbers incorrectly printed on the Certificates.

Section 6.4 Legal Opinion.

The approving legal opinion of Vinson & Elkins L.L.P., Bond Counsel, may be attached to or printed on the reverse side of each Certificate over the certification of the City Secretary of the City, which may be executed in facsimile.

Section 6.5 Bond Insurance.

Information pertaining to bond insurance, if any, may be printed on each Certificate.

ARTICLE VII

SALE AND DELIVERY OF CERTIFICATES; DEPOSIT OF PROCEEDS

Section 7.1 Sale of Certificates; Official Statement.

(a) The Certificates shall be sold at negotiated sale to the Underwriter in accordance with the terms of this Ordinance, including this Section 7.1(a) and Exhibit B hereto, provided that all of the conditions set forth in Exhibit B can be satisfied. As authorized by Chapter 1371, Texas Government Code, as amended, the Authorized Officer is authorized to act on behalf of the City upon determining that the conditions set forth in Exhibit B can be satisfied, in selling and delivering the Certificates and carrying out the other procedures specified in this Ordinance, including determining whether to acquire bond insurance for the Certificates, the aggregate principal amount of the Certificates and price at which each of the Certificates will be sold, the number and designation of series of Certificates to be issued, the form in which the Certificates shall be issued, the years in which the Certificates will mature, the principal amount to mature in each of such years, the rate of interest to be borne by each such maturity, the first interest payment date, the dates, prices and terms upon and at which the Certificates shall be subject to redemption prior to maturity at the option of the City and shall be subject to mandatory sinking fund redemption, and all other matters relating to the issuance, sale and delivery of the Certificates, all of which shall be specified in the Pricing Certificate.

The authority granted to the Authorized Officer under this Section 7.1(a) shall expire at 5:00 p.m., December 31, 2007, unless otherwise extended by the City Council by separate action.

Any finding or determination made by the Authorized Officer relating to the issuance and sale of the Certificates and the execution of the Certificate Purchase Contract in connection therewith shall have the same force and effect as a finding or determination made by the City Council.

(b) The Authorized Officer is hereby authorized and directed to execute and deliver, and the City Secretary is hereby authorized and directed to attest, a certificate purchase contract (the "Certificate Purchase Contract") which Certificate Purchase Contract is hereby accepted, approved and authorized in substantially the form submitted to the City and upon completion of the terms of the Certificate Purchase Contract in accordance with the terms of the Pricing Certificate and this Ordinance, the Authorized Officer is authorized and directed to execute such Certificate Purchase Contract on behalf of the City and the Authorized Officer and all other officers, agents and representatives of the City are hereby authorized to do any and all things necessary or desirable to satisfy the conditions set out therein and to provide for the issuance and delivery of the Certificates. The Certificates shall initially be registered in the name of the Underwriter.

(c) The form and substance of the Preliminary Official Statement and any addenda, supplement or amendment thereto, are hereby in all respects approved and adopted and is hereby deemed final as of its date within the meaning and for the purposes of paragraph (b)(1) of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The final Official Statement (the "Official Statement") presented to and considered at this meeting is hereby in all respects approved and adopted and the Authorized Officer and the City Secretary of the City are hereby authorized and directed to execute the same and deliver appropriate numbers of executed copies thereof to the Underwriter. The Official Statement as thus approved, executed and delivered, with such appropriate variations as shall be approved by the Mayor, City Manager, Deputy City Manager, any Assistant City Manager, Chief Financial Officer, Cash and Debt Manager or City Secretary of the City and the Underwriter, may be used by the Underwriter in the public offering and sale thereof. The City Secretary is hereby authorized and directed to include and maintain a copy of the Official Statement and any addenda, supplement or amendment thereto thus approved among the permanent records of this meeting. The use and distribution of the Preliminary Official Statement, and the preliminary public offering of the Certificates by the Underwriter, is hereby ratified, approved and confirmed.

(d) All officers of the City are authorized to execute such documents, certificates and receipts as they may deem appropriate in order to consummate the delivery of the Certificates in accordance with the terms of sale therefor including, without limitation, the Purchase Contract.

(e) The obligation of the Underwriter identified in subsection (a) of this Section to accept delivery of the Certificates is subject to the Underwriter being furnished with the final, approving opinion of Vinson & Elkins L.L.P., bond counsel for the City, which opinion shall be dated and delivered the Closing Date.

Section 7.2 Control and Delivery of Certificates.

(a) The Authorized Officer of the City is hereby authorized to have control of the Initial Certificate and all necessary records and proceedings pertaining thereto pending investigation, examination, and approval of the Attorney General of the State of Texas, registration by the Comptroller of Public Accounts of the State of Texas and registration with, and initial exchange or transfer by, the Paying Agent/Registrar.

(b) After registration by the Comptroller of Public Accounts, delivery of the Certificates shall be made to the Underwriter thereof under and subject to the general supervision and direction of the Authorized Officer, against receipt by the City of all amounts due to the City under the terms of sale.

(c) In the event the Mayor or City Secretary is absent or otherwise unable to execute any document or take any action authorized herein, the Mayor Pro Tem and the Assistant City Secretary, respectively, shall be authorized to execute such documents and take such actions, and the performance of such duties by the Mayor Pro Tem and the Assistant City Secretary shall for the purposes of this Ordinance have the same force and effect as if such duties were performed by the Mayor and City Secretary, respectively.

Section 7.3 Deposit of Proceeds.

(a) First: All amounts received on the Closing Date as accrued interest on the Certificates from the Certificate Date to the Closing Date shall be deposited to the Interest and Sinking Fund.

(b) Second: The remaining balance received on the Closing Date shall be deposited to a special account of the City, such moneys to be dedicated and used solely for the remaining purposes for which the Certificates are being issued as herein provided.

ARTICLE VIII

INVESTMENTS

Section 8.1 Investments.

(a) Money in the Interest and Sinking Fund created by this Ordinance, at the option of the City, may be invested in such securities or obligations as permitted under applicable law.

(b) Any securities or obligations in which such money is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the fund from which the investment was made.

Section 8.2 Investment Income.

(a) Interest and income derived from investment of the Interest and Sinking Fund shall be credited to such fund.

(b) Interest and income derived from investment of the funds to be deposited pursuant to Section 7.3(b) hereof shall be credited to the account where deposited until the acquisition or construction of said projects is completed or shall be transferred to the Interest and Sinking Fund as shall be determined by the City Council. Upon completion of the authorized projects, to the extent such interest and income are present, such interest and income shall be deposited to the Interest and Sinking Fund.

ARTICLE IX

PARTICULAR REPRESENTATIONS AND COVENANTS

Section 9.1 Payment of the Certificates.

On or before each Interest Payment Date while any of the Certificates are outstanding and unpaid, there shall be made available to the Paying Agent/Registrar, out of the Interest and Sinking Fund, money sufficient to pay such interest on and principal of and interest on the Certificates as will accrue or mature on the applicable Interest Payment Date or date of prior redemption.

Section 9.2 Other Representations and Covenants.

(a) The City will faithfully perform, at all times, any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance; the City will promptly pay or cause to be paid the principal of and interest on each Certificate on the dates and at the places and manner prescribed in such Certificate; and the City will, at the times and in the manner prescribed by this Ordinance, deposit or cause to be deposited the amounts of money specified by this Ordinance.

(b) The City is duly authorized under the laws of the State of Texas to issue the Certificates; all action on its part for the creation and issuance of the Certificates has been duly and effectively taken; and the Certificates in the hands of the Owners thereof are and will be valid and enforceable obligations of the City in accordance with their terms.

(c) Interest on the Certificates shall not be excludable from the gross income of the Owners for federal income tax purposes.

ARTICLE X

DEFAULT AND REMEDIES

Section 10.1 Events of Default.

Each of the following occurrences or events for the purpose of this Ordinance is hereby declared to be an Event of Default:

(i) the failure to make payment of the principal of or interest on any of the Certificates when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement, or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with this Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any Owner to the City.

Section 10.2 Remedies for Default.

(a) Upon the happening of any Event of Default, then any Owner or an authorized representative thereof, including but not limited to a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this Ordinance by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(b) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Certificates then outstanding.

Section 10.3 Remedies Not Exclusive.

(a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Certificates or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Certificates shall not be available as a remedy under this Ordinance.

(b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

ARTICLE XI

DISCHARGE

Section 11.1 Discharge.

The Certificates may be defeased, discharged or refunded in any manner permitted by applicable law.

ARTICLE XII

CONTINUING DISCLOSURE UNDERTAKING

Section 12.1 Annual Reports.

(a) The City shall provide annually to each NRMSIR and to any SID, within six (6) months after the end of each fiscal year, financial information and operating data with respect to the City of the general type included in the final Official Statement, being the information described in Exhibit A hereto. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit A hereto, and (ii) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide notice that audited financial statements are not available and shall provide unaudited financial statements for the applicable fiscal year to each NRMSIR and any SID. The City shall provide audited financial statements for the applicable fiscal year to each NRMSIR and to any SID when and if audited financial statements become available.

(b) If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

(c) The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific referenced to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

Section 12.2 Material Event Notices.

(a) The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Certificates, if such event is material within the meaning of the federal securities laws:

(i) principal and interest payment delinquencies;

(ii) nonpayment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

(vii) modifications to rights of Owners;

(viii) redemption calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Certificates; and

(xi) rating changes.

(b) The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 12.1 of this Ordinance by the time required by such Section.

Section 12.3 Limitations, Disclaimers and Amendments.

(a) The City shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the City remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give notice of any redemption calls and any defeasances that cause the City to be no longer an "obligated person."

(b) The provisions of this Article are for the sole benefit of the Owners and beneficial owners of the Certificates, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY CERTIFICATE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(c) No default by the City in observing or performing its obligations under this Article shall constitute a breach of or default under the Ordinance for purposes of any other provisions of this Ordinance.

(d) Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

(e) The provisions of this Article may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (i) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (A) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of this Ordinance that authorizes such an amendment) of the outstanding Certificates consent to such amendment or (B) an entity or individual person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Certificates. If the City so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 12.1 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of financial information or operating data so provided.

(f) Any filing required to be made pursuant to this Article XII may be made through the facilities of DisclosureUSA or such other central post office as may be approved in writing by the SEC for such purpose. Any such filing made through such central post office will be deemed to have been filed with each NRMSIR and SID or MSRB as if such filing had been made directly to such entity.

ARTICLE XIII

AMENDMENTS; ATTORNEY GENERAL MODIFICATION

Section 13.1 Amendments.

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

Section 13.2 Attorney General Modification.

In order to obtain the approval of the Certificates by the Attorney General of the State of Texas, any provision of this Ordinance may be modified, altered or amended after the date of its adoption if required by the Attorney General in connection with the Attorney General's examination as to the legality of the Certificates and approval thereof in accordance with the applicable law. Such changes, if any, shall be provided to the City Secretary and the City Secretary shall insert such changes into this Ordinance as if approved on the date hereof.

ARTICLE XIV

INSURANCE PROVISIONS

Section 14.1 Municipal Bond Insurance.

Information pertaining to bond insurance, if any, may be printed on each Certificate.

ARTICLE XV

EFFECTIVE IMMEDIATELY

Section 15.1 Effective Immediately.

Notwithstanding the provisions of the City Charter, this Ordinance shall become effective immediately upon its adoption at this meeting pursuant to Section 1201.028, Texas Government Code.

PRESENTED, FINALLY PASSED AND APPROVED, AND EFFECTIVE on the 26th day of June, 2007, at a regular meeting of the City Council of the City of Lubbock, Texas.

DAVID A. MILLER, Mayor

ATTEST:

REBECCA GARZA, City Secretary

[SEAL]

APPROVED AS TO CONTENT:

By: JEFF YATES, Chief Financial Officer

APPROVED AS TO FORM:

By: JENNIFER TAFFE, Bond Counsel

EXHIBIT A

DESCRIPTION OF ANNUAL DISCLOSURE OF FINANCIAL INFORMATION

The following information is referred to in Article XII of this Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with such Section are as specified (and included in the Appendix or other headings of the Official Statement referred to) below:

1. The portions of the financial statements of the City appended to the Official Statement as Appendix B, but for the most recently concluded fiscal year.

2. Statistical and financial data set forth in Tables 1-6 and 8A-15 of the Official Statement.

Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the financial statements referred to in Paragraph 1 above.

EXHIBIT B

SALE PARAMETERS

In accordance with Section 7.1(a) of the Ordinance, the following conditions with respect to the Certificates must be satisfied in order for the Authorized Officer to act on behalf of the City in selling and delivering the Certificates to the Underwriter:

(a) the price to be paid for the Certificates shall be not less than 95% of the aggregate principal amount of the Certificates;

(b) the Certificates shall not bear interest at a rate greater than the maximum rate allowed by Chapter 1204, Texas Government Code, as amended;

(c) the aggregate principal amount of the Certificates authorized to be issued for the purposes described in Section 3.1 shall not exceed the maximum amount authorized in Section 3.1;

(d) the maximum maturity for the Certificates shall not exceed forty years; and

(e) the Certificates to be issued, prior to delivery, must have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations.

MINUTES AND CERTIFICATION PERTAINING TO
PASSAGE OF AN ORDINANCE

STATE OF TEXAS §
COUNTY OF LUBBOCK §
CITY OF LUBBOCK §

On the 26th day of June 2007, the City Council of the City of Lubbock, Texas, convened in a regular meeting at the regular meeting place thereof, the meeting being open to the public and notice of said meeting, giving the date, place and subject thereof, having been posted as prescribed by Chapter 551, Texas Government Code, as amended; and the roll was called of the duly constituted officers and members of the City Council, which officers and members are as follows:

David A. Miller, Mayor	Linda DeLeon	)	
Jim Gilbreath, Mayor Pro Tem	Floyd Price	)	
	Todd Klein	)	Members of
	Phyllis S. Jones	)	the Council
	John Leonard	)	

and all of said persons, except N.A., thus constituting a quorum. Whereupon, among other business, a written Ordinance bearing the following caption was introduced:

AN ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF LUBBOCK, TEXAS, TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2007 IN AN AMOUNT NOT TO EXCEED $12,000,000; LEVYING A TAX AND PLEDGING SURPLUS WATERWORKS SYSTEM REVENUES IN PAYMENT THEREOF; APPROVING THE OFFICIAL STATEMENT; APPROVING EXECUTION OF A PURCHASE CONTRACT; AND ENACTING OTHER PROVISIONS RELATING THERETO

The Ordinance, a full, true and correct copy of which is attached hereto, was read and reviewed by the City Council. Thereupon, it was duly moved and seconded that the Ordinance be passed and adopted.

The Presiding Officer put the motion to a vote of the members of the City Council, and the Ordinance was passed and adopted by the following vote:

AYES: 7

NOES: 0

ABSTENTIONS: 0

MINUTES APPROVED AND CERTIFIED TO BE TRUE AND CORRECT, and to correctly reflect the duly constituted officers and members of the City Council of said City, and the attached and following copy of said Ordinance is hereby certified to be a true and correct copy of an official copy thereof on file among the official records of the City, all on this the 26th day of June, 2007.

City Secretary
City of Lubbock, Texas

[SEAL]

TRANSCRIPT OF PROCEEDINGS

pertaining to

CITY OF LUBBOCK, TEXAS

$11,805,000
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2008

Dated: December 15, 2007
Delivered: January 17, 2008

Vinson & Elkins

ATTORNEYS AT LAW

VINSON & ELKINS L.L.P.
3700 TRAMMELL CROW CENTER
2001 ROSS AVENUE

DALLAS, TEXAS 75201-2975

TELEPHONE (214) 220-7700
VOICE MAIL (214) 220-7999
FAX (214) 220-7716

LUB200/71009
Dallas 1345923v.1

CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2008

TABLE OF DOCUMENTS

DOCUMENT		**TAB NO.**

LUB200/71009
Dallas 1345852v.1

MINUTES AND CERTIFICATION PERTAINING TO
PASSAGE OF AN ORDINANCE

STATE OF TEXAS §
COUNTY OF LUBBOCK §
CITY OF LUBBOCK §

On the 11th day of May 2007, the City Council of the City of Lubbock, Texas, convened in a regular meeting at the regular meeting place thereof, the meeting being open to the public and notice of said meeting, giving the date, place and subject thereof, having been posted as prescribed by Chapter 551, Texas Government Code, as amended; and the roll was called of the duly constituted officers and members of the City Council, which officers and members are as follows:

David A. Miller, Mayor	Linda DeLeon	)	
Jim Gilbreath, Mayor Pro Tem	Floyd Price	)	
	Todd Klein	)	Members of
	Phyllis S. Jones	)	the Council
	John Leonard	)	

and all of said persons, were present, thus constituting a quorum. Whereupon, among other business, a written Resolution bearing the following caption was introduced:

A RESOLUTION AUTHORIZING PUBLICATION OF NOTICE OF INTENTION TO ISSUE TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION

The Resolution, a full, true and correct copy of which is attached hereto, was read and reviewed by the City Council. Thereupon, it was duly moved and seconded that the Resolution be passed and adopted.

The Presiding Officer put the motion to a vote of the members of the City Council, and the Resolution was passed and adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

MINUTES APPROVED AND CERTIFIED TO BE TRUE AND CORRECT, and to correctly reflect the duly constituted officers and members of the City Council of said City, and the attached and following copy of said Resolution is hereby certified to be a true and correct copy of an official copy thereof on file among the official records of the City, all on this the 11th day of May, 2007.

City Secretary
City of Lubbock, Texas

[SEAL]

A RESOLUTION AUTHORIZING PUBLICATION OF NOTICE OF INTENTION TO ISSUE TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION

WHEREAS, the City of Lubbock, Texas (the "City"), pursuant to Subchapter C, Chapter 271, Texas Local Government Code, as amended, is authorized to issue its certificates of obligation (the "Certificates") for the purpose of paying contractual obligations to be incurred for the purposes set forth in Exhibit A hereto; and

WHEREAS, the City Council of the City has found and determined that a notice of intention to issue certificates of obligation should be published in accordance with the requirements of applicable law;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LUBBOCK, TEXAS, THAT:

Section 1. The findings and determinations set forth in the preambles hereto are hereby incorporated by reference for all purposes.

Section 2. The City Secretary of the City is hereby authorized and directed to issue a notice of intention to issue the Certificates in substantially the form set forth in Exhibit A hereto incorporated herein by reference for all purposes. The notice as set forth in Exhibit A shall be published once a week for two consecutive weeks, the date of the first publication being not less than the fourteenth (14th) day prior to the date set forth in the notice for passage of the ordinance authorizing the Certificates. Such notice shall be published in a newspaper of general circulation in the area of the City of Lubbock, Texas.

Section 3. This resolution shall take effect from and after the date of its passage.

FINALLY PASSED, APPROVED AND EFFECTIVE this 11th day of May, 2007.

CITY OF LUBBOCK, TEXAS

Exhibit A

NOTICE OF INTENTION TO ISSUE CITY OF LUBBOCK, TEXAS TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION

NOTICE IS HEREBY GIVEN that on June 14, 2007, the City Council of the City of Lubbock, Texas, at 7:30 a.m. at a regular meeting of the City Council to be held in the City Council Chambers at the Municipal Complex, 1625 13th Street, Lubbock, Texas, the regular meeting place of the City Council, intends to pass an ordinance authorizing the issuance of not to exceed $12,000,000 principal amount of certificates of obligation for the purpose of paying contractual obligations to be incurred for the following purposes, to wit: (i) development, acquisition, furnishing, equipping, and construction of a conference/civic center including related parking at the northeast corner of Avenue X and Mac Davis Lane in the North Overton Tax Increment Financing District (the "Project") and (ii) paying professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The Certificates shall bear interest at a rate not to exceed fifteen percent (15%) per annum and shall have a maximum maturity date of not later than forty (40) years after their date. Said Certificates shall be payable from the levy of a direct and continuing ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City sufficient to pay the interest on this series of Certificates as due and to provide for the payment of the principal thereof as the same matures, as authorized by Subchapter C, Chapter 271, Texas Local Government Code, as amended, and from all or a part of the surplus net revenues of the City's Waterworks System, such pledge of surplus net revenues being limited to $1,000.

THIS NOTICE is given in accordance with law and as directed by the City Council of the City of Lubbock, Texas.

GIVEN THIS May 11, 2007.

/s/ Rebeeca Garza
City Secretary
City of Lubbock, Texas

THE STATE OF TEXAS

COUNTY OF LUBBOCK

Before me ***Ashley C. McGaha*** a Notary Public in and for Lubbock Co
day personally appeared ***Krista Ramirez*** of the Southwest
Corporation, publishers of the Lubbock Avalanche-Journal - Morning, and Sunday, who bein
did dispose and say that said newspaper has run continuously for more than fifty-two week
insertion of this ***Legal Notice***

No. at Lubbock County, Texas
printed copy of the ***Legal Notice*** is a true copy of the original and was prin
Avalanche-Journal on the following dates. May 16 & 23, 2007 3 04.06

Krista Ramirez

Inside Sales Manager

LUBBOCK AVALANCHE-JOURNAL

Morris Communication Corporation

Ashley C. McG

NOTARY PUBLIC in and fo

my commission Expires 010

Subscribed and sworn to before me this 30th day of May 20

FORM 58-10

NOTICE OF INTENTION TO ISSUE CITY OF LUBBOCK, TEXAS TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION

NOTICE IS HEREBY GIVEN that on June 14, 2007, the City Council of the City of Lubbock, Texas, at 7:30 a.m. at a regular meeting of the City Council to be held in the City Council Chambers at the Municipal Complex, 1625 13th Street, Lubbock, Texas, the regular meeting place of the City Council, intends to pass an ordinance authorizing the issuance of not to exceed $12,000,000 principal amount of certificates of obligation for the purpose of paying contractual obligations to be incurred for the following purposes, to wit: (i) development, acquisition, furnishing, equipping, and construction of a conference/civic center including related parking at the northeast corner of Avenue X and Mac Davis Lane in the North Overton Tax Increment Financing District (the "Project") and (ii) payment of professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The Certificates shall bear interest at a rate not to exceed fifteen percent (15%) per annum and shall have a maximum maturity date of not later than forty (40) years after their date. Said Certificates shall be payable from the levy of a direct and continuing ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City sufficient to pay the interest on the series of Certificates as due and to provide for the payment of the principal thereof as the same matures, as authorized by Subchapter C, Chapter 271, Texas Local Government Code, as amended, and from all or a part of the surplus net revenues of the City's Waterworks System, such pledge of surplus net revenues being limited to $1,000.

THIS NOTICE is given in accordance with law and as directed by the City Council of the City of Lubbock, Texas.

GIVEN THIS May 11, 2007.

/s/ Rebecca Garza
City Secretary
City of Lubbock, Texas

Notary Public

THE STATE OF TEXAS

COUNTY OF LUBBOCK

Before me ***Ashley C. McGaha*** a Notary Public in and for Lubbock County, Texas on this day personally appeared ***Krista Ramirez*** of the Southwestern Newspaper Corporation, publishers of the Lubbock Avalanche-Journal - Morning, and Sunday, who being by me duly sworn did dispose and say that said newspaper has run continuously for more than fifty-two weeks prior to the first insertion of this ***Legal Notice***

No. at Lubbock County, Texas and the attached printed copy of the ***Legal Notice*** is a true copy of the original and was printed in the Lubbock Avalanche-Journal on the following dates. May 16 & 23, 2007 329 words = 704.06

Krista Ramirez

Inside Sales Manager

LUBBOCK AVALANCHE-JOURNAL

Morris Communication Corporation

Ashley C. McGaha

NOTARY PUBLIC in and for the State of Texas

my commission Expires ***3/15/2010***

Subscribed and sworn to before me this 4th day of June 2007

ASHLEY C MCGAHA
Notary Public, State of Texas
My Commission Expires
March 15, 2010

FORM 58-10

NOTICE OF INTENTION TO ISSUE CITY OF LUBBOCK, TEXAS TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION

NOTICE IS HEREBY GIVEN that on June 14, 2007, the City Council of the City of Lubbock, Texas, at 7:30 a.m. at a regular meeting of the City Council to be held in the City Council Chambers at the Municipal Complex, 1625 13th Street, Lubbock, Texas, the regular meeting place of the City Council, intends to pass an ordinance authorizing the issuance of not to exceed $12,000,000 principal amount of certificates of obligation for the purpose of paying contractual obligations to be incurred for the following purposes, to wit: (i) development, acquisition, furnishing, equipping, and construction of a conference/civic center including related parking at the northeast corner of Avenue X and Mac Davis Lane in the North Overton Tax Increment Financing District (the "Project") and (ii) payment of professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The Certificates shall bear interest at a rate not to exceed fifteen percent (15%) per annum and shall have a maximum maturity date of not later than forty (40) years after their date. Said Certificates shall be payable from the levy of a direct and continuing ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City sufficient to pay the interest on this series of Certificates as due and to provide for the payment of the principal thereof as the same matures, as authorized by Subchapter C, Chapter 271, Texas Local Government Code, as amended, and from all or a part of the surplus net revenues of the City's Waterworks System, such pledge of surplus net revenues being limited to $1,000.

THIS NOTICE is given in accordance with law and as directed by the City Council of the City of Lubbock, Texas.

GIVEN THIS May 11, 2007.

/s/ Rebecca Garza
City Secretary
City of Lubbock, Texas

MINUTES AND CERTIFICATION PERTAINING TO
PASSAGE OF AN ORDINANCE

STATE OF TEXAS §
COUNTY OF LUBBOCK §
CITY OF LUBBOCK §

On the 26th day of June 2007, the City Council of the City of Lubbock, Texas, convened in a regular meeting at the regular meeting place thereof, the meeting being open to the public and notice of said meeting, giving the date, place and subject thereof, having been posted as prescribed by Chapter 551, Texas Government Code, as amended; and the roll was called of the duly constituted officers and members of the City Council, which officers and members are as follows:

David A. Miller, Mayor	Linda DeLeon	)	
Jim Gilbreath, Mayor Pro Tem	Floyd Price	)	
	Todd Klein	)	Members of
	Phyllis S. Jones	)	the Council
	John Leonard	)	

and all of said persons, except N.A. were present, thus constituting a quorum. Whereupon, among other business, a written Ordinance bearing the following caption was introduced:

AN ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF LUBBOCK, TEXAS, TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2007 IN AN AMOUNT NOT TO EXCEED $12,000,000; LEVYING A TAX AND PLEDGING SURPLUS WATERWORKS SYSTEM REVENUES IN PAYMENT THEREOF; APPROVING THE OFFICIAL STATEMENT; APPROVING EXECUTION OF A PURCHASE CONTRACT; AND ENACTING OTHER PROVISIONS RELATING THERETO

The Ordinance, a full, true and correct copy of which is attached hereto, was read and reviewed by the City Council. Thereupon, it was duly moved and seconded that the Ordinance be passed and adopted.

The Presiding Officer put the motion to a vote of the members of the City Council, and the Ordinance was passed and adopted by the following vote:

AYES: 7

NOES: 0

ABSTENTIONS: 0

MINUTES APPROVED AND CERTIFIED TO BE TRUE AND CORRECT, and to correctly reflect the duly constituted officers and members of the City Council of said City, and the attached and following copy of said Ordinance is hereby certified to be a true and correct copy of an official copy thereof on file among the official records of the City, all on this the 26th day of June, 2007.

City Secretary
City of Lubbock, Texas

[SEAL]

ORDINANCE

relating to

CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2007

Adopted: June 26, 2007

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EFFECTIVE IMMEDIATELY

AN ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF LUBBOCK, TEXAS, TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2007 IN AN AMOUNT NOT TO EXCEED $12,000,000; LEVYING A TAX AND PLEDGING SURPLUS WATERWORKS SYSTEM REVENUES IN PAYMENT THEREOF; APPROVING THE OFFICIAL STATEMENT; APPROVING EXECUTION OF A PURCHASE CONTRACT; AND ENACTING OTHER PROVISIONS RELATING THERETO

WHEREAS, under the provisions of Subchapter C, Chapter 271, Texas Local Government Code, as amended, the City of Lubbock, Texas (the "City"), after giving proper notice, is authorized to issue and sell for cash its certificates of obligation (herein defined as the "Certificates") that are secured by and payable from the ad valorem taxes and other revenues specified in Article II of this Ordinance, and that are issued in the amount, for the purposes, and with the provisions set forth in Section 3.1 of this Ordinance;

WHEREAS, pursuant to a resolution heretofore passed by the City Council, notice of intention to issue the Certificates was published in a newspaper of general circulation in the City in accordance with applicable law;

WHEREAS, no petition has been filed with the City Secretary, any member of the City Council or any other official of the City, protesting the issuance of the Certificates;

WHEREAS, the City Council is now authorized and empowered to proceed with the issuance and sale of the Certificates, and has found and determined that it is necessary and in the best interests of the City and its citizens that it authorize the issuance of the Certificates in accordance with the terms and provisions of this Ordinance at this time;

WHEREAS, the City Council desires to delegate, pursuant to Chapter 1371, Texas Government Code, as amended, and the parameters of this Ordinance, to the Authorized Officer, the authority to approve the amount, the interest rate, the price and terms of the Certificates authorized hereby and to otherwise take such actions as are necessary and appropriate to effect the sale of the Certificates;

WHEREAS, the meeting at which this Ordinance is considered is open to the public as required by law, and public notice of the time, place, and purpose of said meeting was given as required by Chapter 551, Texas Government Code, as amended; therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LUBBOCK:

ARTICLE I

DEFINITIONS AND OTHER PRELIMINARY MATTERS

Section 1.1 Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise in this Ordinance, the following terms shall have the meanings specified below:

"Authorized Officer" means the Chief Financial Officer and, in his absence, each of the City Manager and the Director of Fiscal Policy and Strategic Planning.

"Certificate" means any of the Certificates.

"Certificate Date" means the date designated as the initial date of the Certificates by Section 3.2(a) of this Ordinance.

"Certificates" means the certificates of obligation authorized to be issued by Section 3.1 of this Ordinance and designated as "City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2007."

"City" means the City of Lubbock, Texas.

"Closing Date" means the date of the initial delivery of and payment for the Certificates.

"Designated Payment/Transfer Office" means (i) with respect to the initial Paying Agent/Registrar named in this Ordinance, the Designated Payment/Transfer Office as designated in the Paying Agent/Registrar Agreement, or at such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the City and such successor.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Event of Default" means any event of default as defined in Section 10.1 of this Ordinance.

"Fiscal Year" means such fiscal year as shall from time to time be set by the City Council.

"Gross Revenues" means, with respect to any period, all income, revenues and receipts received from the operation and ownership of the System.

"Initial Certificate" means the initial certificate authorized by Section 3.4 of this Ordinance.

"Interest and Sinking Fund" means the interest and sinking fund established by Section 2.2 of this Ordinance.

"Interest Payment Date" means the date or dates on which interest on the Certificates is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being February 15 and August 15 of each year, commencing on the date set forth in the Pricing Certificate.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Net Revenues" means the Gross Revenues of the System, with respect to any period, after deducting the System's Operating and Maintenance Expenses during such period.

"Operating and Maintenance Expenses" means all reasonable and necessary expenses directly related and attributable to the operation and maintenance of the System, including, but not limited to, the costs of insurance, the purchase and carrying of stores, materials, and supplies, the payment of salaries and labor, and other expends reasonably and properly charged, under generally accepted accounting principles, to the operation and maintenance of the System or by statute deemed to be a first lien against the Gross Revenues. Depreciation charges on equipment, machinery, plants and other facilities comprising the System and expenditures classed under generally accepted accounting principles as capital expenditures shall not be considered as "Operating and Maintenance Expenses" for purposes of determining "Net Revenues."

"Owner" means the person who is the registered owner of a Certificate or Certificates, as shown in the Register.

"Paying Agent/Registrar" means initially The Bank of New York Trust Company, National Association, or any successor thereto as provided in this Ordinance.

"Pricing Certificate" means a certificate or certificates to be signed by the Authorized Officer.

"Prior Lien Obligations" means all bonds or other similar obligations of the City presently outstanding or that may be hereafter issued, payable in whole or in part from and secured by a first lien on and pledge of the Net Revenues of the System or by a lien on and pledge of the Net Revenues subordinate to a first lien on and pledge of the Net Revenues but superior to the lien on and pledge of the Surplus Revenues made for the Certificates.

"Project" means the purposes for which the Certificates are issued as set forth in Section 3.1.

"Record Date" means the last business day of the month next preceding an Interest Payment Date.

"Register" means the Register specified in Section 3.6(a) of this Ordinance.

"Representations Letter" means the Blanket Letter of Representations between the City and DTC.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"SID" means any person designated by the State of Texas or an authorized department, office or agency thereof, as and determined by the SEC or its staff to be a state information depository within the meaning of the Rule from time to time.

"Surplus Revenues" means the Net Revenues of the System in an amount not to exceed $1,000 remaining after payment of all debt service, reserve and other requirements in connection with the City's Prior Lien Obligations.

"System" means the City's Waterworks System being all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment, transmission and distribution of treated, potable water, together with all future extensions, improvements, replacements and additions thereto.

"Term Certificates" has the meaning set forth in Section 4.3 hereof.

"Unclaimed Payments" means money deposited with the Paying Agent/Registrar for the payment of principal of or interest on the Certificates as the same come due and payable and remaining unclaimed by the Owners of such Certificates after the applicable payment or redemption date.

"Underwriter" means Morgan Stanley.

Section 1.2 Findings.

The declarations, determinations, and findings declared, made, and found in the preamble to this Ordinance are hereby adopted, restated, and made a part of the operative provisions hereof.

Section 1.3 Table of Contents, Titles, and Headings.

The table of contents, titles and headings of the Articles and Sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Ordinance or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.4 Interpretation.

(a) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(b) This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein.

ARTICLE II

SECURITY FOR THE CERTIFICATES; INTEREST AND SINKING FUND; PRIOR LIEN OBLIGATIONS

Section 2.1 Payment of the Certificates.

(a) Pursuant to the authority granted by the Texas Constitution and laws of the State of Texas, there shall be levied and there is hereby levied for the current year and for each succeeding year thereafter while any of the Certificates or any interest thereon is outstanding and unpaid, an ad valorem tax on each one hundred dollars valuation of taxable property within the City, at a rate sufficient, within the limit prescribed by law, to pay the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their redemption at maturity or a sinking fund of two percent per annum (whichever amount is the greater), when due and payable, full allowance being made for delinquencies and costs of collection.

(b) The ad valorem tax thus levied shall be assessed and collected each year against all property appearing on the tax rolls of the City most recently approved in accordance with law, and the money thus collected shall be deposited as collected to the Interest and Sinking Fund.

(c) Said ad valorem tax, the collections therefrom, and all amounts on deposit in or required hereby to be deposited to the Interest and Sinking Fund are hereby pledged and committed irrevocably to the payment of the principal of and interest on the Certificates when and as due and payable in accordance with their terms and this Ordinance.

(d) The City hereby covenants and agrees that the Surplus Revenues are hereby irrevocably pledged equally and ratably to the payment of the principal of and interest on the Certificates. The City reserves the right to issue Prior Lien Obligations for any lawful purpose, at any time, in one or more installments.

(e) The amount of taxes to be assessed annually for the payment of debt service on the Certificates shall be determined in the following manner:

(i) The City's annual budget shall reflect (A) the amount of debt service requirements to become due on the Certificates in the next ensuing Fiscal Year and (B) the amount on deposit in the Interest and Sinking Fund on the date such budget is approved.

(ii) The amount required to be provided in the next succeeding Fiscal Year from ad valorem taxes shall be the amount, if any, that the debt service requirements on the Certificates to be paid during the next Fiscal Year exceeds the amount then on deposit in the Interest and Sinking Fund.

(iii) Following approval of the City's annual budget, the City Council shall, by ordinance, establish a tax rate that is sufficient to produce taxes in an amount which, when added to the amount then on deposit in the Interest and Sinking Fund, will be sufficient to pay debt service on the Certificates when due during the next Fiscal Year.

(f) If the liens and provisions of this Ordinance shall be released in a manner permitted by Article XI hereof, then the collection of such ad valorem tax may be suspended or appropriately reduced, as the facts may permit, and further deposits to the Interest and Sinking Fund may be suspended or appropriately reduced, as the facts may permit. In determining the aggregate principal amount of outstanding Certificates, there shall be subtracted the amount of any Certificates that have been duly called for redemption and for which money has been deposited with the Paying Agent/Registrar for such redemption.

Section 2.2 Interest and Sinking Fund.

(a) The City hereby establishes a special fund or account to be designated the "City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2007, Interest and Sinking Fund" (the "Interest and Sinking Fund"), said fund to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City.

(b) Money on deposit in or required by this Ordinance to be deposited to the Interest and Sinking Fund shall be used solely for the purpose of paying the interest on and principal of the Certificates when and as due and payable in accordance with their terms and this Ordinance.

ARTICLE III

AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE CERTIFICATES

Section 3.1 Authorization.

The City's certificates of obligation to be designated "City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2007" (the "Certificates"), are hereby authorized to be issued and delivered in accordance with the Constitution and laws of the State of Texas, specifically Subchapter C, Chapter 271, Texas Local Government Code, as amended, and Article VIII of the City's Home-Rule Charter. The Certificates shall be issued in the aggregate principal amount designated in the Pricing Certificate, such amount not to exceed $12,000,000, for the purpose of paying contractual obligations to be incurred for the following purposes, to wit: (i) development, acquisition, furnishing, equipping, and construction of a conference/civic center including related parking at the northeast corner of Avenue X and Mac Davis Lane in the North Overton Tax Increment

Financing District (the "Project") and (ii) payment of professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

Section 3.2 Date, Denomination, Maturities, and Interest.

(a) The Certificates shall be dated the date set forth in the Pricing Certificate (the "Certificate Date"). The Certificates shall be in fully registered form, without coupons, in the denomination of $5,000 or any integral multiple thereof and shall be numbered separately from one upward, except the Initial Certificate, which shall be numbered T-1.

(b) The Certificates shall mature on February 15 in the years and in the principal amounts set forth in the Pricing Certificate provided that the maximum maturity for the Certificates shall not exceed forty years.

(c) Interest shall accrue and be paid on each Certificate respectively until its maturity or prior redemption, from the later of the Certificate Date or the most recent Interest Payment Date to which interest has been paid or provided for at the rates per annum for each respective maturity specified in the Pricing Certificate. Such interest shall be payable on each Interest Payment Date until maturity or prior redemption. Interest on the Certificates shall be calculated on the basis of a three hundred sixty (360) day year composed of twelve (12) months of thirty (30) days each.

Section 3.3 Medium, Method, and Place of Payment.

(a) The principal of and interest on the Certificates shall be paid in lawful money of the United States of America.

(b) Interest on the Certificates shall be payable to the Owners as shown in the Register at the close of business on the Record Date.

(c) Interest shall be paid by check, dated as of the Interest Payment Date, and sent United States mail, first class postage prepaid, by the Paying Agent/Registrar to each Owner, at the address thereof as it appears in the Register, or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the Owner; provided, however, that the Owner shall bear all risk and expense of such alternative banking arrangement. At the option of an Owner of at least $1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar.

(d) The principal of each Certificate shall be paid to the Owner thereof on the due date, whether at the maturity date or the date of prior redemption thereof, upon presentation and surrender of such Certificate at the Designated Payment/Transfer Office of the Paying Agent/Registrar.

(e) If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the due date thereof as specified in Section 3.2 of this Ordinance.

(f) Unclaimed Payments shall be segregated in a special escrow account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owners of the Certificates to which the Unclaimed Payments pertain. Subject to Title 6 of the Texas Property Code, Unclaimed Payments remaining unclaimed by the Owners entitled thereto for three years after the applicable payment or redemption date shall be applied to the next payment on the Certificates thereafter coming due; to the extent any such moneys remain three years after the retirement of all outstanding Certificates, such moneys shall be paid to the City to be used for any lawful purpose. Thereafter, neither the City, the Paying Agent/Registrar, nor any other person shall be liable or responsible to any Owners of such Certificates for any further payment of such unclaimed moneys or on account of any such Certificates, subject to Title 6 of the Texas Property Code.

Section 3.4 Execution and Registration of Certificates.

(a) The Certificates shall be executed on behalf of the City by the Mayor and the City Secretary or any Assistant City Secretary, by their manual or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Certificates shall have the same effect as if each of the Certificates had been signed manually and in person by each of said officers, and such facsimile seal on the Certificates shall have the same effect as if the official seal of the City had been manually impressed upon each of the Certificates.

(b) In the event that any officer of the City whose manual or facsimile signature appears on the Certificates ceases to be such officer before the authentication of such Certificates or before the delivery thereof, such manual or facsimile signature nevertheless shall be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Certificate shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Certificate of Paying Agent/Registrar substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Paying Agent/Registrar. It shall not be required that the same officer or authorized signatory of the Paying Agent/Registrar sign the Certificate of Paying Agent/Registrar on all of the Certificates. In lieu of the executed Certificate of Paying Agent/Registrar described above, the Initial Certificate delivered at the Closing Date shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided herein, manually executed by the Comptroller of Public Accounts of the State of Texas, or by his duly authorized agent, which Certificate shall be evidence that the Certificate has been duly approved by the Attorney General of the State of Texas, that it is a valid and binding obligation of the City, and that it has been registered by the Comptroller of Public Accounts of the State of Texas.

(d) On the Closing Date, one Initial Certificate reflecting the terms set forth in the Pricing Certificate and representing the entire principal amount of all Certificates, payable in stated installments to the Underwriter, or its designee, executed by the Mayor and City Secretary or any Assistant City Secretary of the City by their manual or facsimile signatures, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts, will be delivered to the Underwriter or its designee. Upon payment for the Initial Certificate, the Paying Agent/Registrar shall cancel the Initial Certificate and deliver a single registered, definitive Certificate for each maturity, in the aggregate principal amount thereof, to DTC on behalf of the Underwriter.

Section 3.5 Ownership.

(a) The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificate for the purpose of making and receiving payment as herein provided (except interest shall be paid to the person in whose name such Certificate is registered on the Record Date), and for all other purposes, whether or not such Certificate is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the Owner of a Certificate shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Certificate to the extent of the sums paid.

Section 3.6 Registration, Transfer, and Exchange.

(a) So long as any Certificates remain outstanding, the City shall cause the Paying Agent/Registrar to keep at the Designated Payment/Transfer Office a register (the "Register") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Certificates in accordance with this Ordinance.

(b) The ownership of a Certificate may be transferred only upon the presentation and surrender of the Certificate at the Designated Payment/Transfer Office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of any Certificate shall be effective until entered in the Register.

(c) The Certificates shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for a Certificate or Certificates of the same maturity and interest rate and in a denomination or denominations of any integral multiple of $5,000, and in an aggregate principal amount equal to the unpaid principal amount of the Certificates presented for exchange. The Paying Agent/Registrar is hereby authorized to authenticate and deliver Certificates exchanged for other Certificates in accordance with this Section.

(d) Each exchange Certificate delivered by the Paying Agent/Registrar in accordance with this Section shall constitute an original contractual obligation of the City and shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such exchange Certificate is delivered.

(e) No service charge shall be made to the Owner for the initial registration, subsequent transfer, or exchange for a different denomination of any of the Certificates. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer, or exchange of a Certificate.

(f) Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Certificate called for redemption, in whole or in part, where such redemption is scheduled to occur within forty-five (45) calendar days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Certificate.

Section 3.7 Cancellation.

All Certificates paid or redeemed before scheduled maturity in accordance with this Ordinance, and all Certificates in lieu of which exchange Certificates or replacement Certificates are authenticated and delivered in accordance with this Ordinance, shall be cancelled and proper records made regarding such payment, redemption, exchange, or replacement. The Paying Agent/Registrar shall then return such cancelled Certificates to the City or may in accordance with law destroy such cancelled Certificates and periodically furnish the City with certificates of destruction of such Certificates.

Section 3.8 Temporary Certificates.

(a) Following the delivery and registration of the Initial Certificate and pending the preparation of definitive Certificates, the City may execute and, upon the City's request, the Paying Agent/Registrar shall authenticate and deliver, one or more temporary Certificates that are printed, lithographed, typewritten, mimeographed, or otherwise produced, in any denomination, substantially of the tenor of the definitive Certificates in lieu of which they are delivered, without coupons, and with such appropriate insertions, omissions, substitutions, and other variations as the officers of the City executing such temporary Certificates may determine, as evidenced by their signing of such temporary Certificates.

(b) Until exchanged for Certificates in definitive form, such Certificates in temporary form shall be entitled to the benefit and security of this Ordinance.

(c) The City, without unreasonable delay, shall prepare, execute and deliver to the Paying Agent/Registrar; thereupon, upon the presentation and surrender of the Certificate or Certificates in temporary form to the Paying Agent/Registrar, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Certificate or Certificates of the same maturity and series, in definitive form, in the authorized denomination, and in the same aggregate principal amount, as the Certificate or Certificates in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any Owner.

Section 3.9 Replacement Certificates.

(a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Certificate, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding. The City or the Paying Agent/Registrar may require the Owner of such Certificate to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.

(b) In the event that any Certificate is lost, apparently destroyed or wrongfully taken, the Paying Agent/Registrar, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Certificate has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner first complies with the following requirements:

(i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction, or theft of such Certificate;

(ii) furnishes such security or indemnity as may be required by the Paying Agent/Registrar to save it and the City harmless;

(iii) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar, and any tax or other governmental charge that is authorized to be imposed; and

(iv) satisfies any other reasonable requirements imposed by the City and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Certificate, a bona fide purchaser of the original Certificate in lieu of which such replacement Certificate was issued presents for payment such original Certificate, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Certificate from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost, or expense incurred by the City or the Paying Agent/Registrar in connection therewith.

(d) In the event that any such mutilated, lost, apparently destroyed, or wrongfully taken Certificate has become or is about to become due and payable, the Paying Agent/Registrar, in its discretion, instead of issuing a replacement Certificate, may pay such Certificate when it becomes due and payable.

(e) Each replacement Certificate delivered in accordance with this Section shall constitute an original additional contractual obligation of the City and shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such replacement Certificate is delivered.

Section 3.10 Book-Entry-Only System.

(a) Notwithstanding any other provision hereof, upon initial issuance of the Certificates, the Certificates shall be registered in the name of Cede & Co., as nominee of DTC.

The definitive Certificates shall be initially issued in the form of a single separate certificate for each of the maturities thereof.

(b) With respect to Certificates registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the Certificates. Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Certificates, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any notice with respect to the Certificates, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown in the Register of any amount with respect to principal of or interest on the Certificates. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Certificate is registered in the Register as the absolute owner of such Certificate for the purpose of payment of principal of and interest on Certificates, for the purpose of giving notices of redemption and other matters with respect to such Certificate, for the purpose of registering transfer with respect to such Certificate, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Certificates only to or upon the order of the respective Owners as shown in the Register, as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of interest on the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Register, shall receive a certificate evidencing the obligation of the City to make payments of amounts due pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(c) The Representations Letter previously executed and delivered by the City, and applicable to the City's obligations delivered in book-entry-only form to DTC as securities depository, is hereby ratified and approved for the Certificates.

Section 3.11 Successor Securities Depository; Transfer Outside Book-Entry-Only System.

In the event that the City determines that it is in the best interest of the City and the beneficial owners of the Certificates that they be able to obtain certificated Certificates, or in the event DTC discontinues the services described herein, the City shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Certificates to such successor securities depository; or (ii) notify DTC and DTC Participants of the availability through DTC of certificated Certificates and cause the Paying Agent/Registrar to transfer one or more separate registered Certificates to DTC Participants having Certificates credited to their DTC accounts. In such event, the Certificates shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Certificates shall designate, in accordance with the provisions of this Ordinance.

Section 3.12 Payments to Cede & Co.

Notwithstanding any other provision of this Ordinance to the contrary, so long as the Certificates are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of and interest on such Certificates, and all notices with respect to such Certificates shall be made and given, respectively, in the manner provided in the Representations Letter of the City to DTC.

ARTICLE IV

REDEMPTION OF CERTIFICATES BEFORE MATURITY

Section 4.1 Redemption.

The Certificates are subject to redemption before their scheduled maturity only as provided in this Article IV.

Section 4.2 Optional Redemption.

(a) The City reserves the option to redeem Certificates in the manner provided in the Form of Certificate set forth in Section 6.2 of this Ordinance with such changes as are required by the Pricing Certificate.

(b) If less than all of the Certificates are to be redeemed pursuant to an optional redemption, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot the Certificates, or portions thereof, within such maturity or maturities and in such principal amounts for redemption.

(c) The City, at least 45 days before the redemption date, unless a shorter period shall be satisfactory to the Paying Agent/Registrar, shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Certificates to be redeemed.

Section 4.3 Mandatory Sinking Fund Redemption.

(a) Certificates designated as "Term Certificates," if any, in the Pricing Certificate are subject to scheduled mandatory redemption and will be redeemed by the City, in part at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on the dates and in the respective principal amounts as set forth in the Pricing Certificate.

(b) At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed, shall call such Term Certificates for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in Section 4.5.

The principal amount of the Term Certificates required to be redeemed on any redemption date pursuant to subparagraph (a) of this Section 4.3 shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Section 4.4 Partial Redemption.

(a) A portion of a single Certificate of a denomination greater than $5,000 may be redeemed, but only in a principal amount equal to $5,000 or any integral multiple thereof. If such a Certificate is to be partially redeemed, the Paying Agent/Registrar shall treat each $5,000 portion of the Certificate as though it were a single Certificate for purposes of selection for redemption.

(b) Upon surrender of any Certificate for redemption in part, the Paying Agent/Registrar, in accordance with Section 3.6 of this Ordinance, shall authenticate and deliver an exchange Certificate or Certificates in an aggregate principal amount equal to the unredeemed portion of the Certificate so surrendered, such exchange being without charge.

(c) The Paying Agent/Registrar shall promptly notify the City in writing of the principal amount to be redeemed of any Certificate as to which only a portion thereof is to be redeemed.

Section 4.5 Notice of Redemption to Owners.

(a) The Paying Agent/Registrar shall give notice of any redemption of Certificates by sending notice by United States mail, first class postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Certificate (or part thereof) to be redeemed, at the address shown on the Register at the close of business on the business day next preceding the date of mailing such notice.

(b) The notice shall state the redemption date, the redemption price, the place at which the Certificates are to be surrendered for payment, and, if less than all the Certificates outstanding are to be redeemed, an identification of the Certificates or portions thereof to be redeemed.

(c) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

Section 4.6 Payment Upon Redemption.

(a) Before or on each redemption date, the City shall deposit with the Paying Agent/Registrar money sufficient to pay all amounts due on the redemption date and the Paying Agent/Registrar shall make provision for the payment of the Certificates to be redeemed on such date by setting aside and holding in trust such amounts as are received by the Paying Agent/Registrar from the City and shall use such funds solely for the purpose of paying the principal of and accrued interest on the Certificates being redeemed.

(b) Upon presentation and surrender of any Certificate called for redemption at the Designated Payment/Transfer Office on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of and accrued interest on such Certificate to the date of redemption from the money set aside for such purpose.

Section 4.7 Effect of Redemption.

(a) Notice of redemption having been given as provided in Section 4.5 of this Ordinance, the Certificates or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the City defaults in its obligation to make provision for the payment of the principal thereof or accrued interest thereon, such Certificates or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Certificates are presented and surrendered for payment on such date.

(b) If the City shall fail to make provision for payment of all sums due on a redemption date, then any Certificate or portion thereof called for redemption shall continue to bear interest at the rate stated on the Certificate until due provision is made for the payment of same by the City.

Section 4.8 Lapse of Payment.

Money set aside for the redemption of Certificates and remaining unclaimed by the Owners of such Certificates shall be subject to the provisions of Section 3.3(f) hereof.

ARTICLE V

PAYING AGENT/REGISTRAR

Section 5.1 Appointment of Initial Paying Agent/Registrar.

The Bank of New York Trust Company, National Association, is hereby appointed as the initial Paying Agent/Registrar for the Certificates.

Section 5.2 Qualifications.

Each Paying Agent/Registrar shall be a commercial bank, a trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Certificates.

Section 5.3 Maintaining Paying Agent/Registrar.

(a) At all times while any of the Certificates are outstanding, the City will maintain a Paying Agent/Registrar that is qualified under Section 5.2 of this Ordinance. The Mayor is hereby authorized and directed to execute an agreement with the Paying Agent/Registrar specifying the duties and responsibilities of the City and the Paying Agent/Registrar in substantially the form presented at this meeting, such form of agreement being hereby approved. The signature of the Mayor shall be attested by the City Secretary or any Assistant City Secretary of the City.

(b) If the Paying Agent/Registrar resigns or otherwise ceases to serve as such, the City will promptly appoint a replacement.

Section 5.4 Termination.

The City, upon not less than sixty (60) days notice, reserves the right to terminate the appointment of any Paying Agent/Registrar by delivering to the entity whose appointment is to be terminated written notice of such termination.

Section 5.5 Notice of Change to Owners.

Promptly upon each change in the entity serving as Paying Agent/Registrar, the City will cause notice of the change to be sent to each Owner by United States mail, first class postage prepaid, at the address thereof in the Register, stating the effective date of the change and the name and mailing address of the replacement Paying Agent/Registrar.

Section 5.6 Agreement to Perform Duties and Functions.

By accepting the appointment as Paying Agent/Registrar and executing the Paying Agent/Registrar Agreement, the Paying Agent/Registrar is deemed to have agreed to the provisions of this Ordinance and that it will perform the duties and functions of Paying Agent/Registrar prescribed thereby.

Section 5.7 Delivery of Records to Successor.

If a Paying Agent/Registrar is replaced, such Paying Agent, promptly upon the appointment of the successor, will deliver the Register (or a copy thereof) and all other pertinent books and records relating to the Certificates to the successor Paying Agent/Registrar.

ARTICLE VI

FORM OF THE CERTIFICATES

Section 6.1 Form Generally.

(a) The Certificates, including the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of the Paying Agent/Registrar, and the Assignment form to appear on each of the Certificates, (i) shall be substantially in the form set forth in this Article, with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance and the Pricing Certificate, and (ii) may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as, consistently herewith, may be determined by the City or by the officers executing such Certificates, as evidenced by their execution thereof.

(b) Any portion of the text of any Certificates may be set forth on the reverse side thereof, with an appropriate reference thereto on the face of the Certificates.

(c) The definitive Certificates, if any, shall be typewritten, photocopied, printed, lithographed, or engraved, and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Certificates, as evidenced by their execution thereof.

(d) The Initial Certificate submitted to the Attorney General of the State of Texas may be typewritten and photocopied or otherwise reproduced.

Section 6.2 Form of the Certificates.

The form of the Certificates, including the form of the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the form of Certificate of the Paying Agent/Registrar and the form of Assignment appearing on the Certificates, shall be substantially as follows:

(a) Form of Certificate.

REGISTERED REGISTERED

No. _____ $________

United States of America
State of Texas
County of Lubbock
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM
SURPLUS REVENUE CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2007

INTEREST RATE:	MATURITY DATE:	CERTIFICATE DATE:	CUSIP NUMBER:
_____%	____________	____________[1]	__________

The City of Lubbock (the "City"), in the County of Lubbock, State of Texas, for value received, hereby promises to pay to

____

or registered assigns, on the Maturity Date specified above, the sum of

______________________ DOLLARS

and to pay interest on such principal amount from the later of the Certificate Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing _________[2].

The principal of this Certificate shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Certificate at the corporate trust office in Dallas, Texas (the "Designated Payment/Transfer Office"), of The Bank of New York Trust Company, National Association, or, with respect to a successor Paying Agent/Registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Certificate is payable by check dated as of the interest payment date, and will be mailed by the Paying Agent/Registrar to the registered owner at the address shown on the

[1] Information to be inserted from Pricing Certificate.

[2] Information to be inserted from Pricing Certificate.

registration books kept by the Paying Agent/Registrar or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner; provided, however, such registered owner shall bear all risk and expenses of such customary banking arrangement. At the option of an Owner of at least $1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar. For the purpose of the payment of interest on this Certificate, the registered owner shall be the person in whose name this Certificate is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date.

If the date for the payment of the principal of or interest on this Certificate shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on sucb date shall have the same force and effect as if made on the original date payment was due.

This Certificate is one of a series of fully registered certificates specified in the title hereof issued in the aggregate principal amount of $_________[3] (herein referred to as the "Certificates"), issued pursuant to a certain ordinance of the City (the "Ordinance") for the purpose of paying contractual obligations to be incurred for authorized public improvements (collectively, the "Project"), as described in the Ordinance, and to pay the contractual obligations for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

[The City has reserved the option to redeem the Certificates maturing on February 15 in the years ________ through _____, inclusive, in whole or in part, before their respective scheduled maturity dates, on _________, or on any date thereafter, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date fixed for redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot or other customary method that results in a random selection the Certificates, or portions thereof, within such maturity and in such principal amounts, for redemption.][4]

[Certificates maturing on February 15 in each of the years ____ through ___, inclusive (the "Term Certificates"), are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedule:

---

[3] Information to be inserted from Pricing Certificate.

[4] Insert optional redemption provisions, if any, and revise as necessary to conform to the Pricing Certificate.

Redemption Date	Principal Amount

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

Notice of such redemption or redemptions shall be given by first class mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the registered owner of each of the Certificates to be redeemed in whole or in part. Notice having been so given, the Certificates or portions thereof designated for redemption shall become due and payable on the redemption date specified in such notice; from and after such date, notwithstanding that any of the Certificates or portions thereof so called for redemption shall not have been surrendered for payment, interest on such Certificates or portions thereof shall cease to accrue.

As provided in the Ordinance, and subject to certain limitations therein set forth, this Certificate is transferable upon surrender of this Certificate for transfer at the designated office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Certificates of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name this Certificate is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Certificate is registered on the Record Date) and for all other purposes, whether or not this Certificate be overdue, and neither the City nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Certificate and the series of which it is a part is duly authorized by law; that all acts, conditions, and things to be done precedent to and in the issuance of the Certificates have been properly done and performed and have happened in regular and due time, form, and manner as required by law; that ad

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[5] Insert mandatory sinking fund redemption provisions, if any, and conform as necessary to the Pricing Certificate.

valorem taxes upon all taxable property in the City have been levied for and pledged to the payment of the debt service requirements of the Certificates within the limit prescribed by law; that, in addition to said taxes, further provisions have been made for the payment of the debt service requirements of the Certificates by pledging to such purpose Surplus Revenues, as defined in the Ordinance, derived by the City from the operation of the Waterworks System in an amount limited to $1,000; that when so collected, such taxes and Surplus Revenues shall be appropriated to such purposes; and that the total indebtedness of the City, including the Certificates, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City has caused this Certificate to be executed by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Secretary, and the official seal of the City has been duly impressed or placed in facsimile on this Certificate.

____
Mayor, City of Lubbock, Texas

____
City Secretary,
City of Lubbock, Texas

[SEAL]

(b) Form of Comptroller's Registration Certificate. The following Comptroller's Registration Certificate may be deleted from the definitive Certificates if such certificate on the Initial Certificate is fully executed.

OFFICE OF THE COMPTROLLER §
OF PUBLIC ACCOUNTS § REGISTER NO. _________
OF THE STATE OF TEXAS §

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Certificate has been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of the City of Lubbock, Texas; and that this Certificate has this day been registered by me.

Witness my hand and seal of office at Austin, Texas, __________________.

[SEAL]

____
Comptroller of Public Accounts
of the State of Texas

(c) Form of Certificate of Paying Agent/Registrar. The following Certificate of Paying Agent/Registrar may be deleted from the Initial Certificate if the Comptroller's Registration Certificate appears thereon.

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Certificate of this series of Certificates was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and that this is one of the Certificates referred to in the within-mentioned Ordinance.

The Bank of New York Trust Company,
National Association
as Paying Agent/Registrar

Dated: ____________________ By: ____________________
Authorized Signatory

(d) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address and Zip Code of transferee): ____________________

____

____

(Social Security or other identifying number: ____________________) the within Certificate and all rights hereunder and hereby irrevocably constitutes and appoints ____________________ attorney to transfer the within Certificate on the books kept for registration hereof, with full power of substitution in the premises.

Dated: ____________________

____

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Certificate in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

Signature Guaranteed By:

____

____
Authorized Signatory

(e) The Initial Certificate shall be in the form set forth in paragraphs (a), (b) and (d) of this Section, except for the following alterations:

(i) immediately under the name of the Certificate the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the expression "As shown below"; and

(ii) in the first paragraph of the Certificate, the words "on the maturity date specified above" shall be deleted and the following will be inserted: "on February 15 in each of the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

Years	Principal Installments	Interest Rate

(Information to be inserted from the Pricing Certificate pursuant to Section 3.2 of this Ordinance)

)

Section 6.3 CUSIP Registration.

The City may secure identification numbers through the CUSIP Service Bureau Division of Standard & Poor's, A Division of the McGraw-Hill Companies, New York, New York, and may authorize the printing of such numbers on the face of the Certificates. It is expressly provided, however, that the presence or absence of CUSIP numbers on the Certificates shall be of no significance or effect in regard to the legality thereof and neither the City nor the attorneys approving said Certificates as to legality are to be held responsible for CUSIP numbers incorrectly printed on the Certificates.

Section 6.4 Legal Opinion.

The approving legal opinion of Vinson & Elkins L.L.P., Bond Counsel, may be attached to or printed on the reverse side of each Certificate over the certification of the City Secretary of the City, which may be executed in facsimile.

Section 6.5 Bond Insurance.

Information pertaining to bond insurance, if any, may be printed on each Certificate.

ARTICLE VII

SALE AND DELIVERY OF CERTIFICATES; DEPOSIT OF PROCEEDS

Section 7.1 Sale of Certificates; Official Statement.

(a) The Certificates shall be sold at negotiated sale to the Underwriter in accordance with the terms of this Ordinance, including this Section 7.1(a) and Exhibit B hereto, provided that all of the conditions set forth in Exhibit B can be satisfied. As authorized by Chapter 1371, Texas Government Code, as amended, the Authorized Officer is authorized to act on behalf of the City upon determining that the conditions set forth in Exhibit B can be satisfied, in selling and delivering the Certificates and carrying out the other procedures specified in this Ordinance, including determining whether to acquire bond insurance for the Certificates, the aggregate principal amount of the Certificates and price at which each of the Certificates will be sold, the number and designation of series of Certificates to be issued, the form in which the Certificates shall be issued, the years in which the Certificates will mature, the principal amount to mature in each of such years, the rate of interest to be borne by each such maturity, the first interest payment date, the dates, prices and terms upon and at which the Certificates shall be subject to redemption prior to maturity at the option of the City and shall be subject to mandatory sinking fund redemption, and all other matters relating to the issuance, sale and delivery of the Certificates, all of which shall be specified in the Pricing Certificate.

The authority granted to the Authorized Officer under this Section 7.1(a) shall expire at 5:00 p.m., December 31, 2007, unless otherwise extended by the City Council by separate action.

Any finding or determination made by the Authorized Officer relating to the issuance and sale of the Certificates and the execution of the Certificate Purchase Contract in connection therewith shall have the same force and effect as a finding or determination made by the City Council.

(b) The Authorized Officer is hereby authorized and directed to execute and deliver, and the City Secretary is hereby authorized and directed to attest, a certificate purchase contract (the "Certificate Purchase Contract") which Certificate Purchase Contract is hereby accepted, approved and authorized in substantially the form submitted to the City and upon completion of the terms of the Certificate Purchase Contract in accordance with the terms of the Pricing Certificate and this Ordinance, the Authorized Officer is authorized and directed to execute such Certificate Purchase Contract on behalf of the City and the Authorized Officer and all other officers, agents and representatives of the City are hereby authorized to do any and all things necessary or desirable to satisfy the conditions set out therein and to provide for the issuance and delivery of the Certificates. The Certificates shall initially be registered in the name of the Underwriter.

(c) The form and substance of the Preliminary Official Statement and any addenda, supplement or amendment thereto, are hereby in all respects approved and adopted and is hereby deemed final as of its date within the meaning and for the purposes of paragraph (b)(1) of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The final Official Statement (the "Official Statement") presented to and considered at this meeting is hereby in all respects approved and adopted and the Authorized Officer and the City Secretary of the City are hereby authorized and directed to execute the same and deliver appropriate numbers of executed copies thereof to the Underwriter. The Official Statement as thus approved, executed and delivered, with such appropriate variations as shall be approved by the Mayor, City Manager, Deputy City Manager, any Assistant City Manager, Chief Financial Officer, Cash and Debt Manager or City Secretary of the City and the Underwriter, may be used by the Underwriter in the public offering and sale thereof. The City Secretary is hereby authorized and directed to include and maintain a copy of the Official Statement and any addenda, supplement or amendment thereto thus approved among the permanent records of this meeting. The use and distribution of the Preliminary Official Statement, and the preliminary public offering of the Certificates by the Underwriter, is hereby ratified, approved and confirmed.

(d) All officers of the City are authorized to execute such documents, certificates and receipts as they may deem appropriate in order to consummate the delivery of the Certificates in accordance with the terms of sale therefor including, without limitation, the Purchase Contract.

(e) The obligation of the Underwriter identified in subsection (a) of this Section to accept delivery of the Certificates is subject to the Underwriter being furnished with the final, approving opinion of Vinson & Elkins L.L.P., bond counsel for the City, which opinion shall be dated and delivered the Closing Date.

Section 7.2 Control and Delivery of Certificates.

(a) The Authorized Officer of the City is hereby authorized to have control of the Initial Certificate and all necessary records and proceedings pertaining thereto pending investigation, examination, and approval of the Attorney General of the State of Texas, registration by the Comptroller of Public Accounts of the State of Texas and registration with, and initial exchange or transfer by, the Paying Agent/Registrar.

(b) After registration by the Comptroller of Public Accounts, delivery of the Certificates shall be made to the Underwriter thereof under and subject to the general supervision and direction of the Authorized Officer, against receipt by the City of all amounts due to the City under the terms of sale.

(c) In the event the Mayor or City Secretary is absent or otherwise unable to execute any document or take any action authorized herein, the Mayor Pro Tem and the Assistant City Secretary, respectively, shall be authorized to execute such documents and take such actions, and the performance of such duties by the Mayor Pro Tem and the Assistant City Secretary shall for the purposes of this Ordinance have the same force and effect as if such duties were performed by the Mayor and City Secretary, respectively.

Section 7.3 Deposit of Proceeds.

(a) First: All amounts received on the Closing Date as accrued interest on the Certificates from the Certificate Date to the Closing Date shall be deposited to the Interest and Sinking Fund.

(b) Second: The remaining balance received on the Closing Date shall be deposited to a special account of the City, such moneys to be dedicated and used solely for the remaining purposes for which the Certificates are being issued as herein provided.

ARTICLE VIII

INVESTMENTS

Section 8.1 Investments.

(a) Money in the Interest and Sinking Fund created by this Ordinance, at the option of the City, may be invested in such securities or obligations as permitted under applicable law.

(b) Any securities or obligations in which such money is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the fund from which the investment was made.

Section 8.2 Investment Income.

(a) Interest and income derived from investment of the Interest and Sinking Fund shall be credited to such fund.

(b) Interest and income derived from investment of the funds to be deposited pursuant to Section 7.3(b) hereof shall be credited to the account where deposited until the acquisition or construction of said projects is completed or shall be transferred to the Interest and Sinking Fund as shall be determined by the City Council. Upon completion of the authorized projects, to the extent such interest and income are present, such interest and income shall be deposited to the Interest and Sinking Fund.

ARTICLE IX

PARTICULAR REPRESENTATIONS AND COVENANTS

Section 9.1 Payment of the Certificates.

On or before each Interest Payment Date while any of the Certificates are outstanding and unpaid, there shall be made available to the Paying Agent/Registrar, out of the Interest and Sinking Fund, money sufficient to pay such interest on and principal of and interest on the Certificates as will accrue or mature on the applicable Interest Payment Date or date of prior redemption.

Section 9.2 Other Representations and Covenants.

(a) The City will faithfully perform, at all times, any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance; the City will promptly pay or cause to be paid the principal of and interest on each Certificate on the dates and at the places and manner prescribed in such Certificate; and the City will, at the times and in the manner prescribed by this Ordinance, deposit or cause to be deposited the amounts of money specified by this Ordinance.

(b) The City is duly authorized under the laws of the State of Texas to issue the Certificates; all action on its part for the creation and issuance of the Certificates has been duly and effectively taken; and the Certificates in the hands of the Owners thereof are and will be valid and enforceable obligations of the City in accordance with their terms.

(c) Interest on the Certificates shall not be excludable from the gross income of the Owners for federal income tax purposes.

ARTICLE X

DEFAULT AND REMEDIES

Section 10.1 Events of Default.

Each of the following occurrences or events for the purpose of this Ordinance is hereby declared to be an Event of Default:

(i) the failure to make payment of the principal of or interest on any of the Certificates when the same becomes due and payahle; or

(ii) default in the performance or observance of any other covenant, agreement, or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with this Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any Owner to the City.

Section 10.2 Remedies for Default.

(a) Upon the happening of any Event of Default, then any Owner or an authorized representative thereof, including but not limited to a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this Ordinance by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(b) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Certificates then outstanding.

Section 10.3 Remedies Not Exclusive.

(a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Certificates or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Certificates shall not be available as a remedy under this Ordinance.

(b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

ARTICLE XI

DISCHARGE

Section 11.1 Discharge.

The Certificates may be defeased, discharged or refunded in any manner permitted by applicable law.

ARTICLE XII

CONTINUING DISCLOSURE UNDERTAKING

Section 12.1 Annual Reports.

(a) The City shall provide annually to each NRMSIR and to any SID, within six (6) months after the end of each fiscal year, financial information and operating data with respect to the City of the general type included in the final Official Statement, being the information described in Exhibit A hereto. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit A hereto, and (ii) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide notice that audited financial statements are not available and shall provide unaudited financial statements for the applicable fiscal year to each NRMSIR and any SID. The City shall provide audited financial statements for the applicable fiscal year to each NRMSIR and to any SID when and if audited financial statements become available.

(b) If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

(c) The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific referenced to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

Section 12.2 Material Event Notices.

(a) The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Certificates, if such event is material within the meaning of the federal securities laws:

(i) principal and interest payment delinquencies;

(ii) nonpayment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

(vii) modifications to rights of Owners;

(viii) redemption calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Certificates; and

(xi) rating changes.

(b) The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 12.1 of this Ordinance by the time required by such Section.

Section 12.3 Limitations, Disclaimers and Amendments.

(a) The City shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the City remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give notice of any redemption calls and any defeasances that cause the City to be no longer an "obligated person."

(b) The provisions of this Article are for the sole benefit of the Owners and beneficial owners of the Certificates, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY CERTIFICATE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(c) No default by the City in observing or performing its obligations under this Article shall constitute a breach of or default under the Ordinance for purposes of any other provisions of this Ordinance.

(d) Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

(e) The provisions of this Article may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (i) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (A) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of this Ordinance that authorizes such an amendment) of the outstanding Certificates consent to such amendment or (B) an entity or individual person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Certificates. If the City so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 12.1 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of financial information or operating data so provided.

(f) Any filing required to be made pursuant to this Article XII may be made through the facilities of DisclosureUSA or such other central post office as may be approved in writing by the SEC for such purpose. Any such filing made through such central post office will be deemed to have been filed with each NRMSIR and SID or MSRB as if such filing had been made directly to such entity.

ARTICLE XIII

AMENDMENTS; ATTORNEY GENERAL MODIFICATION

Section 13.1 <u>Amendments</u>.

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

Section 13.2 Attorney General Modification.

In order to obtain the approval of the Certificates by the Attorney General of the State of Texas, any provision of this Ordinance may be modified, altered or amended after the date of its adoption if required by the Attorney General in connection with the Attorney General's examination as to the legality of the Certificates and approval thereof in accordance with the applicable law. Such changes, if any, shall be provided to the City Secretary and the City Secretary shall insert such changes into this Ordinance as if approved on the date hereof.

ARTICLE XIV

INSURANCE PROVISIONS

Section 14.1 Municipal Bond Insurance.

Information pertaining to bond insurance, if any, may be printed on each Certificate.

ARTICLE XV

EFFECTIVE IMMEDIATELY

Section 15.1 Effective Immediately.

Notwithstanding the provisions of the City Charter, this Ordinance shall become effective immediately upon its adoption at this meeting pursuant to Section 1201.028, Texas Government Code.

PRESENTED, FINALLY PASSED AND APPROVED, AND EFFECTIVE on the 26th day of June, 2007, at a regular meeting of the City Council of the City of Lubbock, Texas.

DAVID A. MILLER, Mayor

ATTEST:

REBECCA GARZA, City Secretary

[SEAL]

APPROVED AS TO CONTENT:

By:
JEFF YATES, Chief Financial Officer

APPROVED AS TO FORM:

By:
JENNIFER TAFFE, Bond Counsel

EXHIBIT A

DESCRIPTION OF ANNUAL DISCLOSURE OF FINANCIAL INFORMATION

The following information is referred to in Article XII of this Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with such Section are as specified (and included in the Appendix or other headings of the Official Statement referred to) below:

1. The portions of the financial statements of the City appended to the Official Statement as Appendix B, but for the most recently concluded fiscal year.

2. Statistical and financial data set forth in Tables 1-6 and 8A-15 of the Official Statement.

Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the financial statements referred to in Paragraph 1 above.

EXHIBIT B

SALE PARAMETERS

In accordance with Section 7.1(a) of the Ordinance, the following conditions with respect to the Certificates must be satisfied in order for the Authorized Officer to act on behalf of the City in selling and delivering the Certificates to the Underwriter:

(a) the price to be paid for the Certificates shall be not less than 95% of the aggregate principal amount of the Certificates;

(b) the Certificates shall not bear interest at a rate greater than the maximum rate allowed by Chapter 1204, Texas Government Code, as amended;

(c) the aggregate principal amount of the Certificates authorized to be issued for the purposes described in Section 3.1 shall not exceed the maximum amount authorized in Section 3.1;

(d) the maximum maturity for the Certificates shall not exceed forty years; and

(e) the Certificates to be issued, prior to delivery, must have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations.

MINUTES AND CERTIFICATION PERTAINING TO
PASSAGE OF AN ORDINANCE

STATE OF TEXAS §
COUNTY OF LUBBOCK §
CITY OF LUBBOCK §

On the 14th day of December, 2007, the City Council of the City of Lubbock, Texas, convened in a regular meeting at the regular meeting place thereof, the meeting being open to the public and notice of said meeting, giving the date, place and subject thereof, having been posted as prescribed by Chapter 551, Texas Government Code, as amended; and the roll was called of the duly constituted officers and members of the City Council, which officers and members are as follows:

David A. Miller, Mayor	Linda DeLeon	)	
Jim Gilbreath, Mayor Pro Tem	Floyd Price	)	
	Todd R. Klein	)	Members of
	Phyllis S. Jones	)	the Council
	John Leonard	)	

and all of said persons were present except **(all present)**, thus constituting a quorum. Whereupon, among other business, a written Ordinance bearing the following caption was introduced:

AN ORDINANCE AMENDING THE CITY'S ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF LUBBOCK, TEXAS, TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2007

The Ordinance, a full, true and correct copy of which is attached hereto, was read and reviewed by the City Council. Thereupon, it was duly moved and seconded that the Ordinance be passed and adopted.

The Presiding Officer put the motion to a vote of the members of the City Council, and the Ordinance was passed and adopted by the following vote:

AYES: 6

NOES: 0

ABSTENTIONS: 0

RECUSED: 1

MINUTES APPROVED AND CERTIFIED TO BE TRUE AND CORRECT, and to correctly reflect the duly constituted officers and members of the City Council of said City, and the attached and following copy of said Ordinance is hereby certified to be a true and correct copy of an official copy thereof on file among the official records of the City, all on this the 14th day of December, 2007.

Rebecca Garza

City Secretary
City of Lubbock, Texas

[SEAL]

AN ORDINANCE AMENDING THE CITY'S ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF LUBBOCK, TEXAS, TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2007

WHEREAS, the City of Lubbock, Texas (the "City"), pursuant to Subchapter C, Chapter 271, Texas Local Government Code, as amended, and Chapter 1371, Texas Government Code, as amended, adopted an ordinance (the "Parameters Ordinance") on June 26, 2007, authorizing the issuance of its Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2007 (the "Certificates") and delegating to the Authorized Officer the authority to approve the amount, the interest rate, price and terms of the Certificates authorized thereby and to otherwise take such actions as necessary and appropriate to effect the sale of the Certificates;

WHEREAS, the City Council of the City (the "City Council") has found and determined that it is in the best interest of the City to amend the Parameters Ordinance to extend the time pursuant to which the Authorized Officer may exercise the authority granted in the Parameters Ordinance to effect the sale of the Certificates as contemplated therein; and

WHEREAS, the meeting at which this ordinance is considered is open to the public as required by law, and public notice of the time, place, and purpose of said meeting was given as required by Chapter 551, Texas Government Code, as amended;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LUBBOCK, TEXAS, THAT:

Section 1. The findings and determinations set forth in the preambles hereto are hereby incorporated by reference for all purposes.

Section 2. Section 7.1(a) of the Parameters Ordinance is hereby amended to provide that the authority granted to the Authorized Officer under such Section 7.1(a) shall expire at 5:00 p.m., June 26, 2008, unless otherwise extended by the City Council by separate action.

Section 3. All references in the Ordinance to "Taxable Series 2007" are hereby amended to read "Taxable Series 2008," including the name designation of the Certificates in Section 3.1 of the Ordinance.

Section 4. This ordinance shall take effect from and after the date of its passage.

PRESENTED, FINALLY PASSED AND APPROVED, AND EFFECTIVE on the 14th day of December, 2007, at a regular meeting of the City Council of the City of Lubbock, Texas.

DAVID A. MILLER, Mayor

ATTEST:

REBECCA GARZA, City Secretary

[SEAL]

APPROVED AS TO CONTENT:

By:

JEFF YATES, Chief Financial Officer

APPROVED AS TO FORM:

By: ______________________

JENNIFER TAFFE, Bond Counsel

PRICING CERTIFICATE

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008

Re: $11,805,000 City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates")

I, the undersigned officer of the City of Lubbock, Texas (the "City"), do hereby make and execute this Pricing Certificate pursuant to an ordinance adopted by the City Council of the City on June 26, 2007 and amended by the City on December 14, 2007 (collectively, the "Ordinance") authorizing the issuance of the Certificates. Capitalized terms used in this Pricing Certificate shall have the meanings given such terms in the Ordinance.

1. As authorized by Section 7.1 of the Ordinance, I have acted on behalf of the City in selling the Certificates to the Underwriter pursuant to the terms of a purchase contract in substantially the form accepted, approved and authorized pursuant to Section 7.1 of the Ordinance, for the sum of $11,532,991.85 (representing the principal amount of $11,805,000, less original issue discount of $185,703.00 and less an underwriters' discount of $86,305.15), plus accrued interest from the dated date and having the following terms, conditions and provisions, all as authorized pursuant to Section 7.1 of the Ordinance:

A. The Certificates shall be issued in the aggregate principal amount of $11,805,000, shall be dated December 15, 2007 (the "Certificate Date") and bear interest from such date, shall mature on February 15 in the years and in the principal amounts and shall bear interest payable on February 15 and August 15 of each year, commencing February 15, 2008, at the rates set forth in the following schedule:

Term Certificates

Years	Principal Installments	Interest Rate
2018	$4,620,000	5.250%
2027	7,185,000	6.250%

B. The Term Certificates are subject to scheduled mandatory redemption and will be redeemed by the City, in part at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on the dates and in the respective principal amounts as set forth in the following schedule:

Term Certificates Maturing February 15, 2018

Redemption Date	Principal Amount
February 15, 2009	$360,000
February 15, 2010	380,000
February 15, 2011	400,000
February 15, 2012	420,000
February 15, 2013	445,000
February 15, 2014	470,000
February 15, 2015	495,000
February 15, 2016	520,000
February 15, 2017	550,000
February 15, 2018 (maturity)	580,000

Term Certificates Maturing February 15, 2027

Redemption Date	Principal Amount
February 15, 2019	$ 615,000
February 15, 2020	655,000
February 15, 2021	695,000
February 15, 2022	740,000
February 15, 2023	790,000
February 15, 2024	840,000
February 15, 2025	890,000
February 15, 2026	950,000
February 15, 2027 (maturity)	1,010,000

C. In accordance with the parameters contained in Section 7.1 and Exhibit B of the Ordinance, the undersigned does hereby find, certify and represent that the foregoing terms of the Certificates satisfy the following requirements and parameters contained within such Section 7.1 and Exhibit B:

(i) the price to be paid by the Underwriters for the Certificates shall be 98% of the aggregate principal amount of the Certificates, which is not less than 95% of the aggregate principal amount of the Certificates;

(ii) the Certificates do not bear interest at a rate greater than the maximum rate allowed by Chapter 1204, Texas Government Code, as amended;

(iii) the aggregate principal amount of the Certificates produces proceeds sufficient to fund the purposes described in Section 3.1 of the Ordinance and such aggregate principal amount does not exceed the maximum amount authorized in Section 3.1 of the Ordinance;

(iv) the maximum maturity for the Certificates is 2027 which does not exceed forty years;

(v) the Certificates have been rated, or will be rated prior to delivery, by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations.

2. The proceeds of the Certificates shall be applied as set forth in Section 7.3 of the Ordinance.

3. The Certificates shall be insured by Financial Security Assurance Inc.

4. The Certificates shall be issued substantially in the form attached hereto as Exhibit A.

Executed as of the 19th day of December, 2007.

Jeffrey A. Yates
Chief Financial Officer
City of Lubbock, Texas

Signature Page for Pricing Certificate

EXHIBIT A

The form of the Certificates, including the form of the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the form of Certificate of the Paying Agent/Registrar and the form of Assignment appearing on the Certificates, shall be substantially as follows:

(a) Form of Certificate.

REGISTERED	REGISTERED
No. _____	$________

United States of America
State of Texas
County of Lubbock
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2008

INTEREST RATE:	MATURITY DATE:	CERTIFICATE DATE:	CUSIP NUMBER:
_____%	February 15, _____	December 15, 2007	__________

The City of Lubbock (the "City"), in the County of Lubbock, State of Texas, for value received, hereby promises to pay to

____

or registered assigns, on the Maturity Date specified above, the sum of

______________________ DOLLARS

unless this Certificate shall have been sooner called for redemption and the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Certificate Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360 day year of twelve 30 day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2008. All capitalized terms used herein but not defined shall have the meaning assigned to them in the Ordinance (defined below).

The principal of this Certificate shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Certificate at the corporate trust office in Dallas, Texas (the "Designated Payment/Transfer Office"), of The Bank of New York Trust Company, National Association, or, with respect to a successor Paying Agent/Registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Certificate is payable by check dated as of the interest payment date, and will be mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner; provided, however, such registered owner shall bear all risk and expenses of such customary banking arrangement. At the option of an Owner of at least $1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar. For the purpose of the payment of interest on this Certificate, the registered owner shall be the person in whose name this Certificate is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date.

If the date for the payment of the principal of or interest on this Certificate shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

This Certificate is one of a series of fully registered certificates specified in the title hereof issued in the aggregate principal amount of $11,805,000 (herein referred to as the "Certificates"), issued pursuant to a certain ordinance of the City (the "Ordinance") for the purpose of paying contractual obligations to be incurred for authorized public improvements (collectively, the "Project"), as described in the Ordinance, and to pay the contractual obligations for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

The City has reserved the option to redeem the Certificates maturing on or after February 15, 2018, in whole or in part, before their respective scheduled maturity dates, on February 15, 2017, or on any date thereafter, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date fixed for redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot or other customary method that results in a random selection the Certificates, or portions thereof, within such maturity and in such principal amounts, for redemption.

Certificates maturing on February 15 in each of the years 2018 and 2027 (the "Term Certificates") are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedule:

Term Certificates Maturing February 15, 2018

Redemption Date	Principal Amount
February 15, 2009	$360,000
February 15, 2010	380,000
February 15, 2011	400,000
February 15, 2012	420,000
February 15, 2013	445,000
February 15, 2014	470,000
February 15, 2015	495,000
February 15, 2016	520,000
February 15, 2017	550,000
February 15, 2018 (maturity)	580,000

Term Certificates Maturing February 15, 2027

Redemption Date	Principal Amount
February 15, 2019	$ 615,000
February 15, 2020	655,000
February 15, 2021	695,000
February 15, 2022	740,000
February 15, 2023	790,000
February 15, 2024	840,000
February 15, 2025	890,000
February 15, 2026	950,000
February 15, 2027 (maturity)	1,010,000

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

Notice of such redemption or redemptions shall be given by first class mail, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the registered owner of each of the Certificates to be redeemed in whole or in part. Notice having been so given, the Certificates or portions thereof designated for redemption shall become due and payable on the redemption date specified in such notice; from and after such date, notwithstanding that any of the Certificates or portions thereof so called for redemption shall not have been surrendered for payment, interest on such Certificates or portions thereof shall cease to accrue.

As provided in the Ordinance, and subject to certain limitations therein set forth, this Certificate is transferable upon surrender of this Certificate for transfer at the designated office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Certificates of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Certificate called for redemption where such redemption is scheduled to occur within forty-five (45) calendar days of the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Certificate.

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name this Certificate is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Certificate is registered on the Record Date) and for all other purposes, whether or not this Certificate be overdue, and neither the City nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Certificate and the series of which it is a part is duly authorized by law; that all acts, conditions, and things to be done precedent to and in the issuance of the Certificates have been properly done and performed and have happened in regular and due time, form, and manner as required by law; that ad valorem taxes upon all taxable property in the City have been levied for and pledged to the payment of the debt service requirements of the Certificates within the limit prescribed by law; that, in addition to said taxes, further provisions have been made for the payment of the debt service requirements of the Certificates by pledging to such purpose Surplus Revenues, as defined in the Ordinance, derived by the City from the operation of the Waterworks System in an amount limited to $1,000; that when so collected, such taxes and Surplus Revenues shall be appropriated to such purposes; and that the total indebtedness of the City, including the Certificates, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City has caused this Certificate to be executed by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Secretary, and the official seal of the City has been duly impressed or placed in facsimile on this Certificate.

Mayor, City of Lubbock, Texas

City Secretary,
City of Lubbock, Texas

[SEAL]

(b) Form of Comptroller's Registration Certificate. The following Comptroller's Registration Certificate may be deleted from the definitive Certificates if such certificate on the Initial Certificate is fully executed.

OFFICE OF THE COMPTROLLER	§	
OF PUBLIC ACCOUNTS	§	REGISTER NO. _________
OF THE STATE OF TEXAS	§	

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Certificate has been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of the City of Lubbock, Texas; and that this Certificate has this day been registered by me.

Witness my hand and seal of office at Austin, Texas, __________________.

[SEAL]

____
Comptroller of Public Accounts
of the State of Texas

(c) Form of Certificate of Paying Agent/Registrar. The following Certificate of Paying Agent/Registrar may be deleted from the Initial Certificate if the Comptroller's Registration Certificate appears thereon.

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Certificate of this series of certificates was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and that this is one of the Certificates referred to in the within-mentioned Ordinance.

The Bank of New York Trust Company,
National Association
as Paying Agent/Registrar

Dated: ______________________ By: ______________________
Authorized Signatory

(d) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address and Zip Code of transferee): ______________________________

____

____

(Social Security or other identifying number: ____________________) the within Certificate and all rights hereunder and hereby irrevocably constitutes and appoints ____________________ attorney to transfer the within Certificate on the books kept for registration hereof, with full power of substitution in the premises.

Dated: __________________________ __________________________

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Certificate in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

Signature Guaranteed By:

____

____

Authorized Signatory

(e) The Initial Certificate shall be in the form set forth in paragraphs (a), (b) and (d) of this Section, except for the following alterations:

(A) immediately under the name of the Certificate the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the expression "As shown below" and the heading "CUSIP NO." shall be deleted; and

(B) in the first paragraph of the Certificate, the words "on the maturity date specified above" shall be deleted and the following will be inserted: "on February 15 in each of the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

Years	Principal Installments	Interest Rate

(Information to be inserted from the Pricing Certificate pursuant to Section 3.02 of the Ordinance)

PAYING AGENT/REGISTRAR AGREEMENT

between

CITY OF LUBBOCK, TEXAS

and

THE BANK OF NEW YORK TRUST COMPANY, NATIONAL ASSOCIATION

Pertaining to

City of Lubbock, Texas
Tax and Waterworks System Surplus Revenue Certificates of Obligation
Taxable Series 2008

Dated as of December 15, 2007

TABLE OF CONTENTS

ARTICLE VI

MISCELLANEOUS PROVISIONS

PAYING AGENT/REGISTRAR AGREEMENT

THIS PAYING AGENT/REGISTRAR AGREEMENT (the or this "Agreement"), dated as of December 15, 2007, is by and between CITY OF LUBBOCK, TEXAS (the "Issuer"), and The Bank of New York Trust Company Bank, National Association (the "Bank"), a New York state banking corporation duly organized and existing under the laws of the United States of America.

WHEREAS, the Issuer has duly authorized and provided for the issuance of its Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates"), dated December 15, 2007, to be issued as registered securities without coupons;

WHEREAS, all things necessary to make the Certificates the valid obligations of the Issuer, in accordance with their terms, will be taken upon the issuance and delivery thereof;

WHEREAS, the Issuer is desirous that the Bank act as the Paying Agent of the Issuer in paying the principal, redemption premium, if any, and interest on the Certificates, in accordance with the terms thereof, and that the Bank act as Registrar for the Certificates; and

WHEREAS, the Issuer has duly authorized the execution and delivery of this Agreement, and all things necessary to make this Agreement the valid agreement of the Issuer, in accordance with its terms, have been done;

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE I

APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01. Appointment.

(a) The Issuer hereby appoints the Bank to act as Paying Agent with respect to the Certificates in paying to the Owners of the Certificates the principal, redemption premium, if any, and interest on all or any of the Certificates.

(b) The Issuer hereby appoints the Bank as Registrar with respect to the Certificates.

(c) The Bank hereby accepts its appointment, and agrees to act as, the Paying Agent and Registrar.

Section 1.02. Compensation.

(a) As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in Annex A hereto for the first year of this Agreement, or such part thereof as this Agreement shall be in effect, and thereafter while this Agreement is in effect, the fees and amounts set forth in the Bank's current fee schedule then in effect for services as Paying Agent/Registrar for municipalities, which shall be supplied to the Issuer on or before 90 days prior to the close of the Fiscal Year of the Issuer, and shall be effective upon the first day of the following Fiscal Year.

(b) In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any of the provisions hereof, including the reasonable compensation and the expenses and disbursements of its agents and counsel.

ARTICLE II

DEFINITIONS

Section 2.01. Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms have the following meanings when used in this Agreement:

"Bank" means The Bank of New York Trust Company Bank, National Association.

"Bank Office" means the Bank's office in Dallas, Texas. The Bank will notify the Issuer in writing of any change in location of the Bank Office.

"Certificate" or "Certificates" means any or all of the Issuer's Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008, dated December 15, 2007.

"Certificate Ordinance" means the ordinance of the City Council of the Issuer authorizing the issuance and delivery of the Certificates.

"Fiscal Year" means the 12 month period ending September 30th of each year.

"Issuer" means the City of Lubbock, Texas.

"Issuer Request" and "Issuer Order" means a written request or order signed in the name of the Issuer by the Mayor of the Issuer, or any other authorized representative of the Issuer and delivered to the Bank.

"Legal Holiday" means a day on which the Bank is required or authorized by applicable law to be closed.

"Owner" means the Person in whose name a Certificate is registered in the Register.

"Paying Agent" means the Bank when it is performing the functions associated with the terms in this Agreement.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, or government or any agency or political subdivision of a government.

"Predecessor Certificates" of any particular Certificate means every previous Certificate evidencing all or a portion of the same obligation as that evidenced by such particular Certificate (and, for the purposes of this definition, any Certificate registered and delivered under

Section 4.06 in lieu of a mutilated, lost, destroyed or stolen Certificate shall be deemed to evidence the same obligation as the mutilated, lost, destroyed or stolen Certificate).

"Record Date" means the last Business Day of the month next preceding an interest payment date established by the Certificate Ordinance.

"Register" means a register in which the Issuer shall provide for the registration and transfer of Certificates.

"Responsible Officer" when used with respect to the Bank means the Chairman or Vice Chairman of the Board of Directors, the Chairman or Vice Chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Stated Maturity" means the date or dates specified in the Certificate Ordinance as the fixed date on which the principal of the Certificates is due and payable or the date fixed in accordance with the terms of the Certificate Ordinance for redemption of the Certificates, or any portion thereof, prior to the fixed maturity date.

ARTICLE III

PAYING AGENT

Section 3.01. <u>Duties of Paying Agent</u>.

(a) The Bank, as Paying Agent and on behalf of the Issuer, shall pay to the Owner, at the Stated Maturity and upon the surrender of the Certificate or Certificates so maturing at the Bank Office, the principal amount of the Certificate or Certificates then maturing, and redemption premium, if any, provided that the Bank shall have been provided by or on behalf of the Issuer adequate funds to make such payment.

(b) The Bank, as Paying Agent and on behalf of the Issuer, shall pay interest when due on the Certificates to each Owner of the Certificates (or their Predecessor Certificates) as shown in the Register at the close of business on the Record Date, provided that the Bank shall have been provided by or on behalf of the Issuer adequate funds to make such payments; such payments shall be made by computing the amount of interest to be paid each Owner, preparing the checks, and mailing the checks on each interest payment date addressed to each Owner's address as it appears in the Register on the Record Date.

Section 3.02. <u>Payment Dates</u>. The Issuer hereby instructs the Bank to pay the principal of, redemption premium, if any, and interest on the Certificates at the dates specified in the Certificate Ordinance.

ARTICLE IV

REGISTRAR

Section 4.01. Transfer and Exchange.

(a) The Issuer shall keep the Register at the Bank Office, and subject to such reasonable written regulations as the Issuer may prescribe, which regulations shall be furnished to the Bank herewith or subsequent hereto by Issuer Order, the Issuer shall provide for the registration and transfer of the Certificates. The Bank is hereby appointed "Registrar" for the purpose of registering and transferring the Certificates as herein provided. The Bank agrees to maintain the Register while it is Registrar. The Bank agrees to at all times maintain a copy of the Register at its office located in the State of Texas.

(b) The Bank as Registrar hereby agrees that at any time while any Certificate is outstanding, the Owner may deliver such Certificate to the Registrar for transfer or exchange, accompanied by instructions from the Owner, or the duly authorized designee of the Owner, designating the persons, the maturities, and the principal amounts to and in which such Certificate is to be transferred and the addresses of such persons; the Registrar shall thereupon, within not more than three (3) business days, register and deliver such Certificate or Certificates as provided in such instructions. The provisions of the Certificate Ordinance shall control the procedures for transfer or exchange set forth herein to the extent such procedures are in conflict with the provisions of the Certificate Ordinance.

(c) Every Certificate surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed in a manner satisfactory to the Bank, duly executed by the Owner thereof or his attorney duly authorized in writing.

(d) The Bank may request any supporting documentation it feels necessary to effect a re-registration.

Section 4.02. The Certificates. The Issuer shall provide an adequate inventory of unregistered Certificates to facilitate transfers. The Bank covenants that it will maintain the unregistered Certificates in safekeeping and will use reasonable care in maintaining such unregistered Certificates in safekeeping, which shall be not less than the care it maintains for debt securities of other governments or corporations for which it serves as registrar, or which it maintains for its own securities.

Section 4.03. Form of Register.

(a) The Bank as Registrar will maintain the records of the Register in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Register in any form other than a form which the Bank has currently available and currently utilizes at the time.

(b) The Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

Section 4.04. List of Owners.

(a) The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the cost, if any, of reproduction, a copy of the information contained in the Register. The Issuer may also inspect the information in the Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

(b) The Bank will not release or disclose the content of the Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a subpoena or court order or as otherwise required by law. Upon receipt of a subpoena or court order the Bank will notify the Issuer so that the Issuer may contest the subpoena or court order.

Section 4.05. Cancellation of Certificates. All Certificates surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Bank, shall be promptly cancelled by it and, if surrendered to the Issuer, shall be delivered to the Bank and, if not already cancelled, shall be promptly cancelled by the Bank. The Issuer may at any time deliver to the Bank for cancellation any Certificates previously certified or registered and delivered which the Issuer may have acquired in any manner whatsoever, and all Certificates so delivered shall be promptly cancelled by the Bank. All cancelled Certificates held by the Bank shall be disposed of pursuant to the Securities Exchange Act of 1934.

Section 4.06. Mutilated, Destroyed, Lost, or Stolen Certificates.

(a) Subject to the provisions of this Section 4.06, the Issuer hereby instructs the Bank to deliver fully registered Certificates in exchange for or in lieu of mutilated, destroyed, lost, or stolen Certificates as long as the same does not result in an overissuance.

(b) If (i) any mutilated Certificate is surrendered to the Bank, or the Issuer and the Bank receives evidence to their satisfaction of the destruction, loss, or theft of any Certificate, and (ii) there is delivered to the Issuer and the Bank such security or indemnity as may be required by the Bank to save and hold each of them harmless, then in the absence of notice to the Issuer or the Bank that such Certificate has been acquired by a bona fide purchaser, the Issuer shall execute, and upon its request the Bank shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Certificate, a new Certificate of the same stated maturity and of like tenor and principal amount bearing a number not contemporaneously outstanding.

(c) Every new Certificate issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Certificate shall constitute a replacement of the prior obligation of the Issuer, whether or not the mutilated, destroyed, lost, or stolen Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Certificate Ordinance equally and ratably with all other outstanding Certificates.

(d) Upon the satisfaction of the Bank and the Issuer that a Certificate has been mutilated, destroyed, lost, or stolen, and upon receipt by the Bank and the Issuer of such indemnity or security as they may require, the Bank shall cancel the Certificate number on the Certificate registered with a notation in the Register that said Certificate has been mutilated, destroyed, lost, or stolen; and a new Certificate shall be issued of the same series and of like tenor and principal amount bearing a number, according to the Register, not contemporaneously outstanding.

(e) The Bank may charge the Owner the Bank's fees and expenses in connection with issuing a new Certificate in lieu of or exchange for a mutilated, destroyed, lost, or stolen Certificate.

(f) The Issuer hereby accepts the Bank's current blanket bond for lost, stolen, or destroyed Certificates and any future substitute blanket bond for lost, stolen, or destroyed Certificates that the Bank may arrange, and agrees that the coverage under any such blanket bond is acceptable to it and meets the Issuer's requirements as to security or indemnity. The Bank need not notify the Issuer of any changes in the security or other company giving such bond or the terms of any such bond, provided that the amount of such bond is not reduced below the amount of the bond on the date of execution of this Agreement. The blanket bond then utilized by the Bank for lost, stolen, or destroyed Certificates by the Bank is available for inspection by the Issuer on request.

Section 4.07. Transaction Information to Issuer. The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Certificates it has paid pursuant to Section 3.01; Certificates it has delivered upon the transfer or exchange of any Certificates pursuant to Section 4.01; and Certificates it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Certificates pursuant to Section 4.06 of this Agreement.

ARTICLE V

THE BANK

Section 5.01. Duties of Bank. The Bank undertakes to perform the duties set forth herein and in accordance with the Certificate Ordinance and agrees to use reasonable care in the performance thereof. The Bank hereby agrees to use the funds deposited with it for payment of the principal of, redemption premium, if any, and interest on the Certificates to pay the Certificates as the same shall become due and further agrees to establish and maintain all accounts and funds as may be required for the Bank to function as Paying Agent.

Section 5.02. Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any ordinance, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, certificate, note, security, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Certificates, but is protected in acting upon receipt of Certificates containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Owner or an attorney-in-fact of the Owner. The Bank shall not be bound to make any investigation into the facts or matters stated in an ordinance, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, certificate, note, security, or other paper or document supplied by Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

Section 5.03. Recitals of Issuer.

(a) The recitals contained herein and in the Certificates shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

(b) The Bank shall in no event be liable to the Issuer, any Owner or Owners, or any other Person for any amount due on any Certificate except as otherwise expressly provided herein with respect to the liability of the Bank for its duties under this Agreement.

Section 5.04. May Hold Certificates. The Bank, in its individual or any other capacity, may become the Owner or pledgee of Certificates and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05. Money Held by Bank.

(a) Money held by the Bank hereunder need not be segregated from any other funds provided appropriate accounts are maintained.

(b) The Bank shall be under no liability for interest on any money received by it hereunder.

(c) Subject to the provisions of Title 6, Texas Property Code, any money deposited with the Bank for the payment of the principal, redemption premium, if any, or interest on any Certificate and remaining unclaimed for three years after final maturity of the Certificate has become due and payable will be paid by the Bank to the Issuer, and the Owner of such Certificate shall thereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such monies shall thereupon cease.

(d) The Bank will comply with the reporting requirements of Chapter 74 of the Texas Property Code.

(e) The Bank shall deposit any moneys received from the Issuer into a trust account to be held in a paying agent capacity for the payment of the Certificates, with such moneys in the account that exceed the deposit insurance, available to the Issuer, provided by the Federal Deposit Insurance Corporation to be fully collateralized with securities or obligations that are eligible under the laws of the State of Texas and to the extent practicable under the laws of the United States of America to secure and be pledged as collateral for trust accounts until the principal and interest on the Certificates have been presented for payment and paid to the owner thereof. Payments made from such trust account shall be made by check drawn on such trust account unless the owner of such Certificates shall, at its own expense and risk, request such other medium of payment.

Section 5.06. Indemnification. To the extent permitted by law, the Issuer agrees to indemnify the Bank, its officers, directors, employees, and agents for, and hold them harmless against, any loss, liability, or expense incurred without negligence or bad faith on their part arising out of or in connection with its acceptance or administration of the Bank's duties hereunder, and under Article V of the Certificate Ordinance, including the cost and expense (including its counsel fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement.

Section 5.07. Interpleader. The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demands or controversy over its persons as well as funds on deposit in a court of competent jurisdiction within the State of Texas; waive personal service of any process; and agree that service of process by certified or registered mail, return receipt requested, to the address set forth in this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction within the State of Texas to determine the rights of any person claiming any interest herein.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 6.01. Amendment. This Agreement may be amended only by an agreement in writing signed by both of the parties hereof.

Section 6.02. Assignment. This Agreement may not be assigned by either party without the prior written consent of the other.

Section 6.03. Notices. Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown below:

(a)	if to the Issuer:	City of Lubbock, Texas 1625 13th Street Lubbock, Texas 79457 Attention: Director of Fiscal Policy and Strategic Planning
(b)	if to the Bank:	The Bank of New York Trust Company, National Association 2001 Bryan, 8th Floor Dallas, Texas 75201 Attention: Corporate Trust Department

Section 6.04. Effect of Headings. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6.05. Successors and Assigns. All covenants and agreements herein by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 6.06. Separability. If any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07. Benefits of Agreement. Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim bereunder.

Section 6.08. Entire Agreement. This Agreement and the Certificate Ordinance constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar, and if any conflict exists between this Agreement and the Certificate Ordinance, the Certificate Ordinance shall govern.

Section 6.09. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.10. Termination.

(a) This Agreement will terminate on the date of final payment by the Bank issuing its checks for the final payment of principal, redemption premium, if any, and interest of the Certificates.

(b) This Agreement may be earlier terminated upon sixty (60) days written notice by either party; provided, that, no termination shall be effective until a successor has been appointed by the Issuer and has accepted the duties imposed by this Agreement. A resigning Paying Agent/Registrar may petition any court of competent jurisdiction for the appointment of a successor Paying Agent/Registrar if an instrument of acceptance by a successor Paying Agent/Registrar has not been delivered to the resigning Paying Agent/Registrar within sixty (60) days after the giving of notice of resignation.

(c) The provisions of Section 1.02 and of Article Five shall survive and remain in full force and effect following the termination of this Agreement.

Section 6.11. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first written above.

CITY OF LUBBOCK, TEXAS

By: ______________________________
David A. Miller, Mayor

ATTEST:

____
Rebecca Garza, City Secretary

Signature Page for Paying Agent/Registrar Agreement

THE BANK OF NEW YORK TRUST COMPANY, NATIONAL ASSOCIATION

By: Pat Blue
Title: ~~ASST~~ VICE PRESIDENT

ANNEX "A"

SCHEDULE OF FEES FOR SERVICE AS PAYING AGENT/REGISTRAR

The BANK of NEW YORK

$11,805,000 Lubbock, (City of), Texas
Tax & Waterworks System Surplus Revenue Certificates of Obligation, Taxable, Series 2008

Acceptance Fee: **Waived**
A one-time charge covering the Bank Officer's review of governing documents, communication with members of the closing party, including representatives of the issuer, investment banker(s) and attorney(s), establishment of procedures and controls, set-up of trust accounts and tickler suspense items and the receipt and disbursement/investment of bond proceeds. This fee is payable on the closing date.

Annual Paying Agent Administration Fee: **$500**
An annual charge covering the normal paying agent duties related to account administration and bondholder services. This fee is payable annually, in advance, on the closing date and each anniversary thereafter.

Extraordinary Services / Miscellaneous Fees: **By Appraisal**
The charges for performing extraordinary or other services not contemplated at the time of the execution of the transaction or not specifically covered elsewhere in this schedule will be determined by appraisal in amounts commensurate with the service to be provided. If it is contemplated that the Trustee hold and/or value collateral or enter into any investment contract, forward purchase or similar or other agreement, additional acceptance, administration and counsel review fees will be applicable to the agreement governing such services. If the bonds are converted to certificated form, additional annual fees will be charged for any applicable tender agent and/or registrar/paying agent services. Additional information will be provided at such time. Should this transaction terminate prior to closing, all out-of-pocket expenses incurred, including legal fees, will be billed at cost. If all outstanding bonds of a series are defeased or called in full prior to their maturity, a termination fee may be assessed at that time.
Miscellaneous fees may include, but are not necessarily limited to the following, if applicable: UCC filing fees, money market sweep fees, auditor confirmation fees, wire transfer fees, transaction fees to settle third-party trades and reconcilement fees to balance trust account balances to third-party investment provider statements.
Annual fees include one standard audit confirmation per year without charge. Standard audit confirmations include the final maturity date, principal paid, principal outstanding, interest cycle, interest paid, cash and asset information, interest rate, and asset statement information. Non-standard audit confirmation requests may be assessed an additional fee.
Periodic tenders, sinking fund, optional or extraordinary call redemptions will be assessed an additional charge nf $300 per event.

Terms and Disclosures

Terms of Proposal
Final acceptance of the appointment under the Indenture is subject to approval of authorized officers of BNY and full review and execution of all documentation related hereto. Please note that if this transaction does not close, you will be responsible for paying any expenses incurred, including counsel fees. We reserve the right to terminate this offer if we do not enter into final written documents within three months from the date this document is first transmitted to you. Fees may be subject to adjustment during the life of the engagement.

Customer Notice Required by the USA Patriot Act
To help the US government fight the funding of terrorism and money laundering activities, US Federal law requires all financial institutions to obtain, verify, and record information that identifies each person (whether an individual or organization) for which a relationship is established.
What this means to you: When you establish a relationship with BNY, we will ask you to provide certain information (and documents) that will help us to identify you. We will ask for your organization's name, physical address, tax identification or other government registration number and other information that will help us to identify you. We may also ask for a Certificate of Incorporation or similar document or other pertinent identifying documentation for your type of organization.

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 7, 2007

This Preliminary Official Statement is subject to completion and amendment. Upon sale of the Certificates described herein, the Official Statement will be completed and delivered to the Underwriter (defined herein). Prospective purchasers must read the entire Official Statement to make an informed investment decision.

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE CERTIFICATES IS **INCLUDED** IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW. SEE "TAXABLE STATUS OF THE CERTIFICATES" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: Moody's Investors Service, Inc. "_"
Standard & Poor's Ratings Services "_"
Fitch Ratings "_"
See "OTHER INFORMATION – RATINGS" and "BOND INSURANCE" herein.

$11,635,000*
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008

Dated: December 15, 2007 **Due: February 15, as shown on the inside cover**

Principal of and interest on the $11,635,000* City of Lubbock, Texas (the "City"), Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates") are payable by The Bank of New York Trust Company, National Association, Dallas, Texas (the "Paying Agent/Registrar"). The Certificates are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein. Interest on the Certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months, will accrue from December 15, 2007, and is payable on February 15 and August 15 of each year, commencing February 15, 2008, until maturity or earlier redemption, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the last business day of the month preceding each interest payment date (the "Record Date") (see "THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES"). The Certificates are subject to optional redemption prior to their scheduled maturities at the option of the City (see "THE CERTIFICATES – OPTIONAL REDEMPTION").

The Certificates are payable from a combination of (i) the proceeds of a 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.

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council (the "Ordinance").

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the construction of a civic/conference center, including meeting and support space and related parking (the "City Facilities") and (ii) professional services rendered in connection therewith. In addition, a portion of the proceeds from the sale of the Certificates will be used to pay the costs of issuance of the Certificates. The City facilities are being developed in conjunction with an adjacent full service, privately owned hotel containing not less than 300 rooms. The City Facilities will contain ballrooms and such other meeting and banquet rooms as may reasonably be required to serve as the primary meeting space for the hotel. The City Facilities will be leased to the owner of the hotel or its designee and will be operated as facilities open to the public. The site where the hotel and the City Facilities will be located is within the North Overton Tax Increment Financing Reinvestment Zone (the "North Overton TIF"), and the project is part of the redevelopment of property within the North Overton TIF. See "AD VALOREM TAX INFORMATION – TAX INCREMENT FINANCING ZONES."

The City has applied to several companies for bond insurance and will consider the purchase of such insurance after an analysis of the bids from such companies has been made. See "BOND INSURANCE" herein.

The Certificates are offered when, as and if issued, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriter named below (the "Underwriter") by its counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. See "OTHER INFORMATION – LEGAL MATTERS." Delivery of the Certificates through The Depository Trust Company is expected to be on or about January 17, 2008.

MORGAN STANLEY

* Preliminary, subject to change.

PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

CUSIP Prefix: 549187

$11,635,000* Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008

(Due February 15)

Maturity		Principal Amount*	Interest Rate	Initial Offering Yield (a)	CUSIP Suffix (b)
2008		$ 205,000	%	%	
2009		355,000			
2010		375,000			
2011		395,000			
2012		415,000			
2013		435,000			
2014		460,000			
2015		485,000			
2016		515,000			
2017		540,000			
2018	(c)	575,000			
2019	(c)	605,000			
2020	(c)	640,000			
2021	(c)	675,000			
2022	(c)	715,000			
2023	(c)	755,000			
2024	(c)	800,000			
2025	(c)	845,000			
2026	(c)	895,000			
2027	(c)	950,000			

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* Preliminary, subject to change.

(a) The initial yields will be established by and are the sole responsibility of the Underwriter, and may subsequently be changed.

(b) CUSIP numbers have been assigned to the Certificates by Standard and Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the registered owners of the Certificates. Neither the City, the Financial Advisor, nor the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(c) The Certificates maturing on February 15, 2018 and thereafter are subject to redemption, at the option of the City, at par value thereof plus accrued interest on February 15, 2017 or any date thereafter (see "THE CERTIFICATES – OPTIONAL REDEMPTION").

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document may be treated as a Preliminary Official Statement of the City with respect to the Certificates described herein deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the City or other matters described herein since the date hereof. See "OTHER INFORMATION – CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information or a continuing basis.

The information set forth or included in this Official Statement has been provided by the City and from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

NEITHER THE CITY, THE FINANCIAL ADVISOR, THE UNDERWRITER NOR BOND COUNSEL MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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APPENDICES

OFFICIAL STATEMENT SUMMARY

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

THE CITY .... The City of Lubbock, Texas (the "City") is a political subdivision and municipal corporation of the State, located in Lubbock County, Texas. The City covers approximately 119.1 square miles and has an estimated 2007 population of 212,365 (see "INTRODUCTION - DESCRIPTION OF THE CITY").

THE CERTIFICATES .... $11,635,000* Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates"), are dated December 15, 2007, and mature on February 15 in each of the years 2008 through 2027, inclusive.

PAYMENT OF INTEREST .... Interest on the Certificates accrues from the dated date, and is payable February 15, 2008 and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").

AUTHORITY FOR ISSUANCE .... The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271 of the Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council (the "Ordinance").

SECURITY FOR THE CERTIFICATES .... The Certificates are payable from a combination of (i) the proceeds of a 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.

OPTIONAL REDEMPTION .... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2018, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

TAXABLE STATUS OF THE CERTIFICATES .... In the opinion of bond counsel, interest on the Certificates is included in gross income for federal income tax purposes under existing law (see "TAXABLE STATUS OF THE CERTIFICATES" herein for a discussion of the opinion of bond counsel).

USE OF PROCEEDS .... Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the construction of a civic/conference center, including meeting and support space and related parking and (ii) professional services rendered in connection therewith. In addition, a portion of the proceeds from the sale of the Certificates will be used to pay the costs of issuance of the Certificates (see "THE CERTIFICATES - PURPOSE").

RATINGS .... The Certificates are rated "___" by Moody's Investors Service, Inc. ("Moody's"), "___" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and "___" by Fitch Ratings ("Fitch"). The City's underlying ratings on its presently outstanding general obligation debt are "Aa3" by Moody's, "AA" by S&P and "AA" by Fitch. The City also has issues outstanding which are rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch through insurance by various commercial insurance companies (see "OTHER INFORMATION - RATINGS").

BOOK-ENTRY-ONLY SYSTEM .... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM").

PAYMENT RECORD .... The City has never defaulted in payment of its general obligation tax debt

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* Preliminary, subject to change

- Selected Financial Information -

Fiscal Year Ended 30-Sep	Estimated City Population[a]	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Purpose Funded Tax Debt[b]	Per Capita General Purpose Funded Tax Debt[b]	Ratio Tax Debt to Assessed Valuation[b]	% of Total Tax Collections	Tax Year
2003	204,737	$7,342,344,867	$ 35,862.33	$ 70,188,204	$ 342.82	0.96%	99.21%	2002
2004	206,290	7,921,590,380	38,400.26	70,161,218	340.11	0.89%	98.64%	2003
2005	209,120	8,634,994,862	41,292.06	80,210,269	383.56	0.93%	100.28%	2004
2006	211,187	9,346,613,951	44,257.53	87,231,945	413.06	0.93%	99.71%	2005
2007	212,365	10,002,725,637	47,101.57	92,487,363	435.51	0.92%	99.02%	2006
2008[d]	212,365	10,897,210,563	51,313.59	98,129,904 [c]	462.08 [c]	0.90% [c]	N/A	2007

[a] Source: The City.

[b] Does not include self-supported debt.

[c] Preliminary, subject to change. Includes the Certificates.

[d] 2008 population is estimated.

General Fund Consolidated Statement Summary

	2006	2005	2004	2003	2002
Beginning Balance	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 16,598,252	$ 16,716,042
Total Revenues	97,818,207	104,351,116	97,437,436	91,753,809	92,490,374
Total Expenditures	112,278,444	103,203,269	94,160,257	98,934,715	90,594,059
Ending Balance	19,924,711	17,376,420	12,694,525	9,417,346	18,612,357
Reserves & Designations	-	-	-	-	(1,255,041)
Undesignated Fund Balance	$ 19,924,711	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 17,357,316

For additional information regarding the City, please contact:

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Chief Finance Officer
City of Lubbock
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Phone (806) 775-2161
Fax (806) 775-2051

Andy Burcham
Director of Fiscal Policy &
Strategic Planning
City of Lubbock
P.O. Box 2000
Lubbock, TX 79457
Phone (806) 775-2149
Fax (806) 775-2051

Matthew Boles
RBC Capital Markets
2711 N. Hasell Avenue, Suite 2500
Dallas, TX 75204
Phone (214) 989-1672
Fax (214) 989-1650

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Date of Installation to Office	Term Expires	Occupation
David Miller Mayor	May, 2006	May, 2008	Business Owner
Linda DeLeon Council Member, District 1	May, 2004	May, 2010	Business Owner
Floyd Price Council Member, District 2	May, 2004	May, 2008	Retired
Todd R. Klein (1) Council Member, District 3	June, 2007	May, 2010	Grant Consultant
Phyllis Jones Council Member, District 4	May, 2004	May, 2008	Self-Employed
John W. Leonard, III Council Member, District 5	May, 2006	May, 2010	Business Owner
Jim Gilbreath Council Member, District 6	May, 2003	May, 2008	Business Owner

(1) Todd R. Klein was elected June 9, 2007, to fill the unexpired term of District 3 Councilman Gary O. Boren.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Date of Employment in Current Position	Date of Employment with City of Lubbock	Total Government Service
Lee Ann Dumbauld	City Manager	September, 2005	July, 2004	20+
Tom Adams	Deputy City Manager	August, 2004	August, 2004	23
Jeff Yates	Chief Financial Officer	September, 2005	November, 2004	5
Anita Burgess	City Attorney	December, 1995	December, 1995	11
Rebecca Garza	City Secretary	January, 2001	August, 1996	9
Andy Burcham	Director of Fiscal Policy and Strategic Planning	September, 2005	November, 1998	7

CONSULTANTS AND ADVISORS

Auditors .... BKD, LLP
Little Rock, Arkansas

Bond Counsel .... Vinson & Elkins L.L.P.
Dallas, Texas

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

OFFICIAL STATEMENT
RELATING TO

CITY OF LUBBOCK, TEXAS
$11,635,000* TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $11,635,000* City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance authorizing the issuance of the Certificates except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, RBC Capital Markets, Dallas, Texas.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1909, and first adopted its Home Rule Charter in 1917. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six council members. The Mayor is elected at-large for a two-year term ending in an even-numbered year. Each of the six members of the City Council is elected from a single-member district for a four-year term of office. The terms of three members of the City Council expire in each even-numbered year. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, airport, sanitation and solid waste disposal, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 199,564; the estimated 2007 population is 212,365. The City covers approximately 119.1 square miles.

FINANCIAL AND MANAGEMENT CHALLENGES

In recent years, the City experienced a variety of financial and management challenges, and certain investigations and reports conducted or prepared by the City or its consultants found weaknesses in the City's general management and financial practices, both with the City in general and the City's electric utility system, known as Lubbock Power & Light ("LP&L"), in particular. The City is of the view that it has substantially addressed many of these conditions. Reference is made to "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS" for a discussion of these events and a description of how the City has responded to these events.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated December 15, 2007, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15, 2008, and on each August 15 and February 15 thereafter until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein.

PURPOSE

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the construction of a civic/conference center, including meeting and support space and related parking (the "City Facilities") and (ii) professional services rendered in connection therewith. In addition, a portion of the proceeds from the sale of the Certificates will be used to pay the costs of issuance of the Certificates. The City Facilities are being developed in conjunction with an adjacent full service, privately owned hotel containing not less than 300 rooms. The City Facilities will contain ballrooms and such other meeting and banquet rooms as may reasonably be required to serve as the primary meeting space for the hotel. The City Facilities will be leased to the owner of the hotel or its designee and will be operated as facilities open to the public. The site where the hotel and the City Facilities will be located is within the North Overton Tax Increment Financing Reinvestment Zone (the "North Overton TIF"), and the project is part of the redevelopment of property within the North Overton TIF. See "AD VALOREM TAX INFORMATION – Tax Increment Financing Zones."

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* Preliminary, subject to change.

AUTHORITY FOR ISSUANCE

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271 of the Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council (the "Ordinance").

SECURITY AND SOURCE OF PAYMENT

The Certificates are payable from a combination of (i) the proceeds of a 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.

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per $100 taxable assessed valuation.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2018, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for any Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

AMENDMENTS

The City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding, as applicable, amend, add to, or rescind any of the provisions of the Ordinance, except that, without the consent of the registered owners of all of the Certificates, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal on any installment of interest is due payable, reduce the principal amount or the rate of interest, or in any other way modify the terms of their payment, (2) give any preference to any Certificate over any other Certificate or (3) reduce the aggregate principal amount required to be held by owners for consent to any amendment, addition or waiver.

DEFEASANCE

The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Certificates to pay principal, interest and redemption price thereon in any matter permitted by law. Under current Texas law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to principal, premium, if any and all interest to accrue on the Certificates to maturity or redemption and/or (ii) by depositing with a paying agent or other authorized escrow agent amounts sufficient to provide for the payment and/or redemption of the Certificates; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Under current Texas law, upon the making of a deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or to take any other action amending the terms of the Certificates are extinguished; provided however, the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

The defeasance of the Certificates may result in the recognition of a capital gain or loss. See "TAXABLE STATUS OF THE CERTIFICATES – DISPOSITION OR RETIREMENT."

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates ore registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

Subject to DTC's policies and guidelines, the City may discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Underwriter.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued, printed Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Trust Company, National Association, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates then outstanding and affected by such change by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first class, postage prepaid, to the address of the registered owner recorded in the registration books of the

Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued with respect to the Certificates, printed certificates will be issued to the registered owners of the Certificates affected and thereafter such obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REMEDIES

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of principal of or interest on the Certificates when due, or if the City defaults in the observance or performance of any of the covenants, conditions or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, a holders of Certificates may not be able to bring such a suit against the City for breach of the Certificate or the Ordinance. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver

Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. As noted above, the Ordinance provides that holders of Certificates may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and that all opinions relative to the enforceability of the Ordinance and the Certificates are subject to bankruptcy and other laws affecting creditors rights or remedies generally.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Certificates will be applied as follows:

SOURCES OF FUNDS:

Principal Amount of Certificates	
Net Original Issue Premium (Discount)	
Accrued Interest	
Total Sources of Funds	

USES OF FUNDS:

Deposit to Construction Fund	
Accrued Interest Deposited to Interest & Sinking Fund	
Underwriter's Discount	
Cost of Issuance	
Total Uses of Funds	

BOND INSURANCE

The City has applied to several companies for bond insurance and will consider the purchase of such insurance after an analysis of the bids from such companies has been made.

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FORWARD LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, in particular the information under the heading "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS", that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. Although the City believes such forward-looking statements are based on reasonable assumptions, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to the considerations described below, among others, which could cause the actual financial results of the City to differ materially from those contemplated in such forward-looking statements. Any assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

The City cannot fully predict what effects factors of the nature described below may have on the operations of the City and financial condition of the General Fund or its business-type activities, including LP&L, but the effects could be significant. The discussion of such factors herein does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. With respect to LP&L, extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the securities of the City should obtain and review such information.

Among the factors that could affect the operations and financial coudition of the City in general, and its electric utility in particular, are the following:

> Significant changes in governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission, the United States Environmental Protection Agency (the "EPA"), the United States Department of Homeland Security, the United States Department of the Treasury, the Texas Commission on Environmental Quality (the "TCEQ"), the Public Utility Commission of Texas (the "PUC") and the Southwest Power Pool, Inc., with respect to:

- changes in and compliance with environmental and safety laws and policies affecting the City's water, sewer, stormwater and solid waste funds;
- changes in and compliance with national and state homeland security laws and policies effecting the City's water, sewer, solid waste and airport funds;
- electric transmission cost rate structure;
- purchased power and recovery of investments in electric system assets;
- acquisitions and disposal of assets and facilities; and
- present or prospective wholesale and retail competition in the electric industry;

> Unanticipated population growth or decline, and changes in market demand, demographic patterns and the development of technology affecting the City's service area, its general government and public safety expenditures and City revenue from:

- investor owned utility franchise fees,
- City utility and service fees
- sales tax revenues; and
- ad valorem tax revenues;

> With respect to LP&L:

- the implementation of or adjustments made to business strategies adopted by LP&L;
- competition for retail and wholesale customers by LP&L, particularly competition with Xcel (as defined below) and its subsidiaries;
- access to adequate electric transmission facilities to meet current and future demand for energy;
- pricing and transportation of coal, natural gas and other commodities that may affect the cost of energy purchased by LP&L;
- inability of various contractual counterparties to meet their obligations to the City, and with LP&L in particular with respect to LP&L's fuel and power purchase arrangements;

> With respect to the City's financial performance in general:

- legal and administrative proceedings and settlements; and
- significant changes in critical accounting policies.

DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS

In the 2002 and 2003 fiscal years (a fiscal year is referred to herein as "FY", with the year designation being the year in which the fiscal year ends; each City fiscal year begins on October 1 and ends on September 30), the City experienced a variety of financial and management challenges. In response to the events and circumstances that have created such challenges, the City has taken actions to address and correct matters, specifically employing a new management team in 2004, and the City is of the view that progress has been made in correcting these conditions (see "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS"). The following discussion includes an analysis of the events that have occurred in the recent fiscal years, in particular, a summary of the measures taken in response to the challenges that have arisen, and a current description of the City's financial and management position.

FY 2003 FINANCIAL CONCERNS AND MID-YEAR BUDGET AMENDMENTS

In FY 2003, the City's electric enterprise fund, which operates as Lubbock Light & Power (referred to herein as "LP&L" or the "electric fund") incurred unanticipated net losses. During FY 2003, interfund loans were made to LP&L from the water fund and the General Fund.

A number of factors contributed to the LP&L losses; a significant factor was that LP&L, unlike most other municipal electric utilities in Texas, competes directly with Southwestern Public Service Company ("SPS"), a subsidiary of a large investor owned energy company, Xcel Energy, Inc. In addition to the service area that has dual certification with Xcel, a small part of the City is also served by South Plains Electric Cooperative ("SPEC"). The City, through LP&L, has competed for both wholesale and retail electric customers against investor owned utilities for over 80 years. This competition has existed despite the fact that the City is not within the transmission system governed by the Electric Reliability Council of Texas ("ERCOT"). ERCOT was opened to retail electric competition through the adoption of State deregulation legislation that went into effect on January 1, 2002.

Prior to FY 2004, the City operated LP&L in a manner that was designed to recover administrative or indirect costs provided by the General Fund for LP&L (such as legal and financial services) as well as certain other general transfers. Such transfers included a payment in lieu of ad valorem taxes, an allocation for indirect costs such as legal and financial services, and a cost of business transfer (which approximates a payment in lieu of franchise taxes. In addition, prior to FY 2003 LP&L was required to annually transfer to the General Fund amounts to support economic development incentives in the City, a payment designated for infrastructure use, a "gas tax" transfer, and a reimbursement of the street lighting expense incurred by the City. Over the ten year period from 1993 to 2002, the average annual operating income of LP&L before transfers was $8 million, and during that period, LP&L transfers to the General Fund for payments in lieu of taxes and recovery of costs of business averaged $8 million per year.

During the preparation of the FY 2003 City budgets, it was evident that the amount of money transferred from LP&L to the General Fund would need to be reduced given the financial condition of LP&L. Consequently, the FY 2003 budget trimmed $4.8 million from LP&L transfers included in prior year budgets. In February 2003, during a period of extraordinarily high natural gas prices, City finance staff projected that, in the absence of corrective measures, the electric enterprise fund would have an operating loss of $24 million for FY 2003. In the Spring of 2003, the City Council amended the LP&L and General Fund budgets to eliminate $7.7 million in transfers from LP&L to the General Fund. City management then undertook a comprehensive review of the General Fund and other enterprise funds for the purpose of identifying budget cuts throughout City government that would offset the reduced LP&L transfers. Ultimately, the City Council adopted budget amendments during the Spring 2003 mid-year review that totaled $9.7 million for the General Fund (hereinafter referred to as the "2003 Budget Adjustments"), which represented approximately 10.5% of the original FY 2003 General Fund budget.

Other measures that were taken after the 2003 Budget Amendments to address the projected LP&L operating loss included increases in the fuel cost adjustment ("FCA") for residential and small commercial customers, as well as for its two largest customers, which included Texas Tech University ("Texas Tech") and which accounted for approximately 10% of the energy sales of LP&L.

The City is a member of the West Texas Municipal Power Agency ("WTMPA"), a municipal power agency that was formed by concurrent ordinances adopted by the governing bodies of the cities of Browofield, Floydada, Lubbock and Tulia, Texas (the "Member Cities") in 1983. WTMPA is a separate political subdivision under the laws of the State. In June 1998, WTMPA issued $28,910,000 of its Revenue Bonds, Series 1998 (the "WTMPA Bonds"), to finance the construction and acquisition of a 62 MW electric co-generation project (the "WTMPA Project"). The WTMPA Project consists of a 40 megawatt ("MW") combustion turbine generator (the "Massengale Unit 8 turbine") and the re-powering of an existing 22 MW generation unit, each located at the City's J.R. Massengale Plant.

Numerous issues, both operational and managerial, arose from the WTMPA Project. As a result, the City embarked upon a series of internal financial and management audits of the relationship between LP&L and WTMPA, as well as an analysis of the internal controls of the City with respect to LP&L. No malfeasance was uncovered with respect to the administration of LP&L or WTMPA funds. However, the reviews concluded that the prevailing view that guided the administration of WTMPA affairs by the management of LP&L, was that WTMPA was indistinguishable from LP&L. In April 2003, the WTMPA Member Cities (including the City) engaged Ernst & Young LLP ("E&Y") to conduct an audit of the records of WTMPA and LP&L. The final report of E&Y was delivered in May 2003, and included findings of misallocation of costs among the Member Cities. The report noted that no evidence of misappropriation of assets or intentional omissions of financial information was discovered. The E&Y report found that the misallocations, adding an interest factor for such allocations, and an unbilled 5% management allocation that LP&L was entitled to under the power agreements, would result in a total amount owing to the City of $5,590,746, of which the City owed itself, as a Member City of WTMPA, approximately 90% of the total amount.

In December 2003, the City, WTMPA and the other Member Cities of WTMPA entered into a series of agreements styled the "Comprehensive Settlement Agreement". The Comprehensive Settlement Agreement provided for the reallocation of resources and costs among WTMPA Member Cities, resolved disputes relating to the composition and voting powers of the WTMPA Board, and settled disputed claims incurred by the City on behalf of WTMPA. The City believes the Comprehensive Settlement Agreement better reflects the historical manner in which the Member Cities have engaged in energy activities. WTMPA has been classified as an enterprise fund of the City, which reflects the extensive associations between WTMPA and the City.

In March 2005, the City delivered its Combination Tax and Electric Light and Power System Surplus Revenue Certificates of Obligation, Series 2005, in the aggregate principal amount of $23,055,000. A portion of the proceeds of this issue was used by the City to acquire the WTMPA Project. WTMPA used the proceeds received from the City to defease all of the outstanding WTMPA Bonds. The City now owns and operates the WTMPA Project, as part of LP&L.

SEPTEMBER 30, 2003 FINANCIAL RESULTS

The General Fund . . . As hereafter described in "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - FY 2003 AUDIT RESTATEMENTS, RECLASSIFICATIONS AND INTERNAL CONTROLS ISSUES", the financial position of the City in FY 2003 was impacted by significant changes in the reporting entity and prior period adjustments and reclassifications of the City's FY 2002 financial statements. With respect to the General Fund, the beginning fund balance/net assets were restated from $18.6 million to $16.6 million. The restatement was attributable to the write off of a receivable in the General Fund from the City's golf fund. In addition, the General Fund experienced a $7.2 million reduction in fund balance/net assets in FY 2003, the most significant drawdown of the General Fund reserves in over ten years. The decrease in fund balance occurred because of the $9.3 million transfer to LP&L to ensure the ongoing operation of LP&L and the payment of the senior lien revenue bonds issued by the City for LP&L.

In addition, the General Fund reduction in fund balance was a result of the forgiveness of originally budgeted payments in lieu of taxes, franchise fees and indirect costs of $4.8 million from the electric fund to the General Fund. The aggregate result of restatement of the beginning fund balance and the FY 2003 use of fund balance was a General Fund ending balance of $9.4 million. Coming in to FY 2003, the City had a fund balance (adjusted) of $18.6 million. The City has adopted a policy (the "General Fund Balance Policy") to maintain an unreserved General Fund balance equal to two months operating expenditures. At September 30, 2002 the General Fund balance exceeded the General Fund Balance Policy by $4.5 million. At September 30, 2003, the General Fund Balance Policy required a fund balance of $14.2 million. As a result of the FY 2003 events described above, the City was $4.8 million under the fund balance required under its policy at the close of FY 2003. The decline in General Fund balance limits the City's ability to mitigate future risks of revenue shortfalls and unanticipated expenditures. Reference is made to the information hereafter presented under the headings "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS – CITY'S RESPONSE TO RECENT FINANCIAL AND MANAGEMENT EVENTS - General Fund and General Government Actions – General Fund Budgetary Actions" and "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS – CITY'S RESPONSE TO RECENT FINANCIAL AND MANAGEMENT EVENTS - FY 2007 BUDGET", for a discussion of the results for the General Fund and a summary of the City's planning for FY 2007.

The Electric Fund . . . With respect to LP&L, the measures taken by the City Council during the FY 2003 mid-year budget review yielded substantial results as measured by the projected operating loss of $24 million in February 2003. LP&L ended FY 2003 with a $6.3 million operating loss. Before taking into account transfers from other funds, the electric fund reported a $9 million loss, the first such loss in over ten years. As a consequence of the operating loss, LP&L failed to meet its revenue bond rate covenant under which the City has agreed to set rates for the electric system sufficient to produce net revenues equal to 100% of its senior lien bonded indebtedness. In FY 2003, LP&L produced $0.704 million that was available for the payment of debt service, which represents a 0.3 times coverage of average annual debt service and a 0.2 times coverage of maximum annual debt service, in each case after taking into account the issuance of City general obligation debt for LP&L that occurred in August 2003. Under the terms of its bond ordinances, the failure to meet the rate covenant, while significant, did not result in the acceleration of LP&L's debt. Moreover, the failure did not materially affect LP&L's operations, as LP&L was able to make its debt payments after receiving a $9.3 million contribution from the General Fund, and LP&L has never defaulted in the payment of its bonded indebtedness. In making its debt payments, LP&L has not used any moneys set aside as a debt service reserve fund under its senior lien revenue bond ordinances. Since 2003, LP&L has met the rate covenant, and the City has not made transfers from the General Fund to LP&L.

Despite the relatively small operating income that resulted after taking into account the General Fund contribution to LP&L, total net assets of the electric fund decreased by $3.9 million during FY 2003, to $88.5 million, as a result of a restatement of the beginning fund balance. The restatement reflected the write off of a $4.48 million receivable recorded from WTMPA in FY 2002, although the obligation was disputed by the other Member Cities of WTMPA. As described below under "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS - Recent Measures taken to Address Financial and Management Concerns at LP&L", the WTMPA Settlements have resolved the disputed receivable.

FY 2003 AUDIT RESTATEMENTS, RECLASSIFICATIONS AND INTERNAL CONTROLS ISSUES

As was the case with other municipalities in the State and U.S., the implementation of Government Accounting Standards Board Statement 34 ("GASB 34") by the City in FY 2002 effected a substantial change in the presentation of the City's financial statements. Prior to the implementation of GASB 34, governmental accounting standards did not require the use of a government-wide perspective in the presentation of financial information; instead, fund accounting was generally used to present financial data. Under GASB 34, fund accounting has been supplemented by government-wide statements and certain aspects relating to the presentation of the fund level statements have been modified, as well, particularly with respect to the presentation of restricted and unrestricted net assets within each fund. For additional information regarding accounting policies that are applicable to the City, see Note I. "Summary of Significant Accounting Policies" in the financial statements of the City attached as Appendix A.

The FY 2002 financial statements, and the City's financial statements dating to FY 1993, were audited by Robinson Burdette Martin Seright & Burrows, L.L.P. (the "Former External Auditor"). In keeping with the overall reassessment of its financial and management affairs undertaken by the City, in the Summer of 2003 the City conducted a request for qualifications for its external auditor and selected KPMG L.L.P. ("KPMG") to audit its FY 2003 financial statements. Consequently, the Former External Auditor guided the City through the initial year implementation of GASB 34, while in the second year of GASB 34 financial reporting, the City's financial statements were audited by KPMG. In 2005, the City retained the services of BKD, LLP, to prepare the City's financial statements.

Audit Restatements . . . During the preparation of the FY 2003 CAFR, seven restatements to beginning fund balance/net assets were made to various fund level statements of the City. The restatements totaled $36.7 million. These restatements represented an aggregate increase in net assets of the City of $2.56 million, as some affected funds had their beginning balances restated to a higher figure, while other funds were restated to decrease their beginning fund balance.

The General Fund was restated from a fund balance of $18.6 million to $16.6 million to reflect a write off for an account receivable, which as of September 30, 2002 had ceased to be collectible. Also, the electric fund's beginning fund balance was restated downward by $4.48 million to reflect a receivable from WTMPA that was uncollectible. Other enterprise fund restatements were made, including an $0.867 million increase in the water fund beginning balance and a $0.722 million increase in the sewer fund beginning balance, each of which were made to reflect a change in accounting treatment pertaining to the appropriate party that is responsible for reimbursement of fees collected by the City for new water and sewer connections. With respect to the impact on a particular fund asset, the most significant restatement in beginning fund balance occurred in the City's community investment fund, a fund used in prior years to account for economic development initiatives, which was restated from a beginning balance of $46.8 million to $36.8 million. The change was associated with an economic development grant made by that fund in FY 2002 that was originally reflected on the accountiug statements of the City as a loan. In prepariug the 2003 CAFR, it was determined that such transaction should be treated as a grant, not a loan. As a result, the receivable in the community investment fund for the $10 million amount was deleted as an asset of the fund ($6 million of the $10 million grant had originally been funded through an interfund loan to the community investment fund from the water and solid waste funds). Two additional restatements of existing fund balances were made with respect to two entities with which the City has long-standing contractual relationships: a corporate entity that does business under contract with the City as "Citibus", and WTMPA. In the 2003 CAFR, the accounting treatment of these entities was reconsidered, and each was added to the City's financial statementa as an enterprise fund. The result of the addition of each of these funds was an increase in net assets, in the amount of $12.3 million for the new transit fund, and $3.2 million for the new WTMPA fund.

Audit Reclassifications . . . In the preparation of the FY 2003 CAFR, it was discovered that the portion of net assets shown in certain of the financial statements, particularly with respect to the enterprise funds (or business-type activities), had been mathematically incorrectly calculated in the FY 2002 CAFR. While the government-wide statement of net assets of the City included in the FY 2002 CAFR showed $37.9 million unrestricted net assets for business-type activities of the City, the fund financial statements showed an aggregate amount of unrestricted net assets of the enterprise funds that totaled $195.2 million of unrestricted net assets. The FY 2003 CAFR reports in the government-wide statement of net assets of the City $32.9 million of unrestricted net assets for business-type activities of the City and the fund financial statements in the FY 2003 CAFR report an aggregate amount of unrestricted net assets for the enterprise funds that total $30.2 million (certain reconciliations are required to balance government-wide and fund level reports, thus small differences should appear between the two presentations).

Internal Controls Issues . . .In accordance with accounting guidelines, the external auditor customarily provides the governmental entity with a "management letter" that includes a discussion of any material weaknesses in the audited government's internal control structure. In its FY 2003 Management Letter (the "2003 Management Letter"), KPMG noted several weaknesses in the City's internal controls, including an overall internal control weakness in the City during FY 2003.

In addition, the 2003 Management Letter noted deficiencies in the year end GAAP financial reporting cycle, citing as examples the significant restatement of beginning net assets/fund balances and the reclassifications described above, as well as numerous adjustments that were required to be posted after the initial closing of the City's books for FY 2003. The failure to timely obtain financial statements from component units, including WTMPA, was also noted. KPMG recommended that the City review the personnel within the City's accounting department and the accounting staff within LP&L to determine whether sufficient qualified personnel were in place to provide accurate and timely closing of the City's books and preparation of annual financial statements. Other material weaknesses noted include the failure of the City to properly reconcile its cash balances, the failure of LP&L to meet its bond rate covenant, a lack of oversight or monitoring of contracts with other entities (for example, WTMPA), and the failure of the City to abide by its General Fund Balance Policy.

CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS

Following the publication of the LP&L/WTMPA Management Audit and the E&Y audit, several key City officers and LP&L management personnel resigned. Between the beginning of FY 2002 and the close of FY 2003, some 29 persons who held senior management positions with the City left the City's employment, some on their own accord and others as a result of a reorganization of City government. Since FY 2004, the City has implemented a number of significant steps to address both its management needs and financial challenges. Certain of the measures taken by the City to strengthen City government in general, and to address its financial challenges, are described below.

General Fund and General Government Actions

> General Fund Budgetary Actions . . . Prior to FY 2007, the City had restored its General Fund balance, within a 2-year period, to roughly 20% of operating revenues. For FY 2007, preliminary projections indicate the General Fund balance will be approximately 18.4% of operating revenues. FY 2007 Expenditures were in line with budget, however, revenues from municipal court fines, franchise taxes, and red light photo enforcement came in $2.5 million less than budgeted, causing a use of approximately $800,000 of General Fund balance. The FY 2007-08 budget incorporates revenue adjustments addressing the shortfalls from the prior year, and has been approved with expenditures balanced to revenues. City management continues monthly assessments of the budgeted expenditures and revenues, a program which was fully implemented in the prior fiscal year. The City has restored its General Fund balance within a 2-year period to roughly 20% of operating revenues.

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

The chairperson is appointed by the Mayor and the other positions are filled by a vote of the City Council. At least two members of the Audit and Investment Committee are required to have a background in financial reporting, accounting or auditing, and at least one member is required to be a certified public accountant, and at least one member is required to have an extensive background in investments. The current membership of the committee consists of Mike Epps, an Executive Vice President at American State Bank in Lubbock, Jim Brunjes, Senior Vice Chancellor and Chief Financial Officer for the Texas Tech University System; R.J. Givens, a real estate agent in the City; Kim Turner, the Director of Internal Audit at Texas Tech; and John Zwiacher, a member of the Board of Directors of LP&L. Mr. Epps is the chair of the Audit and Investment Committee.

> City Management Changes . . . As reflected in "CITY OFFICIALS, STAFF AND CONSULTANTS - SELECTED ADMINISTRATIVE STAFF", the City has in place an experienced management team representing extensive government service experience. This management team has implemented procedures that have addressed the general internal control weakness cited by KPMG in the 2003 Management Letter.

Recent Financial and Management Actions at LP&L

> Fuel Cost Adjustments . . . As of June 1, 2007, LP&L no longer uses fuel cost adjustments to remain competitive with Xcel. Rates are now identical to SPS with a few exceptions, one of which is that LP&L now has a discount tariff which allows its rates to be lower.

> Establishment of Electric Utilities Board . . . In 2004, several measures were taken to address concerns with the management and operation of LP&L, including: the City Council adopted an ordinance (the "LP&L Governance Ordinance") (1) creating a new Electric Utilities Board (the "Electric Board") for LP&L (the new board replaces a former board that was advisory only), (2) reserving certain duties and responsibilities with respect to LP&L to the City Council (*i.e.*, the powers to approve LP&L's annual budget; set LP&L's rates; issue debt for LP&L; exercise the power of eminent domain for LP&L; and require the payment of an annual fee to the City), and (3) mandating the creation of certain reserve accounts by LP&L and restricting the transfer of revenues from LP&L to any other fund of the City, including, particularly, the General Fund, until such reserves have been funded; the City initiated a solicitation to the holders of LP&L's senior revenue debt seeking approval to amend each LP&L bond ordinance to provide for the governance of LP&L by the Electric Board; the City, after obtaining the necessary consents, amended the bond ordinances to provide for the governance of LP&L by the Electric Board in January 2005; the voters of the City approved a referendum amending the City Charter to require the establishment of the Electric Board; and the City Council adopted the LP&L Governance Ordinance on December 16, 2004.

The LP&L Governance Ordinance provides that the Electric Board consist of nine members appointed by the City Council, and that the City Council consider extensive business and/or financial experience as the primary qualification for serving on the Electric Board. Electric Board members serve without compensation. Under the LP&L Governance Ordinance, the Board is given the authority, duties and responsibility to (1) approve an annual budget and electric rate schedule for submission to the City Council for approval and, from time to time, submit to the City Council amendments to the budget and/or the electric rate schedule; (2) oversee the audit of the electric fund, and engage an accounting firm for that purpose; and (3) subject to applicable law, including the City Charter and Code of Ordinances, govern, manage, administer and operate the City's electric system, including contracting for legal and other services separate and apart from those provided by the City. In addition, the City Manager is required to consult with, and seek approval of, the Electric Board prior to appointing and/or removing the director of LP&L. In accordance with the New LP&L Governance Ordinance, the director of LP&L reports to the Board. While the City Council retains substantial powers over the electric system, an additional goal of the City in establishing the Electric Board is to develop local expertise in a pool of individuals who can provide a sharper focus by the City on the operation of LP&L than has occurred in the recent past.

> Establishment of Reserve Funds for LP&L; Restriction on Transfers from LP&L . . . The LP&L Governance Ordinance was amended in December of 2006. This amendment included, among other things, changes to the requirements regarding the reserve funds LP&L maintains. As amended, the LP&L Governance Ordinance requires the Electric Utility Board to maintain (i) sufficient operating cash to satisfy all current accounts payable and (ii) a general reserve fund that is equal to the greater of four months gross retail electric revenue as determined by taking the average monthly gross retail electric revenue from the previous fiscal year or $50 million dollars. This general reserve fund shall be used for operational purposes, rate stabilization and for meeting the electric utility demand of any rapid or unforeseen increase in residential and/or commercial development. Under the current LP&L Governance Ordinance, the City may not require the transfer from LP&L any fee equivalent to a franchise fee, a payment in lieu of taxes or other disbursement of the net revenues of LP&L until (a) all bond debt service requirements have been funded (which obligation is senior in right to the obligation to fund the general reserve), (b) sufficient operating cash is maintained, and (c) the general reserve has been fully funded. Additionally, the amendment allows the Electric Utility Board, solely at their discretion and regardless of the funding obligations outlined above, to refund up to one million dollars ($1,000,000) to the ratepayers of the City's electric utility for marketing and competitive purposes. The reserve amounts, franchise fees, payments in lieu of taxes and refunds to the ratepayers of the City's electric utility shall be based on audited, unqualified financial statements from the most recent completed fiscal year. Subject to (i) provisions of State laws that govern municipal utilities, and which stipulate that a first use of the utility's gross revenues be used to pay operating expenses, and (ii) the obligations of the City with respect to LP&L's bonded indebtedness, it is possible that the Electric Board could devise a flow of funds for LP&L that is substantially different from that set forth in the LP&L Governance Ordinance. To date, the Electric Board has not deviated from the flow of funds contemplated under the LP&L Governance Ordinance.

At the end of FY 2007, LP&L partially funded its general reserve fund by the amount of $25.4 million. LP&L has not funded all of the reserve fund established under the LP&L Governance Ordinance, as net revenues have been inadequate for a total funding of such reserve. Moreover, although the mere establishment of the funds does not imply that such reserves will be funded within any particular time frame, the City Council has evidenced its commitment that LP&L be given the opportunity to regain financial stability without being obligated to make transfers, other than for indirect business cost transfers, debt and projects.

> 2008 Proposed Amendment to LP&L Governance Ordinance.... Prior to FY 2004, the City operated LP&L in a manner, consistent with the practice to require its enterprise funds to make a payment in lieu of taxes to the City's General Fund, that provided an annual payment be made by LP&L to the City in lieu of ad valorem taxes and a cost of business transfer (which transfer approximated a payment in lieu of franchise taxes). In an effort to give LP&L an opportunity to regain financial stability, in 2004 the City adopted the LP&L Governance Ordinance which, as described above, mandated the creation of certain reserve accounts by LP&L and restricted the transfer of revenues from LP&L to any other fund of the City, including, particularly, the General Fund, until such reserves had been funded. After FY 2004, the City required, and it is the City's current practice to require, a payment in lieu of taxes from each of its other enterprise funds. During its deliberations concerning the FY 2008 budget, the City Council approved a budgeted $1,000,000 transfer from the net revenues of LP&L to the City's general fund (the "2008 LP&L Transfer"). The FY 2008 budget was approved by the City Council on September 13, 2007. See "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS – FY 2008 BUDGET." The 2008 LP&L Transfer may not be made until such time that the LP&L Governance Ordinance is amended by the City Council. After audited financial statements are available for September 30, 2007, LP&L and City Finance Staff will make a recommendation to the Electric Utility Board and the City Council that will outline a fiscally sound, graduated policy to begin the limited payment in lieu of franchise fees, while continuing to build the reserve to the required policy levels.

> New Full Requirements Energy Agreement . . . In June 2004, WTMPA entered into a 15 year full requirements wholesale power agreement (the "New Power Agreement") with SPS. The New Power Agreement became effective July 1, 2004, and replaced a series of existing agreements between WTMPA and SPS and the City and SPS, which had expiration dates in 2004 and 2005. Under the New Power Agreement, SPS or its permitted assigns is obligated to provide all energy requirements for each of the Member Cities of WTMPA, including the City, during the term of the agreement, which terminates on June 30, 2019. SPS may terminate the agreement upon the occurrence of an adverse regulatory action under which SPS is required to sell generation assets, and WTMPA may terminate the agreement upon notice and during the final four years of the scheduled termination date if WTMPA acquires an interest in replacement, coal-fired generation. Each party may require adequate assurances of performance whenever there is a reasonable basis therefor.

The New Power Agreement represented a significant departure for LP&L, in that it reflected a long-term commitment to take all of its energy from SPS. The contract reflected a decision of the City to abandon the role of power generator, although, as described below, in connection with the consummation of the New Power Agreement the City has entered into two unit contingency agreements (the "Unit Contingency Agreements") with SPS that will require LP&L to maintain its generation units for dispatch by SPS. Among the implications for LP&L of the New Power Agreement are that LP&L has resolved its long-term power supply issues, and lessened its exposure to fuel price volatility, although SPS will pass through its fuel charges to LP&L on a monthly billing basis. SPS, in turn, may not pass its fuel costs through to its retail customers in the City more frequently than once every six months under current State law that requires SPS to seek a rate order from the PUC before increasing retail fuel cost charges. As a result, the New Power Agreement provides the possibility of both advantages and disadvantages to the City with respect to cash flow, particularly if the City determines to match its FCA to changes in SPS's fuel adjustment, as it has generally done in the past. According to information filed with various regulatory agencies, the City believes that over 60% of the energy that it purchases from SPS is from coal generation. This fuel mix was a significant factor in the City's determination to approve the New Power Agreement by WTMPA. In the event that gas prices should decline over the term of the Agreement, the City believes that SPS has the flexibility to switch a larger portion of its generation to gas, including through the use of the City's generation units in accordance with the Unit Contingency Agreements.

With respect to the competitive posture of the City in light of the long-term commitment of the New Power Agreement, the City notes that under current market conditions, and taking into account the secondary benefits of the agreement, including future savings associated with reduced personnel and maintenance costs as a result of the shift from being an active electric generator to being a passive generator (for SPS under the terms of the Unit Contingency Agreements), the wholesale price of the purchased energy, together with the other financial benefits of the Unit Contingency Agreements and the possible receipt of revenues under the new WTMPA gas agreement described below, permits the City to compete favorably with SPS.

An additional benefit of the New Power Agreement is that it will permit the City to increase its efforts in developing LP&L's distribution business. In light of recent rate structure changes implemented by both the City and SPS that require new developments in the City to fund electric infrastructure through a development charge paid when the development is platted, new principals in developments are choosing to install only one electric distribution infrastructure. Since this new development charge was implemented in FY 2003, all major new developments in the City have selected LP&L as the electric distributor, which positions the City as a distributor of energy to those developments in the future, even though the retail provider of such energy could be a utility other that LP&L and other electric providers could choose to build their own distribution infrastructure to serve the developments.

Perhaps the greatest risk to LP&L from the New Power Agreement is that given the term of the agreement and the dynamic nature of electric competition, over time the wholesale price of the purchased energy will not permit the City to obtain the favorable margins that are currently being achieved by the City. While the City does not believe that the area served by LP&L will be opened in the short-term to retail deregulation, as is the case in other parts of the State that could occur during the term of the New Power Agreement. While there are significant uncertainties as to how such deregulation, if it occurs, would be administered, it is possible that new retail energy providers could enter the market during the term of the New Power Agreement. In addition, by tying its energy requirements solely to SPS, and though the other new agreements discussed in this section, the City has significantly increased its dependence on SPS as a counterparty to vital agreements relating to the operation and financial condition of LP&L. Counterparty risk is risk associated with the counterparty's financial condition, credit ratings, changes in business strategies and other quantitative and qualitative measures that could affect the ability of the counterparty to perform its obligations to the City. Both the long-term Unit Contingency Agreement and the New Power Agreement provides the City the right to demand certain credit assurances from its counterparty if it has reasonable grounds for insecurity regarding the performance of any contract obligation.

> Other New Energy Related Agreements . . . As noted above, in connection with the negotiation of the New Power Agreement, the City negotiated the Unit Contingency Agreements, which consist of two agreements that dedicate the City's generation capacity solely to SPS, which, subject to certain customary conditions, including reasonable notice and run times, has the right to call upon one or more of the generation units owned or controlled by LP&L, from time to time to meet energy requirements of SPS. Including the WTMPA Project, all of the capacity of which, in accordance with the WTMPA Settlements, is dedicated to LP&L, the City has dedicated generation capacity of 219 megawatts to SPS under the Unit Contingency Agreements. The most fuel efficient units within that capacity are the 39 MW capacity of Massengale Unit 8 and the 21 MW capacity of the Brandon Unit 1 ("Brandon Station"), which is located on the campus of Texas Tech (the "New Units"). The remaining capacity is in twelve older units (the "Older Units"). With respect to the New Units, SPS may dispatch those units during the term ending June 30, 2007; the term of the Unit Contingency Agreement for the Older Units is fifteen years, matching the term of the Power Purchase Agreement, with an expiration date of June 30, 2019. Aside from the differences in units covered, the term of the agreements and certain termination provisions in the Older Unit agreement, each Unit Contingency Agreement is substantially identical. The Unit Contingency Agreements include a demand charge, which must be paid irrespective of whether SPS chooses to take energy from the City's units, and an energy charge that is based upon the output of any of the City's units that is dispatched for SPS. While the amount of the energy charge will depend upon the energy taken by SPS from the City's generation units, if any, the Unit Contingency Agreements provide an annual minimum payment by SPS to the City of $6.3 million.

> Natural Gas Sale Agreement . . .Subsequent to its execution of the New Power Agreement, WTMPA and other parties entered into a series of agreements (collectively, the "New WTMPA Gas Agreements") under which WTMPA may acquire natural gas and effectively exchange it for electric power to realize a cost savings. Under the New WTMPA Gas Agreements, WTMPA may purchase natural gas from Texas Municipal Gas Corporation ("TMGC") at below-market prices and sell the gas to SPS in return for a market-priced credit (reduced by nominal administrative and incentive fees) against payments due from WTMPA under the New Power Agreement. The net savings, if any, will be applied proportionately to reduce the power charges of WTMPA's Member Cities, including the City. TMGC is a Texas nonprofit public facility corporation created for the purpose of acquiring and producing natural gas reserves and selling its productioo to municipal entities such as WTMPA and LP&L. The City's standby gas purchase agreement, mentioned above in connection with the Unit Contingency Agreements, is also with TMGC.

Under the terms of the New WTMPA Gas Agreements, SPS is not obligated to purchase gas from WTMPA unless natural gas producers, dealers, or other suppliers execute contracts to sell gas to TMGC's upstream gas provider, those suppliers offer to sell such gas on terms that SPS considers at least as advantageous as those available from other producers and dealers, and the aggregate quantities sold do not exceed either SPS's Texas gas requirements or the quantities available to WTMPA from TMGC at a discount from the offered prices or the quantities needed to generate WTMPA's electric requirements. WTMPA's marketprice credit is based on the prices offered by the qualified suppliers, and its supply of gas is dependent on sales by the qualified suppliers at those prices. TMGC has secured contracts with five suppliers (ConocoPhillps, Coral Energy, NGTS, Concorde Energy, and Tenaska). There can be no assurance that sufficient qualified suppliers will contract to sell gas, or that they will offer to do so on sufficiently advantageous terms, to supply all or any portion of WTMPA's gas requirements under the New WTMPA Gas Agreements. In addition, the discount now offered by TMGC may be reduced as necessary to enable it to comply with financial covenants, although the discount has remained essentially constant for three years. For these and other reasons, there can be no assurance that WTMPA will be able to realize savings in any amount or for any term for the benefit of its members under the New WTMPA Gas Agreements. Nevertheless, the City believes that the New WTMPA Gas Agreements contain sufficient economic incentives to induce SPS to qualify sufficient suppliers and to accept gas under the agreements up to the permitted quantities, and that the TMGC discount will continue to hold. For FY 2008, LP&L did not budget any revenues from WTMPA gas activity.

> Wholesale Energy Agreement with Texas Tech . . . The decision in the Summer of 2004 to take greater amounts of energy from Xcel resulted in a dispute between the City and Texas Tech regarding a prior agreement with respect to the operation of Brandon Station, which is located on the Texas Tech campus. In response to mediation to resolve disputes under the prior agreement, the City and Texas Tech executed a new contract on April 28, 2005 (the "New Texas Tech Agreement"). In general terms, Texas Tech has agreed to continue to purchase energy from the City at a price that will provide the City with a small rate of return, and is paying for energy usage at the rates provided in the New Texas Tech Agreement. The City has agreed that steam produced at Brandon Station, if any, will be delivered to Texas Tech at no charge. The City has also agreed with Texas Tech that it may terminate the agreement upon reasonable notice to the City, in which event the City will wheel energy to Texas Tech in accordance with an energy delivery charge. The City is of the view that the New Texas Tech Agreement has resolved the dispute with its largest customer on terms that are mutually beneficial for the parties.

> Chief Executive Officer for LP&L . . . Gary Zheng was appointed Chief Executive Officer of LP&L in September 2005. Previously, he had served as the Superintendent of Electric Distributions at LP&L and subsequently, from March 2003 until his recent appointment to CEO, as the Chief Operating Officer of LP&L. He has more than 19 years of engineering and management experience in electrical utility business. Mr. Zheng, a registered Professional Engineer, is a graduate of the University of Southern California with a MS in Electrical Engineering, a MS in Computer Engineering and a PhD in Electrical Engineering.

FY 2008 BUDGET

General Fund . . . The City Council adopted the FY 2007-08 budget and five year forecast on September 13, 2007. The City's FY 2007-08 budget for the General Fund is balanced with $122.4 million in total revenues and expenses. The budget projects that sales tax revenues will produce 53.9% of total tax revenues (tax revenues represent 79.39% of the General Fund's total operating revenues), while ad valorem tax revenue is budgeted to produce 44.8% of total tax revenues.

In FY 2008 the City's total tax rate was set at $0.45505 per $100 taxable assessed valuation, down from $0.46199 in FY 2007. The City's tax roll increased $894.5 million, or 8.9%, from FY 2007 to FY 2008. The City Council, on June 12, 2003, passed a resolution affirming their support for truth-in-taxation. The goal of this resolution is to allow the citizens to be better informed about the real needs of City government and if the increased revenue from increased appraisal values is truly necessary. The resolution goes on to provide that each year the tax rate should be adopted based on the actual needs of government. This goal was affirmed in April 2004 in a resolution that stated the City Council has supported, as well as taken action, to provide tax relief to property owners within the City. In addition, the City Council recognized the need for the City to be autonomous in its ability to provide the public safety, health, and quality of life for its citizens. The FY 2007-08 Operating Budget was developed in consideration of the goals of the resolutions and, as a result, there was a $0.00694 decrease in the adopted tax rate.

Total transfers to the General Fund from enterprise and internal service funds are budgeted to increase by $1.5 million. Transfers out increased $3.2 million mainly due to the Cemetery and Civic Centers moving to enterprise funds, but need General Fund assistance for operating purposes. On the expenditure side, administrative services and public works budgets experienced decreases of three to six percent due to efficiency planning. Cultural and recreation services budgets decreased over 18% due to the movement of the Cemetery and Civic Centers to Enterprise Funds. Community services are four percent higher due to scheduled charge increases for data processing and information technology. Expenditures for public safety are $4.9 million greater than the amended FY 2006-07 budget, or a 6.5% increase. This increase is due to the City Council goal of increasing public safety officers in Fire and Police. Overall, General Fund operating expenditures are budgeted to increase by $3.5 million over the amended FY 2007 budget.

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Enterprise Funds . . . The following table (amounts in millions) illustrates the revenues, use or contribution of net appropriable assets, and appropriation as approved in the City's FY 2007-08 adopted operating budget and five year forecast for the Solid Waste, Wastewater, Water and Electric Funds:

	Adopted FY 2007-08 Revenue	Adopted FY 2007-08 Planned Use (Contribution) Net Assets	Adopted FY 2007-08 Appropriation	Change from Prior Year
Solid Waste	$ 15,781,779	764,575	16,546,354	-6.6%
Wastewater	22,088,059	1,549,231	23,637,290	0.4%
Water	42,611,577	6,412,285	49,023,862	8.2%
LP & L	135,436,074	-	126,597,820	-44.2%

The decreased budget in Solid Waste is a result of lower fuel costs, motor vehicle and heavy machinery maintenance costs, and master lease payments. Decreases in these areas are as follows (in millions): fuel costs, ($0.3); maintenance costs, ($0.1); master lease costs, ($1.7). No rate increase was needed in FY 2007-08.

The increased budget in Water is a result of increased debt service payments for debt issued during 2006-07 and for increased Canadian River Municipal Water Authority ("CRMWA") costs. Increases in these areas are as follows (in millions): debt service,($3.8); CRMWA costs, ($0.4). The large increase in debt service is mainly related to the acquisition of water rights over the past two years. No rate increase was needed in FY 2007-08.

See also "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS – 2008 Proposed Amendment to LP&L Governance Ordinance."

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AD VALOREM TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the City is the responsibility of the Lubbock Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code (defined below) to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Current State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. Pursuant to an amendment to the State Constitution approved by voters on November 6, 2007 and enabling legislation that takes effect January 1, 2008, the appraised value of a residence homestead for a tax year may not exceed the lesser of (1) the most recent market value of the residence homestead as determined by the appraisal entity or (2) 110 percent of the appraised value of the residence homestead for the preceding tax year. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to Title I of the Texas Tax Code (the "Property Tax Code"), for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; or (2) an exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000.

Effective January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district, may provide that the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older will not be increased above the amount of taxes imposed in the year such residence qualified for such limitation. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or older or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead within the taxing unit and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded. The City has established such a limitation on ad valorem taxes.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation. State law additionally provides for one motor vehicle owned by an individual and used in the course of the owner's occupation or profession and also for personal activities of the owner to be exempted from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. In addition, under Section 11.253 of the Texas Tax Code, "Goods-in-transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory.

The City may create one or more tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the zone in excess of the "frozen value" to pay or finance the costs of certain public improvements in the zone. Taxes levied by the City against the values of real property in the zone in excess of the "frozen value" are not available for general city use but are restricted to paying or financing "project costs" within the zone. See "TAX INCREMENT FINANCING ZONES" below.

The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "TAX ABATEMENT POLICIES" below.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the current year. The City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the "effective tax rate" calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notico of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $16,600; the disabled are also granted an exemption of $10,000.

The City has not granted any part of the additional exemption of up to 20% of the market value of residence homesteads; the minimum exemption that may be granted under this provision being $5,000.

The City has established the tax freeze on residence homesteads of disabled persons and persons 65 and over.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the Appraisal District collects taxes for the City.

The City does not permit split payments of taxes, and discounts for early payment of taxes are not allowed by the City, although permitted on a local-option basis by the Property Tax Code.

Since the 1999 tax year, the City has exempted freeport property from taxation.

The City collects an additional one-eighth cent sales tax for reduction of ad valorem taxes. The City held an election on November 4, 2003 to increase this tax by one quarter cent, for a total of three eighths of a cent. The rate increase became effective on October 1, 2004.

TAX ABATEMENT POLICIES

The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must be located in a reinvestment zone or enterprise zone (a commercial project must be in an enterprise zone) and must meet several criteria pertaining to job creation and property value enhancement. The City has two enterprise zones, the Lubbock 2000 North Enterprise Zone, approximately 18.6 square miles, and the Lubbock 2000 South Enterprise Zone, approximately 15.7 square miles. A third enterprise zone, the Lubbock International Airport Enterprise Zone expired in September 2005. In 2003, the Legislature made major changes to the statute governing enterprise zones, including designating zones by block group based on poverty rate. The block groups that meet the criteria become enterprise zone eligible, but can only be used for tax abatement if the new zones are activated. The Lubbock 2000 North and South Enterprise Zones are grandfathered and will expire no later than their original expiration date. At present, there are 17 active tax abatement agreements, principally for companies located in the northeast and southeast sections of the City. In accordance with State law, the City has adopted policies for granting tax abatements, which provide guidelines for tax abatements for both industrial and commercial projects. The guidelines for industrial and commercial projects are similar, except that qualifying industrial projects may receive a ten year abatement, while qualifying commercial projects are limited to five year tax abatements. Although older abatements made by the City were given full (100%) tax abatement, since 1997 the City has negotiated abatements on a declining percentage basis, with a portion of the tax value being added to the City's tax roll each year during the life of the abatement. The

City's policies provide a variety of criteria that affect the terms of the abatement, including the projected life of the project, the type of business seeking the abatement, with certain businesses targeted for abatement, the amount of real or personal property to be added to the tax roll, the number of jobs to be created or retained, among other factors. The policies disallow abatements for certain categories of property, including real property, inventories, tools, vehicles, aircraft, and housing. Each abatement policy provides for a recapture of the abated taxes if the business is discontinued during the term of the agreement, except for discontinuances caused by natural disaster or other factors beyond the reasonable control of the applicant. For a description of the amount of property in the City that has been abated for City taxation purposes, see "TABLE 1 - VALUATIONS, EXEMPTIONS AND GENERAL OBLIGATION DEBT."

TAX INCREMENT FINANCING ZONES

Chapter 311, Texas Tax Code, provides that the City and other taxing entities may designate a continuous geographic area in its jurisdiction as a tax increment financing zone ("TIF") if the area constitutes an economic or social liability in its present condition and use. Other overlapping taxing units may agree to contribute all or a portion of their taxes collected against the "Incremental Value" in the TIF to pay for TIF projects. Any ad valorem taxes relating to growth of the tax base in a TIF above the frozen base may be used only to finance improvements within the TIF and are not available for the payment of other tax supported debt of the City and other participating taxing units. Together with other taxing units, the City participates in two TIFs, the Central Business District Reinvestment Zone (the "Downtown TIF") and the North Overton Tax Increment Financing Reinvestment Zone (the "North Overton TIF").

The Downtown TIF covers an approximately 0.71 square-mile area which includes part of the central business district and abuts the North Overton TIF. The base taxable values of the TIF are frozen at the level of taxable values for 2001, the year of creation, at $105,858,251. In FY 2007, the Downtown TIF had a taxable value of $161,582,450 before taking into account tax abatements and exemptions. After tax abatements and exemptions, the tax value in the Downtown TIF was $155,747,677. In addition to the City, the County, Lubbock County Hospital District and the High Plains Underground Water Conservation District (collectively, the "Taxing Units") participate in the Downtown TIF. Given the relative tax rates of the participants, it is anticipated that the City will be the largest contributor to the tax increment fund if there is growth from the frozen base. The City Ordinance establishing the Downtown TIF provides that the Downtown TIF will terminate on December 31, 2021 or at an earlier time designated by subsequent ordinance of the City Council.

In addition to the Downtown TIF, the City enacted an ordinance in 2001 establishing the North Overton TIF. Each of the other Taxing Units in the Downtown TIF also participate in the North Overton TIF. The City ordinance establishing the North Overton TIF provides that the North Overton TIF will terminate on December 31, 2031 or at an earlier time designated by subsequent ordinance of the City Council. The North Overtoo TIF consists of approximately 325 acres near the Central Business District of the City. The frozen tax base for the North Overtoo TIF was established as of January 1, 2002 at $26,940,604. In FY 2007, the North Overton TIF had a taxable value of $192,302,370 before taking into account tax abatements and exemptions. After tax abatements and exemptions, the tax value in the North Overton TIF was $192,172,230.

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FINANCIAL INFORMATION

TABLE 1- VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2007 Market Valuation Established by Lubbock Central Appraisal District		
Less Exemptions/Reductions at 100% Market Value:		$ 11,492,911,247
Residential Homestead Exemptions	$ 225,084,488	
Homestead Cap Adjustment	58,787,272	
Disabled Veterans	15,063,118	
Agricultural/Open-Space Land Use Reductions	80,099,818	
Pollution Exemptions	10,312,389	
House Bill 366	163,705	
Freeport Exemptions	86,375,634	
Tax Abatement Reductions (1)	35,908,583	
Tax Freeze Adjustment	195,219	
Market Value Reduction for Protested Properties	83,710,458	595,700,684
2007 Taxable Assessed Valuation		$ 10,897,210,563
City Funded Debt Payable from Ad Valorem Taxes:		
General Obligation Debt (as of 10-1-07) (2)	$ 512,250,000	
Plus: The Certificates	11,635,000 *	
Total Funded Debt Payable from Ad Valorem Taxes		$ 523,885,000
Less: Self Supporting Debt (as of 10-1-07) (3)		
Waterworks System General Obligation Debt	$ 129,198,872	
Sewer System General Obligation Debt	57,270,700	
Solid Waste Disposal System General Obligation Debt	12,630,290	
Drainage Utility System General Obligation Debt	90,745,324	
Tax Increment Financing General Obligation Debt	22,409,789	
Electric Light and Power System General Obligation Debt	57,104,440	
Cemetery General Obligation Debt	682,149	
Gateway General Obligation Debt	41,849,527	
Hotel Occupancy Tax Debt	1,218,634	
Airport General Obligation Debt	6,652,912	419,762,637
General Purpose Funded Debt Payable from Ad Valorem Taxes (4)		$ 104,122,363
Unaudited General Obligation Interest and Sinking Fund as of September 30, 2007		$ 2,830,583
Ratio Total Funded Debt to Taxable Assessed Valuation		4.81%
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		0.96%
2007 Estimated Population (5)		212,365
Per Capita Taxable Assessed Valuation		$51,314
Per Capita Total Funded Debt Payable from Ad Valorem Taxes		$2,467
Per Capita General Purpose Funded Debt Payable from Ad Valorem Taxes		$490

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* Preliminary, subject to change.

(1) See "AD VALOREM TAX INFORMATION – TAX ABATEMENT POLICIES."

(2) The statement of indebtedness does not include the City's outstanding Electric Light and Power System Revenue Bonds, payable solely from the net revenues of the City's Electric Light and Power System.

(3) As a matter of policy, the City provides debt service on general obligation debt issued to fund improvements to its Waterworks System, Sewer System, Solid Waste System, Drainage System, Tax Increment Finance Reinvestment Zone, Electric Light and Power System, Cemetery, Gateway Streets, Hotel Occupancy Tax projects, and Airport from surplus

revenues of these Systems (see "TABLE 8A – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS," "TABLE 8B - INTEREST AND SINKING FUND BUDGET PROJECTION," "TABLE 9 - DIVISION OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS," and "TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT").

The City's Waterworks System General Obligation Debt has been issued to finance or refinance Waterworks System improvements, and is being paid, or is expected to be paid, from Waterworks System revenues. The City has no outstanding Waterworks System Revenue Bonds but has obligated revenues of the Waterworks System under water supply contracts.

The City's Sewer System General Obligation Debt has been issued to finance or refinance Sewer System improvements, and that is being paid, or is expected to be paid, from Sewer System revenues. The City has no outstanding Sewer System Revenue Bonds.

The City's Solid Waste Disposal System General Obligation Debt has been issued to finance or refinance Solid Waste System improvements, and is being paid, or is expected to be paid, from revenues derived from Solid Waste service fees. The City has no outstanding Solid Waste Disposal System Revenue Bonds.

The City's Drainage Utility System General Obligation Debt has been issued to finance or refinance Drainage System improvements, and is being paid, or that is expected to be paid, from revenues derived from Drainage Utility System fees. The City has no outstanding Drainage Utility System Revenue Bonds.

The City's Tax Increment Financing General Obligation Debt has been issued to finance or refinance construction of improvements in the North Overton TIF, and is being paid, or is expected to be paid, from revenues derived from the Pledged Tax Increment Revenues. The City has no outstanding Tax Increment Financing Revenue Bonds. In FY 2008, based upon development projections that the City believes to be reasonable, but which are dependent in part on future economic conditions and other factors that the City cannot control and as to which it can give no assurances, the City anticipates that tax increment revenues will be adequate to cover debt requirements on the existing Tax Increment Certificates of Obligation. In the interim, the City intends to make an interfund loan to cover the debt service, and if the projected development in the North Overton TIF proceeds as expected the City would repay such loan from revenues received in future years. The North Overton master plan projects additional debt to be issued by the City for infrastructure improvements in the TIF. If that occurs, there would likely be years in which the TIF would not produce revenues in amounts sufficient to cover all debt issued for it, at least until the TIF has reached full build-out status.

The City's Electric Light and Power System General Obligation Debt has been issued to finance or refinance Electric Light and Power System improvements, and is being paid, or that is expected to be paid, from revenues derived from the Electric Light and Power System. The City has $19,010,000 outstanding Electric Light and Power System Revenue Bonds payable from a pledge of system revenues.

The City's Cemetery General Obligation Debt has been issued to finance or refinance Cemetery improvements, and is being paid, or that is expected to be paid, from revenues derived from the Cemetery. The City has no outstanding Cemetery Revenue Bonds.

The City's Gateway General Obligation Debt has been issued to finance or refinance Gateway Streets improvements, and is being paid, or that is expected to be paid, from franchise fees. The City has no outstanding Gateway Fund Revenue Bonds.

The City's Hotel Occupancy Tax General Obligation Debt has been issued to finance tourism projects, and is being paid, or that is expected to be paid, from hotel occupancy taxes. The City has no outstanding Hotel Occupancy Tax Bonds.

The City's Airport General Obligation Debt has been issued to finance or refinance Airport improvements, and is being paid, or that is expected to be paid, from revenues derived from the Airport. The City has no outstanding Airport Revenue Bonds.

(4) Preliminary, subject to change. Includes the Certificates.

(5) Source: City of Lubbock, Texas.

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TABLE 2- TAXABLE ASSESSED VALUATION BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2008		2007		2006	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 6,321,729,050	55.01%	$ 5,889,918,195	55.53%	$ 5,517,769,306	55.55%
Real, Residential, Multi-Family	931,507,661	8.11%	873,394,391	8.23%	795,689,400	8.01%
Real, Vacant Lots/Tracts	202,703,022	1.76%	186,939,508	1.76%	166,089,379	1.67%
Real, Acreage (Land Only)	103,474,361	0.90%	104,443,417	0.98%	80,067,791	0.81%
Real, Farm and Ranch Improvements	10,948,790	0.10%	10,601,986	0.10%	11,038,895	0.11%
Real, Commercial and Industrial	2,246,869,059	19.55%	1,968,271,689	18.56%	1,827,901,763	18.40%
Real, Oil, Gas and Other Mineral Reserves	26,864,150	0.23%	28,446,050	0.27%	17,526,510	0.18%
Real and Tangible Personal, Utilities	181,023,472	1.58%	179,562,657	1.69%	177,838,907	1.79%
Tangible Personal, Business	1,340,911,089	11.67%	1,245,600,988	11.74%	1,228,428,632	12.37%
Tangible Personal, Other	13,018,766	0.11%	13,940,265	0.13%	14,527,171	0.15%
Real Property, Inventory	41,291,828	0.36%	37,577,657	0.35%	26,685,491	0.27%
Special Inventory	72,685,000	0.63%	68,621,321	0.65%	67,329,545	0.68%
Other/Adjustments	(115,001)	0.00%	220,192	0.00%	1,499,616	0.02%
Total Appraised Value Before Exemptions	$ 11,492,911,247	100.00%	$ 10,607,538,316	100.00%	$ 9,932,392,406	100.00%
Less: Total Exemptions/Reductions	(595,700,684)		(604,812,679)		(585,778,455)	
Taxable Assessed Value	$ 10,897,210,563		$ 10,002,725,637		$ 9,346,613,951	

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2005		2004		2003	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 5,169,490,706	56.09%	$ 4,690,158,161	55.50%	$ 4,282,214,635	56.78%
Real, Residential, Multi-Family	615,453,250	6.68%	561,569,488	6.64%	455,993,262	6.05%
Real, Vacant Lots/Tracts	137,411,731	1.49%	108,625,954	1.29%	93,473,144	1.24%
Real, Acreage (Land Only)	64,532,486	0.70%	65,880,410	0.78%	59,644,977	0.79%
Real, Farm and Ranch Improvements	10,406,299	0.11%	10,835,088	0.13%	11,391,782	0.15%
Real, Commercial and Industrial	1,712,457,490	18.58%	1,638,846,765	19.39%	1,370,730,397	18.18%
Real, Oil, Gas and Other Mineral Reserves	12,167,754	0.13%	8,923,810	0.11%	7,909,460	0.10%
Real and Tangible Personal, Utilities	173,908,469	1.89%	185,761,346	2.20%	192,138,423	2.55%
Tangible Personal, Business	1,226,369,118	13.31%	1,090,862,579	12.91%	974,534,729	12.92%
Tangible Personal, Other	15,465,413	0.17%	16,287,022	0.19%	15,336,364	0.20%
Real Property, Inventory	9,863,035	0.11%	4,774,287	0.06%	11,087,603	0.15%
Special Inventory	68,232,264	0.74%	68,663,514	0.81%	67,339,159	0.89%
Other/Adjustments	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	$ 9,215,758,015	100.00%	$ 8,451,188,424	100.00%	$ 7,541,793,935	100.00%
Less: Total Exemptions/Reductions	(580,763,153)		(529,598,044)		(199,449,068)	
Taxable Assessed Value	$ 8,634,994,862		$ 7,921,590,380		$ 7,342,344,867	

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District to the City for purposes of establishing and levying the City's annual ad valorem tax rate and to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3A - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 30-Sep	Estimated District Population [a]	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Purpose Funded Tax Debt [b]	Ratio Tax Debt to Assessed Valuation [b]	Funded Debt Per Capita	Tax Year
2003	204,737	$ 7,342,344,867	$ 35,862	$ 70,188,204	0.96%	$ 343	2002
2004	206,290	7,921,590,380	38,400	70,161,218	0.89%	340	2003
2005	209,120	8,634,994,862	41,292	80,210,269	0.93%	384	2004
2006	211,187	9,346,613,951	44,258	87,231,945	0.93%	413	2005
2007	212,365	10,002,725,637	47,102	92,487,363	0.92%	436	2006
2008 [d]	212,365	10,897,210,563	51,314	98,129,904 [c]	0.90% [c]	462 [d]	2007

[a] Source: The City.

[b] Does not include self-supported debt.

[c] Preliminary, subject to change. Includes the Certificates.

[d] 2008 population is estimated.

TABLE 3B - DERIVATION OF GENERAL PURPOSE FUNDED TAX DEBT

The following table sets forth certain information with respect to the City's general purpose and self-supporting general obligation debt. The City is revising its capital improvement plan, but the City expects to issue additional self-supporting general obligation debt within the three to five year time frame. See "ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT."

Fiscal Year Ended 30-Sep	Funded Tax Debt Outstanding at End of Year	Less: Self-Supporting Funded Tax Debt	General Purpose Funded Tax Debt Outstanding at End of Year
2003	$ 295,935,000	$ 225,746,796	$ 70,188,204
2004	285,885,000	215,723,783	70,161,217
2005	388,595,000	308,384,731	80,210,269
2006	447,275,000	360,043,055	87,231,945
2007	512,250,000	419,762,637	92,487,363
2008 [a]	497,270,000	399,140,097	98,129,904

[a] Preliminary, subject to change. Includes the Certificates.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year End 09/30	Tax Rate Distribution: General Fund	Economic Development	Interest and Sinking Fund	Tax Rate	Tax Levy	Percent Collected: Current	Total	Tax Year
2003	$ 0.43204	$ 0.03000	$ 0.10796	$ 0.57000	$ 42,093,153	97.67%	99.21%	2002
2004	0.41504	0.03000	0.10066	0.54570	43,659,111	97.02%	98.64%	2003
2005	0.33474	0.03000	0.09496	0.45970	39,697,452	97.73%	100.28%	2004
2006	0.35626	0.03000	0.06094	0.44720	41,775,367	98.15%	99.71%	2005
2007	0.36074	0.03000	0.07125	0.46199	46,068,744	98.12%	99.02%	2006
2008	0.35380	0.03000	0.07125	0.45505	49,195,247	(In process of collection)		2007

TABLE 5 – TEN LARGEST TAXPAYERS

Name		2007 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Macerich Lubbock Ltd.	$	120,319,460	1.10%
Wal-Mart Stores, Inc.		69,696,472	0.64%
Southwestern Bell Telephone		65,675,631	0.60%
United Supermarkets OFC		49,479,682	0.45%
PYCO Industries, Inc.		48,047,230	0.44%
Southwestern Public Services Co.		42,711,124	0.39%
Lubbock Property, LLC		33,316,729	0.31%
Atmos Energy West Texas Division		33,181,890	0.30%
TYCO Fire Products		31,136,879	0.29%
Fountains Club Lubbock Acquisitions, LP		28,036,483	0.26%
	$	521,601,580	4.79%

TABLE 6 - TAX ADEQUACY

Average Annual Debt Service Requirements All General Obligation Debt (2008-2034):	$28,668,795 [a]
$0.2671 per $100 AV against the 2007 Taxable AV, at 98.5% collection, produces	$28,669,853
Maximum Annual Debt Service Requirements All General Obligation Debt (2008):	$50,734,166 [a]
$0.4727 per $100 AV against the 2007 Taxable AV, at 98.5% collection, produces	$50,738,448

[a] Preliminary, subject to change. Includes the Certificates.

TABLE 7 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction		Gross Debt (As of 8/15/07)	Estimated % Overlapping		Overlapping Debt
Frenship ISD	$	63,897,346	79.41%	$	50,740,882
Idalou ISD		275,000	6.93%		19,058
Lubbock County		85,720,000	83.32%		71,421,904
Lubbock County Hospital District		-	83.32%		-
Lubbock ISD		140,956,725	98.49%		138,828,278
Lubbock-Cooper ISD		46,264,571	57.50%		26,602,128
New Deal ISD		-	18.33%		-
Roosevelt ISD		9,624,998	4.20%		404,250
Estimated Overlapping Debt				$	288,016,501
The City (as of 10/1/07)	$	523,885,000 [a]	100.00%		523,885,000 [a]
Total Direct & Estimated Overlapping Debt				$	811,901,501
As a % of 2007 Taxable Assessed Valuation					7.45%
Per Capita Total Direct & Estimated Overlapping Debt				$	3,823

[a] Preliminary, subject to change. Includes the Certificates.

TABLE 8A – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

FYE	Outstanding Debt [a]			The Certificates [b]			Total
30-Sep	Principal	Interest	Total	Principal	Interest	Total	Debt Service [b]
2008	$ 26,410,000	$ 23,351,202	$ 49,761,202	$ 205,000	$ 767,964	$ 972,964	$ 50,734,166
2009	26,580,000	22,285,203	48,865,203	355,000	621,069	976,069	49,841,272
2010	26,635,000	21,188,661	47,823,661	375,000	601,800	976,800	48,800,460
2011	27,400,000	20,012,638	47,412,638	395,000	581,528	976,528	48,389,166
2012	27,020,000	18,789,280	45,809,280	415,000	560,061	975,061	46,784,341
2013	27,865,000	17,544,799	45,409,799	435,000	537,408	972,408	46,382,207
2014	28,800,000	16,226,779	45,026,779	460,000	513,442	973,442	46,000,221
2015	26,915,000	14,951,645	41,866,645	485,000	487,948	972,948	42,839,593
2016	27,035,000	13,699,943	40,734,943	515,000	460,796	975,796	41,710,739
2017	27,350,000	12,368,955	39,718,955	540,000	432,046	972,046	40,691,001
2018	28,055,000	11,025,273	39,080,273	575,000	401,549	976,549	40,056,822
2019	27,300,000	9,648,216	36,948,216	605,000	369,096	974,096	37,922,312
2020	25,420,000	8,384,564	33,804,564	640,000	334,670	974,670	34,779,234
2021	24,100,000	7,185,523	31,285,523	675,000	298,177	973,177	32,258,700
2022	21,720,000	6,055,443	27,775,443	715,000	259,464	974,464	28,749,906
2023	21,110,000	4,999,573	26,109,573	755,000	218,375	973,375	27,082,948
2024	19,560,000	3,977,491	23,537,491	800,000	174,755	974,755	24,512,246
2025	18,840,000	3,037,391	21,877,391	845,000	128,446	973,446	22,850,837
2026	15,295,000	2,193,350	17,488,350	895,000	79,289	974,289	18,462,639
2027	9,520,000	1,576,231	11,096,231	950,000	26,980	976,980	12,073,211
2028	5,225,000	1,216,219	6,441,219	-	-	-	6,441,219
2029	5,475,000	967,143	6,442,143	-	-	-	6,442,143
2030	5,735,000	712,173	6,447,173	-	-	-	6,447,173
2031	6,000,000	445,949	6,445,949	-	-	-	6,445,949
2032	2,195,000	260,438	2,455,438	-	-	-	2,455,438
2033	2,290,000	159,525	2,449,525	-	-	-	2,449,525
2034	2,400,000	54,000	2,454,000	-	-	-	2,454,000
	$ 512,250,000	$ 242,317,603	$ 754,567,603	$ 11,635,000	$ 7,854,860	$ 19,489,860	$ 774,057,464

Average Annual Debt Service Requirements All General Obligation Debt (2008-2034):	$ 28,668,795
Maximum Annual Debt Service Requirements All General Obligation Debt (2008):	$ 50,734,166

[a] Does not include lease/purchase obligations.

[b] Preliminary, subject to change.

TABLE 8B – INTEREST AND SINKING FUND BUDGET

Projected General Purpose General Obligation Debt Service Requirements, September 30 ,2008		$ 11,452,465 [a]
Fiscal Agent Fees		20,000
Interest and Sinking Fund, September 30, 2007	$ 2,830,583	
Interest and Sinking Fund Tax Levy @ 99%	7,420,094	
Estimated Interest Earnings	1,601,774	
Projected Balance, September 30, 2008		$ 379,986 [a]

[a] Preliminary, subject to change.

TABLE 9 - DIVISION OF GENERAL OBLIGATION DEBT SERVICE

FYE 30-Sep	Waterworks System Debt Service	Sewer System Debt Service	Solid Waste Disposal System Debt Service	Drainage Utility System Debt Service	Tax Increment Financing Debt Service	Electric Light & Power System Debt Service	Cemetary Debt Service	Gateway Debt Service	HOT Debt Service	Airport Debt Service	General Purpose Debt Service [a]	Total G.O. Debt Service
2008	$ 14,614,035	$ 7,535,494	$ 1,228,255	$ 4,361,006	$ 1,831,739	$ 5,698,341	$ 55,094	$ 3,070,090	$ 96,458	$ 791,190	$ 11,452,465	$ 50,724,166
2009	14,541,094	7,299,226	1,094,635	4,365,828	1,837,314	5,628,468	55,218	3,067,669	97,329	617,726	11,236,766	49,841,272
2010	13,371,009	6,780,333	1,169,215	5,719,582	1,839,720	5,805,217	55,235	3,067,564	97,313	612,561	10,382,712	48,800,461
2011	13,176,382	6,619,345	1,150,165	5,717,470	1,835,738	5,740,597	55,224	3,064,963	97,274	607,502	10,324,505	48,389,167
2012	12,292,729	6,381,848	1,140,244	5,715,897	1,835,652	5,658,804	55,313	3,069,687	97,248	602,598	9,934,423	46,784,342
2013	12,242,208	6,196,409	1,129,837	5,717,364	1,834,492	5,590,584	55,254	3,067,074	97,323	596,767	9,854,915	46,382,207
2014	12,201,782	6,031,322	1,113,813	5,713,256	1,834,275	5,511,156	55,217	3,068,095	97,280	589,805	9,784,222	46,000,221
2015	12,075,142	4,153,297	1,097,959	5,715,706	1,833,750	5,435,264	55,227	3,066,066	97,328	456,285	8,853,590	42,839,593
2016	11,821,612	3,349,590	1,118,462	5,658,792	1,836,310	5,100,830	55,223	3,066,283	97,248	455,275	9,151,114	41,710,739
2017	11,684,799	3,310,739	1,095,872	6,629,104	1,839,470	4,912,514	55,206	3,064,013	97,248	457,940	7,544,096	40,691,002
2018	11,464,423	3,043,444	1,082,944	6,641,035	1,833,674	4,844,685	55,204	3,067,461	97,317	456,045	7,470,590	40,056,822
2019	11,112,885	3,010,347	888,905	6,634,660	1,836,233	3,305,644	55,217	3,062,836	97,290	454,025	7,464,272	37,922,313
2020	8,669,363	2,587,404	882,657	6,646,131	1,839,224	3,305,002	55,222	3,063,099	97,242	455,823	7,476,068	34,779,234
2021	6,771,768	2,287,394	875,458	6,647,298	1,835,044	3,300,203	55,210	3,067,528	97,327	456,969	6,861,502	32,258,700
2022	4,090,485	2,286,808	741,301	6,662,832	1,834,299	3,307,189	55,218	3,065,458	97,339	457,856	6,151,102	28,749,906
2023	3,795,822	1,960,610	744,266	5,891,155	1,835,149	3,157,113	55,204	3,068,156	97,258	457,849	6,020,366	27,082,948
2024	3,794,348	1,956,293	741,883	5,839,240	1,833,911	2,015,874	55,202	3,066,372	97,289	457,317	4,634,518	24,512,246
2025	3,059,676	1,909,117	470,625	5,842,531	1,549,994	2,020,922	55,207	3,063,575	97,308	457,137	4,324,946	22,850,836
2026	2,773,699	1,331,919	470,673	5,846,906	834,745	1,539,663	55,212	1,924,841	97,305	232,352	3,355,324	18,462,638
2027	1,454,616	161,207	107,121	5,200,602	327,976	1,051,140	15,689	1,704,150	97,270	32,797	1,920,644	12,073,211
2028	-	-	-	4,738,319	-	-	-	1,702,900	-	-	-	6,441,218
2029	-	-	-	4,738,638	-	-	-	1,703,505	-	-	-	6,442,142
2030	-	-	-	4,740,963	-	-	-	1,706,210	-	-	-	6,447,172
2031	-	-	-	4,740,044	-	-	-	1,705,905	-	-	-	6,445,948
2032	-	-	-	2,455,438	-	-	-	-	-	-	-	2,455,437
2033	-	-	-	2,449,525	-	-	-	-	-	-	-	2,449,524
2034	-	-	-	2,454,000	-	-	-	-	-	-	-	2,453,999
	$ 184,907,875	$ 77,892,145	$ 18,344,292	$ 143,483,121	$ 33,918,690	$ 82,932,210	$ 1,064,695	$ 65,645,499	$ 1,944,991	$ 9,705,821	$ 154,218,136	$ 774,057,464

[a] Preliminary, subject to change. Includes the Certificates.

TABLE 10 - SELF-SUPPORTED DEBT

The following details the revenues available and debt allocations for the self-supported general obligation debt of the City. See also Table 9. In addition to the funds detailed below, the City Council of the City approved ordinances designating debt issued for the Cemetery (a unit of the City's General Fund) to be supported by sales of crypts and niches at the City Cemetery.

THE WATERWORKS FUND [(a)]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	18,277,614
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	18,277,614
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		14,614,035
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[(a)] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Waterworks Fund general obligation debt to a segregated account in the Waterworks Fund.

THE SEWER FUND [(a)]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	8,373,248
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	8,373,248
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		7,535,494
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[(a)] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Sewer Fund general obligation debt to a segregated account in the Sewer Fund.

THE SOLID WASTE FUND [(a)]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	3,913,968
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	3,913,968
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		1,228,255
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[(a)] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Solid Waste Fund general obligation debt to a segregated account in the Solid Waste Fund.

THE DRAINAGE FUND [(a)]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	6,476,263
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	6,476,263
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		4,361,006
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[(a)] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Drainage Fund general obligation debt to a segregated account in the Drainage Fund.

THE ELECTRIC LIGHT AND POWER FUND [(a)]

Net Electric Light and Power System Revenue Available, Fiscal Year Ended 9-30-06	$	28,689,792
Less: Requirements for Revenue Bonds, Fiscal Year Ending 9-30-08		3,429,060
Balance Available for Other Purposes	$	25,260,732
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		5,698,341
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[(a)] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Electric Light and Power Fund general obligation debt to a segregated account in the Electric Light and Power Fund.

THE GATEWAY FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	5,526,200
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	5,526,200
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		3,070,090
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Gateway Fund general obligation debt to a segregated account in the Gateway Fund.

THE AIRPORT FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	2,877,208
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	2,877,208
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		791,190
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Airport Fund general obligation debt to a segregated account in the Airport Fund.

THE TAX INCREMENT FINANCING FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	940,013
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	940,013
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		1,831,739
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Tax Increment Financing Fund general obligation debt to a segregated account in the Tax Increment Financing Fund. The remainder of revenue needed to support Tax Increment Financing Fund general obligation debt is transferred from the City's Solid Waste Fund.

TABLE 11 – AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Issued To Date	Unissued
Sewer System	05/21/77	$ 3,303,000	$ 2,175,000	$ 1,128,000
Waterworks System	10/17/87	2,810,000	200,000	2,610,000
Street Improvements	05/01/93	10,170,000	10,166,000	4,000
Street Improvements	05/15/04	9,210,000	5,269,000	3,941,000
Civic Center/Auditorium Renovation and Improvements	05/15/04	6,450,000	-	6,450,000
Park Improvements	05/15/04	6,395,000	6,395,000	-
Police/Municipal Court Facilities	05/15/04	3,350,000	-	3,350,000
Library Improvements	05/15/04	2,145,000	-	2,145,000
Fire Stations	05/15/04	1,405,000	1,405,000	-
Animal Shelter Renovations & Improvements	05/15/04	1,045,000	160,000	885,000
		$ 46,283,000	$ 25,770,000	$ 20,513,000

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT... The City Council adopted a resolution during the 1984-85 budget process establishing capital maintenance funds for capital projects. A capital improvement plan is made for planning purposes and may identify projects that will be deferred or omitted entirely in future years. In addition, as conditions change, new projects may be added that are not currently identified. Under current City policy, for a project to be funded as a capital project it must have a cost of $25,000 or more and a life of seven or more years. For FY 2007-2008, the City Council approved $194.4 million in total expenditures for capital projects for all general purpose projects, as well as projects for the electric fund, water fund, sewer fund, solid waste fund, stormwater fund and airport fund (up from $77 million in FY 2006-2007). The Capital Projects Fund budget for FY 2007-2008 also included an additional $562.6 million in future improvements for all City departments over the five succeeding fiscal years. The improvements included in the City's capital improvement plan are generally funded from a blend of bond proceeds, reserves or current year revenue sources.

As shown in Table 11, the City has $16,771,000 of authorized but unissued bonds from the May 15, 2004 bond election. When the election was held, the City anticipated that the bonds would be issued over the 2004 through 2008 time frame. The City typically issues voted bonds for general purpose City projects, such as streets, parks, libraries, civic centers and public safety improvements. However, the City has incurred substantial unvoted tax supported debt to fund portions of the capital budget of the Electric Fund, Water Fund, Sewer Fund, Solid Waste Fund, Storm Water Fund, Tax Increment Fund, Gateway Fund and Airport Fund. As described elsewhere in this Official Statement, such enterprise fund indebtedness is generally anticipated to be self-supporting from enterprise fund revenues.

The City anticipates the issuance of $185,400,000 in additional general obligation debt within the next twelve months.

TABLE 12 – OTHER OBLIGATIONS

FYE 30-Sep	Governmental Capital Lease Minimum Payment	Business-Type Capital Lease Minimum Payment	Total Capital Lease Minimum Payment
2008	$ 1,694,843	$ 1,946,263	$ 3,641,106
2009	1,673,144	1,842,705	3,515,849
2010	1,522,290	1,748,474	3,270,764
2011	725,904	1,086,012	1,811,916
2012-2016	1,116,246	381,832	1,498,078
Interest	(896,711)	(894,074)	(1,790,785)
	$ 5,835,716	$ 6,111,212	$ 11,946,928

On January 8th, 2004, the City entered into a note agreement with the Department of Housing and Urban Development ("HUD") for loan guarantee assistance under Section 108 of title 1 of the Housing and Community Development Act of 1974, as amended, in the amount of $1,000,000. The Note was issued to aid in the establishment of a Housing Rehabilitation Program in order to provide rehab options for low-to moderate income households on a citywide basis, pay professional services rendered in relation to such project, and the financing thereof. Under the terms of the Note, the City will make annual principal payments on August 1, of each year beginning in 2005 through 2012; interest payments are due semi-annually. The Note is a liability of the City's Community Development Block Grant Program and debt service will be paid from this grant.

FYE	Contract Revenue Bonds		
30-Sep	Principal	Interest	Total
2008	$ 125,000	$ 28,300	$ 153,300
2009	125,000	23,300	148,300
2010	125,000	17,900	142,900
2011	125,000	12,188	137,188
2012	125,000	6,200	131,200
	$ 625,000	$ 87,888	$ 712,888

PENSION FUND . . . TEXAS MUNICIPAL RETIREMENT SYSTEM [a][b] . . . All permanent, full-time City employees who are not firefighters are covered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agent, multiple-employer, public employee retirement system which is covered by a State statute and is administered by six trustees appointed by the Governor of Texas. TMRS operates independently of its member cities.

The City joined TMRS in 1950 to supplement Social Security. All City employees except firefighters are covered by Social Security. Options offered under TMRS, and adopted by the City, include current, prior and antecedent service credits, five year vesting, updated service credit, occupational disability benefits and survivor benefits for the spouse of a vested employee. An employee who retires receives an annuity based on the amount of the employee's contributions over-matched two for one by the City. Since October 11, 1997, the employee contribution rate has been 7% of gross salary. The City's contribution rate is calculated each year using actuarial techniques applied to experience. Enabling statutes prohibit any member city from adopting options which impose liabilities that cannot be amortized over 25 years within a specified statutory rate.

On December 31, 2006, the actuarial value of assets held by TMRS (not including those of the Supplemental Disability Fund, which is "pooled"), for the City were $199,865,768. Unfunded actuarial accrued liabilities on December 31, 2006 were $71,502,988, which is being amortized over a 25-year period beginning January, 1997.

FIREMEN'S RELIEF AND RETIREMENT FUND [a]. . . City firefighters are members of the locally administered Lubbock Firemen's Relief and Retirement Fund (the "Fund"), operating under an act passed in 1937 by the State Legislature and adopted by City firefighters, by vote of the department, in 1941. Firefighters are not covered by Social Security.

The Fund is governed by seven trustees, consisting of three firefighters, two outside trustees (appointed by the other trustees), the Mayor or the representative thereof and the chief financial officer or the representative thereof. Execution of the act is monitored by the Firemen's Pension Commissioner, who is appointed by the Governor.

Benefits of retired firemen are determined on a "formula" or a "final salary" plan.. Actuarial reviews are performed every two years, and the fund is audited annually. Firefighters contribute a percentage of full salary into the fund. Based on the plan effective November 1, 2003, the Fund's funding policy requires contributions equal to 12.43% of pay by the firefighters. The City contributes on a basis of the percentage of salary which is an annually adjusted ration that bears the same relationship to the firefighter's contribution rate that the City's rate paid into the TMRS and FICA bears to the rate other employees pay into the TMRS and FICA. The December 31, 2006 actuarial valuation assumes the City's contributions will average 19.75% of payroll in the future.

As of December 31, 2006, the unfunded pension benefit obligation was $26,297,944 which is amortized with the excess of the assumed total contribution rate over the normal cost rate. The number of years needed to amortize the unfunded pension obligation is determined using an open, level percentage of payroll method, assuming that the payroll will increase 4% per year. The December 31, 2004 actuarial valuation, which used plan provisions effective November 1, 2003, needed 20.6 years to amortize the unfunded pension obligation. The December 31, 2006 actuarial valuation was based on the plan provisions effective December 1, 2005 and needed 35 years to amortize the unfunded pension obligation.

OTHER POST-EMPLOYMENT BENEFITS . . . The City currently provides certain post-employment benefits to its employees, as described in Note III. K (Notes to the Basic Financial Statements) set forth in Appendix A. The City intends to comply with the requirements of GASB No. 43 and 45, with respect to the reporting of post-employment benefits, in accordance with the timelines set forth in GASB No. 43 and 45. The City has retained the services of Gabriel, Roeder, Smith & Company to prepare the calculations required under GASB No. 43 and 45.

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[a] For historical information concerning the retirement plans, see "APPENDIX A, EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2006 – Note III, Subsection E - Retirement Plans".

[b] Source: Texas Municipal Retirement System, *Comprehensive Annual Financial Report for Year Ended December 31, 2006.*

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TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30 [a] 2006	2005	2004	2003	2002
REVENUES					
Program Revenues					
Charges for Services	$ 9,632	$ 10,583	$ 12,713	$ 13,888	$ 9,369
Grants and Contributions	11,048	13,296	9,643	12,137	7,007
General Revenues					
Property Taxes	42,771	39,748	44,497	42,303	40,408
Sales Taxes	45,577	41,803	30,555	29,092	28,903
Other Taxes	4,447	4,242	3,793	3,712	3,681
Franchise Taxes	13,348	11,154	9,654	6,613	6,998
Grants/Contributions not restricted	-	-	-	-	(25)
Other	11,292	5,742	4,274	3,834	6,227
Total Revenues	$ 138,115	$ 126,568	$ 115,129	$ 111,579	$ 102,568
EXPENDITURES					
Administrative Services	$ 9,910	$ 8,220	$ 7,946	$ 7,158	$ 7,293
Community Services	6,112	6,146	6,776	6,335	8,643
Cultural and Recreation	18,915	17,745	17,102	16,796	16,297
Economic Development	10,283	9,739	4,610	4,535	4,399
Fire	26,711	23,517	22,074	20,450	19,432
Health	5,014	5,040	4,585	4,343	4,173
Police	42,063	38,452	36,543	33,986	31,862
Other Public Safety	5,240	4,977	4,211	3,602	3,459
Streets and Traffic	11,850	12,466	10,570	16,371	9,913
Non-departmental	5,206	6,253	2,924	5,642	5,015
Interest on Long-Term Debt	4,326	3,195	4,877	3,373	3,493
Total Expenditures	$ 145,630	$ 135,750	$ 122,218	$ 122,591	$ 113,979
Changes in net assets before special items & transfers	$ (7,515)	$ (9,182)	$ (7,089)	$ (11,012)	$ (11,411)
Special items	-	-	-	-	(687)
Transfers	9,607	15,469	9,745	2,554	15,668
Changes in net assets	$ 2,092	$ 6,287	$ 2,656	$ (8,458)	$ 3,570
Net Assets - beginning of year, as restated	$ 110,629	$ 104,341	$ 101,684	$ 110,142	$ 106,572
Net assets - end of year	$ 112,721	$ 110,628	$ 104,340	$ 101,684	$ 110,142

[a] Audited. Units are in 000s.

Note: Data shown in Table 13 reflects general governmental activities reported in accordance with GASB Statement No. 34. The financial statements include a management discussion and analysis of the operating results of such fiscal year, including restatements to beginning fund balances and net assets.

TABLE 13A – GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Year Ended September 30				
	2006	2005	2004	2003	2002
REVENUES					
Ad Valorem Taxes	$ 33,193,738	$ 29,414,773	$ 33,233,274	$ 32,194,087	$ 29,885,252
Sales Taxes	41,778,534	38,319,501	30,554,632	29,092,032	28,902,649
Franchise Taxes	8,008,973	6,693,209	9,654,447	6,612,822	6,998,085
Miscellaneous Taxes	1,027,352	982,327	939,456	848,816	820,507
Licenses and Permits	2,250,635	1,953,666	1,982,281	1,875,118	1,475,451
Intergovernmental	408,997	480,648	428,459	348,787	351,878
Charges for Services	4,781,043	4,070,642	4,467,733	4,945,591	4,472,094
Fees and Fines	3,981,978	4,015,402	3,675,856	3,672,509	3,069,362
Miscellaneous	1,465,215	1,506,315	1,442,677	1,532,346	1,058,237
Interest	921,742	349,236	334,730	285,756	433,393
Operating Transfers [(a)]	-	16,565,397	10,723,891	10,345,945	15,023,466
Total Revenues and Transfers	$ 97,818,207	$ 104,351,116	$ 97,437,436	$ 91,753,809	$ 92,490,374
EXPENDITURES					
General Government	$ -	$ 6,159,536	$ 5,633,469	$ 5,717,151	$ 5,596,868
Financial Services	-	2,139,492	2,333,469	1,969,413	1,958,051
Cultural and Recreation	13,986,576	-	-	-	-
Economic & Business Development	1,146,267	-	-	-	-
Non-departmental	1,882,255	445,251	214,562	175,499	1,497,485
Admin/Community Services	9,356,059	18,330,508	18,156,455	17,837,076	17,997,152
Police	37,463,740	33,919,626	32,400,371	30,321,182	28,905,651
Fire	24,638,814	21,943,267	20,613,077	19,511,797	18,632,109
Health	3,738,790	-	-	-	-
Other Public Safety	4,287,806	-	-	-	-
Planning and Transportation	-	8,120,727	7,180,843	6,610,394	6,510,394
Street Lighting	7,439,045	2,214,291	2,185,286	2,078,277	2,168,620
Human Resources	-	740,826	754,225	780,529	895,311
Debt Service Principal	1,009,368	-	-	-	-
Debt Service Interest and Other Charges	144,858	-	-	-	-
Capital Outlay	7,184,866	5,277,100	475,585	378,059	480,749
Operating Transfers	-	3,912,645	4,212,915	13,555,338	5,951,669
Total Expenditures	$ 112,278,444	$ 103,203,269	$ 94,160,257	$ 98,934,715	$ 90,594,059
Excess (Deficiency) of Revenues and Transfers over Expenditures	$ (14,460,237)	$ 1,147,847	$ 3,277,179	$ (7,180,906)	$ 1,896,315
Capital Lease Issued	5,119,980	3,534,048	-	-	-
Transfer In	13,325,046	-	-	-	-
Transfer Out	(1,436,498)	-	-	-	-
Fund Balance at Beginning of Year	17,376,420	12,694,525	9,417,346	16,598,252 [(c)]	16,716,042
Fund Balance at End of Year	$ 19,924,711	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 18,612,357
Less: Reserves and Designations [(b)]	-	-	-	-	(1,255,041)
Undesignated Fund Balance [(d)]	$ 19,924,711	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 17,357,316

[(a)] For fiscal year 2005/06, the water, solid waste and waste water funds transferred an amount sufficient to cover the pro rata share of the City's general and administrative expenses and an amount representing a payment in lieu of ad valorem taxes. The water, waste water and solid waste funds transferred an amount representing a franchise payment equal to 6% of gross receipts. The Electric System was not required to make transfers to the General Fund for any of the foregoing purposes during the fiscal year.

[(b)] The City's financial policies target a General Fund undesignated balance of at least 20% of General Fund revenues. The undesignated fund balance is at 99% of the target established by the City's financial policies.

[(c)] The "Fund Balance at Beginning of Year" was restated.

[(d)] The City administration believes that the unaudited General Fund balance for the period ending September 30, 2007 was approximately $19,136,979.

TABLE 14 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates or other debt of the City. In addition, in January, 1995, the voters of the City approved the imposition of an additional sales and use tax of one-eighth of a cent as authorized by Chapter 323 Texas Tax Code, as amended. Collection for the additional tax commenced in October, 1995 with the proceeds from the one-eighth cent sales tax designated for the use and benefit of the City to replace property tax revenues lost as a result of the adoption of the tax. At an election held in the City on November 4, 2003, voters approved an additional one-quarter cent sales and use tax, with the proceeds to be dedicated to the reduction of ad valorem taxation, and an additional one-eighth cent sales and use tax under Section 4A of the Texas Development Corporation Act (Article 5190.6, Texas Revised Civil Statutes), to be used for economic development in the City. The City began to receive proceeds of these taxes in October 2004. Collections and enforcements of the City's sales tax are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, to the City monthly, after deduction of a 2% service fee. Historical collections of the City's local Sales and Use Tax are shown below:

FYE 30-Sep	Total Collected [a]	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita [b]
2002	$ 28,902,648	73.45%	$ 0.4183	$ 143.08
2003	29,092,032	68.80%	0.3962	142.09
2004	30,554,632	69.98%	0.3857	148.11
2005	41,803,092	105.09%	0.4825	199.90
2006	45,576,582	109.10%	0.4556	214.61
2007	47,780,448	114.37%	0.4385	224.99

[a] Excludes bingo tax receipts and mixed beverage tax.

[b] Based on population estimates of the City.

Effective as of October 1, 2006, the sales tax breakdown for the City is as follows:

City:	
City Sales & Use Tax	$ 1.000
City Sales & Use Tax for Property Tax Relief	0.375
City Sales & Use Tax for Economic Development	0.125
County Sales & Use Tax	0.500
State Sales & Use Tax	6.250
Total	$ 8.250

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the City conform to generally accepted accounting principles of the Governmental Accounting Standards Board and program standards adopted by the Government Finance Officer's Association of the United States and Canada ("GFOA"). The GFOA has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for each of the fiscal years ended September 30, 1984 through September 30, 2002 and September 30, 2004 through September 30, 2005. The City will submit the City's 2006 report to GFOA to determine its eligibility for another certificate.

Comprehensive Annual Financial Report (CAFR). . .Beginning with the year ended September 30, 2002, the City's CAFR has been presented under the Governmental Accounting Standard Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Note Disclosures*. For additional information regarding accounting policies that are applicable to the City, see Note I. "Summary of Significant Accounting Policies" in the financial statements of the City attached as Appendix A.

General Fund Balance . . . The City's objective is to maintain an unreserved/undesignated fund balance at a minimum of an amount equal to two months budgeted operating expenditures to meet unanticipated contingencies and fluctuations in revenue. The City's General Fund currently has an unreserved/undesignated fund balance that is at 99% of the target established by the City's financial policies.

Water, Wastewater, Storm Water, Solid Waste and Airport Enterprise Fund Balances . . . It is the policy of the City to maintain appropriable net assets in the Water and Wastewater funds in an amount equal to 25% of operating revenues for unforeseen contingencies. The City's goal of appropriable net assets in the Solid Waste, Airport, and Storm Water funds is an amount equal to 15% of regular operating revenues. With the exception of the Electric Enterprise Fund (as further described below), the City currently exceeds its policy on appropriable net assets for its various enterprise funds. See "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - SEPTEMBER 30, 2003 FINANCIAL RESULTS." According to audited numbers for FY 2006, the target net assets by policy and current appropriable net assets for the Water, Wastewater, Storm Water and Airport enterprise funds are as follows:

Enterprise Fund	Target Net Assets by Policy	Appropriable Net Assets*
Water	$10.5 million	$19.2 million
Wastewater	$5.5 million	$13.5 million
Storm Water	$1.0 million	$12.1 million
Solid Waste	$2.3 million	$4.9 million
Airport	$1.0 million	$3.0 million

Electric Enterprise Fund Balance . . . It is the policy of LP&L to maintain appropriable net assets set by the City Charter. The LP&L Governance Ordinance was amended in December of 2006 to include, among other things, changes to the requirements regarding the reserve funds LP&L maintains. As amended, the LP&L Governance Ordinance requires the Electric Utility Board to (i) maintain sufficient operating cash to satisfy all current accounts payable and (ii) maintain a general reserve fund that is equal to the greater of four months gross retail electric revenue (GRR) as determined by taking the average monthly GRR from the previous fiscal year or $50 million dollars. This general reserve fund shall be used for operational purposes, rate stabilization and for meeting the electric utility demand of any rapid or unforeseen increase in residential and/or commercial development. According to audited numbers for FY 2006, the total target net assets by ordinance and current appropriable net assets for LP&L are as follows:

Enterprise Fund	Target Net Assets by Policy	Appropriable Net Assets*
LP & L	$50.0 million	$25.3 million

* Based on Electric Utilities Board discretion.

Enterprise Fund Revenues . . . It is the policy of the City that each of the Electric, Water, Solid Waste and Sewer funds be operated in a manner that results in self sufficiency, without the need for additional monetary transfers from other funds (although the Electric System received transfers from the General Fund during FY 2003). Such self sufficiency is to be obtained through the rates, fees and charges of each of these enterprise funds. For purposes of determining self sufficiency, cost recovery for each enterprise fund includes direct operating and maintenance expense, as well as indirect cost recovery, in-lieu of transfers to the General Fund for property and franchise tax payments, capital expenditures and debt service payments, where appropriate. Rate increases may be considered in future budgets as costs may warrant, including specifically the costs related to fuel charges that may affect LP&L and the cost of providing service.

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

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

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

2) Public hearings are conducted to obtain taxpayer comments.

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

4) The City Manager is authorized to transfer budgeted amounts between accounts below the department level. Any transfer of funds between departments or higher level are presented to the City Council for approval by ordinance before the funds are transferred or expended. Expenditures may not legally exceed budgeted appropriations at the fund level.

5) Formal budgetary integration is employed as a management control device during the year for the Convention and Tourism, Criminal Investigation, and Capital Projects Funds. Budgets are adopted on an annual basis. Formal budgetary integration is not employed for Debt Service funds because effective budgetary control is alternatively achieved through general obligation bond indenture and other contract provisions.

6) The Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles.

7) Appropriations for the General Fund lapse at year-end. Unencumbered balances for the Capital Projects Funds continue as authority for subsequent period expenditures.

8) Budgetary comparison is presented for the General Fund in the combined financial statement section of the Comprehensive Annual Financial Report. The City has received the Distinguished Budget Presentation Award from the GFOA for the following bndget years beginning October 1, 1983-88 and 1990-06.

Insurance and Risk Management . . . The City is self-insured for public entity liability and health benefits coverage. Risk management purchases a $10,000,000 excess insurance policy for liability claims in excess of $500,000, per occurrence. Airport liability insurance and workers' compensation is insured under guaranteed cost policies. The Health Benefits are covered by a self insured program with a $18,845,756 cap and a $175,000 individual cap. The City maintains insurance policies with large deductibles for fire and extended property coverage and boiler and machinery coverage.

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

At September 30, 2006 the total Net Assets of these insurance funds were as follows:

Self-insurance – health ($198,884)

Self-insurance – risk management $3,397,295

The City obtains an actuarial study of its risk management fund (the "Risk Fund") every year. In FY 2005, an actuarial study was conducted that considered the types of insurance protection obtained by the City, the loss exposure and loss history, and claims being paid or reserved that are not covered by insurance. The 2005 actuarial review recommended that the liabilities of the Risk Fund be increased to $6,479,000 from $6,437,000 to the minimum expected confidence level of the Government Accounting Standard Board Statement Number 10 ("GASB 10"), which requires maintenance of risk management assets at a level representing at least a 50% confidence level that all liabilities, if presented for payment immediately, could be paid. The Risk Fund has net assets restricted for insurance claims of $1,688,000 over the recommended funding level. Given the risk net assets balance, the City exceeds the minimum GASB 10 requirement.

INVESTMENTS

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

LEGAL INVESTMENTS

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit meeting the requirements of the PFIA that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Governmental bodies in the State such as the City are authorized to implement securities lending programs if: (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

INVESTMENT POLICIES

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves Estimated Fair Book Value Market Value and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 15 - CURRENT INVESTMENTS

As of September 30, 2007, the City's investable funds were invested in the following categories:

Type	Par Value	Book Value: Value	Book Value: % of Total Book Value	Estimated Market Value [a]: Value	Estimated Market Value [a]: % of Total Market Value
United States Agency Obligations	$ 118,219,000	$ 117,673,754	40.15%	$ 118,045,822	40.22%
Money Market Mutual Funds [b]	44,014,150	44,014,150	15.02%	44,014,150	15.00%
Local Government Investment Pools [c]	131,428,024	131,428,024	44.84%	131,428,024	44.78%
	$ 293,661,174	$ 293,115,928	100.00%	$ 293,487,996	100.00%

[a] Market prices are obtained from Advent's interface with FT Interactive Data. No funds are invested in mortgage back securities. The City holds all investments to maturity which minimizes the risk of market price volatility.

[b] Money Market Funds are held at Wells Fargo Bank, Texas N.A.

[c] Local government investment pools consist of entities whose investment objectives are preservation and safety of principal, liquidity and yield. The pools seek to maintain a $1.00 value per share as required by the Texas Public Funds Investment Act.

TAXABLE STATUS OF THE CERTIFICATES

The following discussion describes certain U.S. federal income tax considerations of U.S. persons that are beneficial owners ("Owners") of the Certificates. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury Regulations promulgated and proposed thereunder, judicial authority and administrative interpretations, as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Owners cannot be assured that the Internal Revenue Service ("IRS") will not challenge one or more of the tax consequences described herein, and neither the City nor Bond Counsel has obtained, nor does the City or Bond Counsel intend to obtain, a ruling from the IRS with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Certificates. This summary is limited to initial holders who purchase the Certificates for cash at their "issue price" (which will equal the first price at which a substantial portion of the Certificates is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Certificates as capital assets (generally property held for investment).

This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax on personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Certificates. **Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning, and disposing of the Certificates, including the advisability of making any of the elections described below, before determining whether to purchase the Certificates.**

For purposes of this discussion, a "U.S. person" means (i) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, and any state thereof or the District of Columbia or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds Certificates, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. An Owner of a Certificate that is a partner of a partnership that will hold Certificates should consult its tax advisor.

This discussion does not address any tax considerations arising under the laws of any foreign, state, local, or other jurisdiction.

IN GENERAL

Interest on a Certificate generally will be includible in an Owner's income as ordinary income at the time the interest is received or accrued, in accordance with such Owner's regular method of accounting for U.S. federal income tax purposes.

PAYMENTS OF INTEREST

Stated interest paid (and other original issue discount) on each Certificate will generally be taxable in each tax year held by an Owner as ordinary interest income without regard to the time it otherwise accrues or is received in accordance with the Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of original issue discount are described below.

ORIGINAL ISSUE DISCOUNT

Certain Certificates may be sold at a discount below their principal amount. As provided in the Code and the Treasury Regulations, the excess of the "stated redemption price at maturity" (as defined below) of each such Certificate over its issue price will be original issue discount if such excess equals or exceeds a de minimis amount (i.e., one quarter of one percent of the

Certificate's stated redemption price at maturity multiplied by the number of complete years to its maturity). A Certificate having original issue discount equal to or greater than a de minimis amount will be referred to as "Taxable Original Issue Discount Certificate." Owners of Certificates that are not Taxable Original Issue Discount Certificates ("OID Certificates") will include any de minimis original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Certificate. The stated redemption price at maturity of a Certificate includes all payments on the Certificates other than the stated interest amounts, which are based on a fixed rate and payable unconditionally at the end of each six-month accrual period.

Except as described below, Owners of OID Certificates will have to include in gross income (irrespective of their method of accounting) a portion of the original issue discount of OID Certificates for each year during which OID Certificates are held, even though the cash to which such income is attributable would not be received until maturity of OID Certificates. The amount of original issue discounts included in income for each year will be calculated under a constant yield to maturity formula that results in the allocation of less original issue discount to earlier years of the term of OID Certificates and more original issue discount to the later years.

The foregoing summary is based on the assumptions that (i) the Underwriter has purchased the Certificates for contemporaneous sale to the general public and not for investment purposes, (ii) all of the Certificates have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (iii) the respective initial offering prices of the Certificates to the general public are equal to the fair market value thereof. Neither the City nor Bond Counsel has made any investigation or offers any assurance that the Certificates will be offered and sold in accordance with such assumptions.

ACCRUAL METHOD ELECTION

Under the OID Regulations, an Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Certificate (i.e., the excess of all remaining payments to be received on the Certificate over the amount paid for the Certificate by such Owner), based on the compounding of interest at a constant rate. Such an election for a Certificate with amortizable bond premium (or market discount) would result in a deemed election for all of the Owner's debt instruments, with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

DISPOSITION OR RETIREMENT

Upon the sale, exchange, or certain other dispositions of a Certificate, or upon the retirement of a Certificate (including by a defeasance effected by the City or by redemption), an Owner will generally recognize capital gain or loss. This gain or loss will equal the difference between the Owner's adjusted tax basis in the Certificate and the proceeds the Owner receives, excluding any proceeds attributable to accrued interest, which will be recognized as ordinary interest income to the extent the Owner has not previously included the accrued interest in income. The proceeds an Owner receives will include the amount of any cash and the fair market value of any other property received for the Certificate. An Owner's tax basis in the Certificate will generally equal the amount the Owner paid for the Certificate. The gain or loss will be long-term capital gain or loss if the Owner held the Certificate for more than one year. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced tax rate. The deductibility of capital losses may be subject to limitation.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Information reporting will apply to payments of interest on, or the proceeds of the sale or other disposition of, Certificates held by an Owner, and backup withholding may apply unless such Owner provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amount withheld under the backup withholding rules is allowable as a credit against the Owner's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the Owner's actual U.S. federal income tax liability and such Owner provides the required information or appropriate claim form to the IRS.

TREASURY CIRCULAR 230 DISCLOSURE

THE TAX DISCUSSION SET FORTH ABOVE WAS WRITTEN TO SUPPORT THE MARKETING OF THE CERTIFICATES AND IS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER BY THE IRS IN RESPECT OF FEDERAL INCOME TAXES. NO LIMITATION HAS BEEN IMPOSED BY BOND COUNSEL ON DISCLOSURE OF THE TAX TREATMENT OR TAX STRUCTURE OF THE CERTIFICATES. BOND COUNSEL WILL RECEIVE A NON-REFUNDABLE FEE CONTINGENT UPON THE SUCCESSFUL MARKETING OF THE CERTIFICATES, BUT NOT CONTINGENT ON ANY TAXPAYER'S REALIZATION OF TAX BENEFITS FROM THE CERTIFICATES. ALL TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR. THIS DISCLOSURE IS PROVIDED TO COMPLY WITH TREASURY CIRCULAR 230.

OTHER INFORMATION

RATINGS

The Certificates are rated "___" by Moody's Investors Service, Inc. ("Moody's"), "___" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and "___" by Fitch Ratings ("Fitch"). The City's underlying ratings on its presently outstanding general obligation debt are "Aa3" by Moody's, "AA" by S&P and "AA" by Fitch. The City also has issues outstanding which are rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch through insurance by various commercial insurance companies.

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

Financial Guaranty Industry – Recent Events

Moody's, S&P and Fitch (collectively referred to in this paragraph as the "Rating Agencies") have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to subprime mortgage risk as an area of stress for the financial guaranty industry. In various releases, the Ratings Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors, including any bond insurer of the Certificates.

LITIGATION

The City is involved in various legal proceedings related to alleged personal and property damages, breach of contract and civil rights cases, some of which involve claims against the City that exceed $500,000. State law limits municipal liability for personal injury at $250,000/$500,000 and property damage at $100,000 per claim. The following represents the significant litigation against the City at this time.

The City's insurance coverage, if available, contains either a $250,000 self-insured retention or a $500,000 self-insured retention depending on the date of the occurrence.

The City has been sued by a contractor who was not awarded the bid on a portion of the stormwater drainage project. The contractor has alleged violations of the state bid statute and a violation of Section 1983. The plaintiffs took a nonsuit in state court and re-filed the case in federal court. The federal court dismissed the contractor's Section 1983 claims, and the contractor filed a Notice of Appeal. The Fifth Circuit court of appeals reversed the District Court and the District Court has reinstated the federal and state claims. The case is set for trial in May 2008. The City Attorney believes there is insurance coverage for the Section 1983 claim, although there is a dispute with the carrier regarding coverage.

The City, its police chief, and two police officers have been sued for violation of a citizen's first amendment rights when the plaintiff's film from his camera was confiscated by the police while the individual was photographing a children's basketball game. The matter has been dismissed on a plea to the jurisdiction and the plaintiff has appealed the court's decision. The Court of Appeals reversed the trial court's decision and remanded the case back to the trial court. Plaintiff is not seeking monetary damages except for attorney's fees. The City Attorney believes there is insurance for any potential damages.

The City and a police officer have been sued by an individual on behalf of himself and his children rising out of the death of the plaintiff's teenage daughter and injuries to his son from an automobile accident with the police officer. The plaintiff alleges that the officer was operating the vehicle in a negligent manner and was speeding at the time of the automobile collision. The defendants have asserted that the driver of the vehicle carrying the plaintiff's children was negligent in failing to yield the right-of-way to the police officer. The City filed a motion for summary judgment which was granted based on the fact the plaintiff did not file a claim with the City. The Court of Appeals reversed this decision and remanded the case back for trial. The City has appealed the case to the Texas Supreme Court but the Court refused to hear the case. The case is now back in the trial court. The City Attorney believes there is insurance covering the claims.

The City and a former police officer have been sued by a plaintiff as a result of allegations of inappropriate sexual conduct after a police stop by the police officer. The officer filed a motion to dismiss under the Tort Claims Act citing provisions holding that the plaintiff cannot sue both the entity and the individual officer under the act, and the officer was dismissed from the case. The City filed a motion for summary judgment, which was granted and the plaintiff appealed the decision. The Appellate Court affirmed the judgment for the City but remanded the case against the police officer. The City Attorney is of the opinion that insurance is available for the City. The City and the insurance company have denied coverage to the officer.

Plaintiffs have sued the City and a police officer and Taser International as a result of an incident where a police officer tased a citizen while making an arrest. The citizen subsequently died. The City filed a plea to the jurisdiction which was denied and the City appealed the trial courts denial of the plea. The Appellate Court also ruled in favor of the Plaintiff. The City has appealed this decision to the Texas Supreme Court. A federal cause of action under Section 1983 has been filed alleging federal civil rights violations involving the same facts. Trial is set in the federal case in May 2008. The City Attorney is of the opinion that insurance is available for the claims.

The City and a police officer have been sued by an individual who was tased during a traffic stop. The plaintiff has alleged violation of his civil rights, as well as, violations under the Tort Claims Act. The City Attorney is of the opinion that insurance is available and that there are no significant injuries to the plaintiff.

The city has been sued by ERAF Corporation alleging the city has wrongfully denied them a permit to operate a sexually oriented business. Plaintiff has asked the court to dismiss the case with prejudice.

The City has been sued by Northridge Homeowners Association and Templeton Mortgage Corporation seeking a declaration of rights as to various property interests at Lake Alan Henry. At this time, Plaintiffs are only seeking attorney's fees as compensation, though this could end up in the six figure range.

A former employee sued the City in October 2007 for wrongful termination. While the case is still in the early stages of development, the City, at this time, does not believe there is a strong likelihood of recovery. The City believes there is insurance coverage in this matter.

The City intends to vigorously defend itself on all claims, although no assurance can be given that the City will prevail in all cases. However, the City Attorney and City management are of the view that its available sources for payment of any such claims, which include insurance policies and City reserves for self insured claims, are adequate to pay any presently foreseeable damages (see "FINANCIAL POLICIES – Insurance and Risk Management").

On the date of delivery of the Certificates to the Underwriter, the City will execute and deliver to the Underwriter a certificate to the effect that, except as disclosed herein, no significant litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Certificates or which would affect the provisions for their payment or security or in any manner question the validity of the Certificates.

INVESTIGATIONS RELATING TO CITY'S HEALTH INSURANCE ADMINISTRATOR

In 2006, the City hired an outside independent auditing company, Benefit Plan Partners, a California company, (the "Auditor") to conduct an audit of its contract (the "Administration Contract") with its then current health insurance administrator, American Administrative Group, Inc. ("AAG"). The Administration Contract provided for AAG's administration of all City employee claims on the City's self-insured health insurance. The Auditor found numerous possible overcharges and errors by AAG during the term of the Administration Contract, including overcharges possibly arising from unauthorized commissions taken by AAG, and possible payments to AAG by pharmacies as rebates. The outside Auditor estimated the aforementioned errors and overcharges to be approximately $2,000,000.

The Administration Contract terminated by its own terms in December 2006 and AAG has ceased to administer any claims for the City. The City has hired another third party administrator to administer the run-out claims which accrued prior to December 2006. The City also selected Blue Cross Blue Shield to be the City's new health insurance administrator beginning January 2007.

In March 2007, the City filed an application with the State district court to compel AAG to preserve and provide documentation relating to the Administration Contract and claims submitted by City employees during the term of the Administration Contract. It is the intent of the City to utilize such documentation to complete the audit by Benefit Plan Partners of its contract with AAG to determine whether any further overcharges have occurred.

The City is aware of federal authorities investigating matters relating to AAG and the Administration Contract, including investigations conducted by the Federal Bureau of Investigation. No subpoenas at this time have been directed at or issued to the City in regards to the investigations involving AAG or the Administration Contract.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

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

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under the captions "THE CERTIFICATES" (exclusive of the information under the subcaptions "BOOK-ENTRY-ONLY SYSTEM" and "USE OF PROCEEDS") and "TAXABLE STATUS OF THE CERTIFICATES" and under the subcaptions "LEGAL MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subsection "Compliance with Prior Undertakings") under the caption "OTHER INFORMATION" and such firm is of the opinion that such descriptions present a fair and accurate summary of the provisions of the laws and instruments therein described and such information conforms to the Ordinance.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8A through 15 and in Appendix A. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") approved by the staff of the United States Securities and Exchange Commission ("SEC") and to any state information depository ("SID") that is designated and approved by the State of Texas and by the SEC staff.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information and operating data which is customarily prepared by the City by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Certificates.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions; (7) modifications to rights of holders of the Certificates; (8) early redemption of the Certificates; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. (Neither the Certificates nor Ordinance make any provision for debt service reserves or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information From NRMSIRS and SID

The City has agreed to provide the foregoing information only to NRMSIRs, the MSRB and the SID, as described above. The information will be available to holders of Certificates only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

The City became obligated to file annual reports and financial statements with the SID and each NRMSIR in an offering that took place in 1997. All of the City's general obligation debt reports and financial statements were timely filed with both the SID and each NRMSIR; however, due to an administrative oversight, the City filed its fiscal year end 1999, 2000, and 2001 electric and power revenue debt reports late to the SID and each NRMSIR. The financial information has since been filed, as well as a notice of late filing. The City has implemented procedures to ensure timely filing of all future financial information. Under previous continuing disclosure agreements made in connection with LP&L revenue bonds, the City committed to make prompt filings with the SID and either each NRMSIR or the MSRB upon the occurrence of any "non-payment related defaults." The City's FY 2003 audited financial statements were not available until mid-September 2004. Therefore, when the City made its annual disclosure filing with the SID and NRMSIRs in March 2004, it filed unaudited financial statements in accordance with its undertaking. Several references in that filing, including in the unaudited MD&A, in notes to those statements and in the statistical tables, reported that for FY 2003 LP&L had failed to meet its rate covenant (see "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - SEPTEMBER 30, 2003 FINANCIAL RESULTS - The Electric Fund"). Because there was an uncertainty as to an amount by which the rate covenant would fail to be met, which was not finally determined until the audited financials were released in September 2004 (although the City had a reasonable belief prior to that time that the rate covenant had not been met), the City waited until September 2004 to make its event filing of non-compliance with its LP&L rate covenant.

FINANCIAL ADVISOR

RBC Capital Markets is employed as Financial Advisor to the City in connection with the issuance of the Certificates. RBC Capital Markets is the name under which RBC Dain Rauscher Inc., a broker-dealer, conducts investment banking business. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. RBC Capital Markets, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

The Underwriter has agreed to purchase the Certificates, subject to certain conditions, and has agreed to pay a purchase price reflecting the par amount of the Certificates, plus a net original issue premium (discount) of $_______, less an Underwriter's discount of $_____, plus accrued interest.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Underwriter.

/s/ ____________________
Mayor
City of Lubbock, Texas

ATTEST:

/s/ ____________________
City Secretary
City of Lubbock, Texas

APPENDIX A

EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2006

OFFICE OF THE CITY MANAGER

P.O. Box 2000 • 1625 13th Street • Lubbock, TX 79457
(806) 775-3002 • Fax: (806) 775-2051

January 3, 2007

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

It is with much pride that we submit the Comprehensive Annual Financial Report (CAFR) for the City of Lubbock, Texas for the fiscal year ended September 30, 2006. The purpose of the CAFR is to provide the City Council, citizens, and other interested parties with accurate and meaningful information concerning the financial condition and performance of the City. In addition, as part of the CAFR review process, independent auditors have verified that the City has presented its financial position fairly in all material respects.

The CAFR is presented with management's representation of the City's finances, and as such, management assumes full responsibility for the completeness and reliability of all the information presented. To ensure a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by BKD, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the latest fiscal year are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

- Fair presentation of the financial statements,
- Internal Controls involving the administration of federal awards, and
- Compliance with legal requirements.

These reports are available in the City's separately issued Single Audit Report.

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

THE CITY AND ITS ORGANIZATION

Population and Location

The City is located in the northwestern part of the state commonly known as the South Plains of Texas. The City currently occupies a land area of 119.9 square miles and serves a population of 212,365 (2007 Planning Department estimated population). Lubbock is the 11th largest Metropolitan Statistical Area (MSA) in the State of Texas and the 12th largest city. The Lubbock MSA includes Lubbock and Crosby Counties. (Source of ranking: 2006 estimates from Demographics Now, a product of SRC)

Form of Government and City Services

The City was incorporated in 1909. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1917. Policy-making and legislative authority are vested in a city council consisting of the mayor and six other members. Some of the City Council's responsibilities include adopting ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney, and City Secretary. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three council members elected every two years. The mayor is elected to serve a two-year term. Six of the council members are elected by district. The mayor is elected at large.

The City provides a full range of services including public safety, the construction and maintenance of highways, streets, and other infrastructure, solid waste services, and recreational activities and cultural events. The City also provides public utility services for electricity, water, wastewater, and storm water.

Public safety includes police protection and fire protection. Police protection is provided through the Police Department, which includes, with the adoption of the FY 2006-07 Operating, 422 sworn police officers. The Fire Department operates 15 fire stations and has 311 sworn fire fighters.

Electric service in Lubbock is provided by Lubbock Power and Light (LP&L), Xcel Energy, and South Plains Electric Cooperative. LP&L is the municipal-owned electric company and has 68,836 meters in Lubbock with an average daily consumption of 4,259,994 kWh. LP&L has 14 substations, 1,011 miles of distribution lines, and 85 miles of transmission lines. Natural gas service is provided by Atmos Energy.

Currently, Lubbock obtains 75% to 85% of its drinking water supply from Canadian River Municipal Water Authority (CRMWA). CRMWA combines surface water from Lake Meredith and ground water from Roberts County to meet the water demands of Lubbock and the other 10 member cities of CRMWA. Lubbock secures the remaining 15% to 25% of its water from its groundwater rights in Bailey and Lamb counties. The City provides water service to 78,000 meters as well as the City of Shallowater, City of Ransom Canyon, Buffalo Springs Lake, and Lubbock Reese Redevelopment Authority. The capacity of the City water transmission system is 81 million gallons per day with an average utilization of 39 million gallons per day. The City has 1,400 miles of distribution lines and 146 active water wells with 83,265 acres of water rights. CRMWA allocates more than 11 billion gallons of water to the City annually. Lake Alan Henry, built by the City in 1993, is considered a third water supply for future use. In order for the City to utilize water from Lake Alan Henry, future construction is required for pump stations, a pipeline to carry the water to Lubbock, and a new treatment plant. The preliminary engineering for these improvements is now under contract and should be completed by early 2008.

For the past several years, the City has been planning for future water needs. In March 2003, the City contracted with WaterTexas, Inc. to evaluate and make recommendations on how the City can optimize existing and potential water supplies on a short-, mid-, and long-term basis. In a report titled *City of Lubbock Strategic Water Plan*, WaterTexas reported that Lubbock has adequate water supply and will continue to do so provided that it takes steps to address its maximum day capacity limitations; addresses its ability to respond readily to drought conditions at Lake Meredith; and strategically develops additional supplies giving due consideration to demand, cost, opportunity, and competing budgetary needs. To strategically develop additional water supplies, the City Council established the Lubbock Water Advisory Commission in July 2003, with the primary objective of developing a 100-year water supply plan. They have since achieved that object and continue to play an intricate role in the City's long-term water planning efforts. The City has also worked closely with the Region O Planning Group in the preparation of the State Water Plan that reflects Lubbock's water supply needs and alternatives.

CRMWA has secured an additional 260,000 acres of groundwater rights in the Northern Panhandle. Groundwater rights now total over 300,000 acres, with an estimated 15 million acre feet of water within those rights. Conservative projections using current secured water rights indicate CRMWA will be able to provide groundwater supplies through existing infrastructure through 2097.

Wastewater collection and treatment is provided within the city limits to residential, commercial, and industrial customers. The collection system consists of 960 miles of sanitary sewer as of January 1, 2006. The wastewater treatment plant has a capacity of 31.5 million gallons per day (permitted capacity) and an average utilization of approximately 23 million gallons per day. The peak utilization of the wastewater treatment plant is 27 million gallons per day. The City has a contract for final design to upgrade the wastewater treatment plant for discharge quality effluent.

The City of Lubbock's drainage is primarily conveyed through the City's street system that discharges into more than 115 playa lakes. The subsurface drainage, via storm sewer pipes with curb inlets, conveys water to two small intermittent streams (Blackwater Draw and Yellowhouse Draw) which both converge at the upper reaches of the North Fork of the Double Mountain Fork of the Brazos River. The City's municipal separate storm sewer system (MS4) is made up of 1,089 linear miles of paved and unpaved streets, 544 linear miles of paved and unpaved alleys, 1,188 storm sewer inlets, 70 miles of subsurface storm sewer pipe, three detention basins, 115 playa lakes, and one pump station. Maintenance of all of the storm sewers and street cleaning was funded from the Storm Water Fund during FY 2005-06.

During FY 2005-06 the primary focus of the storm water fund was the construction of the South Lubbock Drainage Project – Phase I Main Trunk Line. This project remains approximately one year ahead of schedule and will connect six playa lakes during Phase I of the overall project. Construction for the widening of 98th Street from Slide Road to Iola Avenue began during FY 2005-06 and included the remainder of the South Lubbock Drainage Project trunk line and a regional storm sewer designed to drain two detention basins at 98th Street and Frankford Ave. The construction of the drainage channel north of Andrews Park Lake was completed during FY 2005-06. Work continued on a FEMA Restudy of two of the playa lake systems and a new study was undertaken to master plan the northwest quadrant of the city and to look at other options for flood risk reduction at Maxey Park Lake. The other focus was on the submission of the City's application for the Texas Pollution Discharge Elimination System (TPDES) MS4 permit for the City's storm water quality activities. Compliance with the City's MS4 permit is currently with the Environmental Protection Agency and consists of 11 different programs that continued during the fiscal year.

The City provides garbage collection and disposal services to 63,638 residential customers and 2,937 commercial customers. One of the City's two landfill sites is designated as Lubbock Landfill and is a transfer station only. The second site is Lubbock's premier landfill and is designated as the West Texas Regional Disposal Facility. The West Texas Regional Disposal Facility opened in 1999 and is currently the largest landfill in the State of Texas. With 1,260 acres, it is expected to serve the region for the next 100 years.

Citibus is the public transportation provider for the City of Lubbock and is professionally managed by McDonald Transit Associates, Inc. Citibus provides a Fixed Route Service, CitiAccess (paratransit system), Evening Service, and Special Services. The CitiAccess service is a curb-to-curb service for disabled members of the community. The Citibus Evening Service is designed to meet the needs of both CitiAccess and fixed route passengers who are transit dependent, and who would have no other means of transportation in the evenings if the Evening Service was not provided. A majority of Evening Service passengers work at night and use the service for transportation to and from their jobs. In addition, Citibus offers route service for Texas Tech University.

The City has a housing and community development program implemented and administered through funding from the Federal Community Development Block Grant Program, HOME Investment Partnership Program, and Emergency Shelter Grant Program. Through these sources of funding, the City completed work on over 250 houses, assisted over 24,104 individuals, and created 3 jobs through an economic development loan program.

The City also receives funding from the Texas Department of Housing and Community Affairs. These funds allow the city to offer additional programs to the citizens of Lubbock. Through these programs, 216 households received assistance in weatherizing their home and/or making their home more energy efficient, 1,200 households received utility assistance, 75 graduated from the self-sufficiency program, and 12,000 residents received referral assistance through the Information and Referral Hotline.

Community enrichment and cultural services are also major programs of the City. The City owns and operates four libraries with over 391,718 volumes. The City also owns and maintains 77 parks and 57 playgrounds. Extensive recreational facilities include 4 swimming pools, 54 tennis courts, 30 baseball and softball fields, 5 community centers and 5 senior centers. To further enhance quality of life and to provide support to the tourism industry, the City also operates the Civic Center (convention center), Lubbock Coliseum, Lubbock Auditorium for the performing arts, the Buddy Holly Center, and the Silent Wings Museum.

The City is responsible for the construction and maintenance of 1,015 miles of paved streets. The new Gateway Street Fund by the City Council in 2004, allocating 40% of the franchise fee revenue and telecom line charges to gateway corridor street projects. The FY 2005-06 budget for the Gateway Street Fund includes the widening of Milwaukee Avenue from 34th to 98th Street, construction of a T-2 thoroughfare street on Erskine from Frankford to Salem, construction of a T-2 thoroughfare street on Slide Road from Loop 289 to Erskine, and widening Loop 289 from South of the 4th Street interchange to south of the Clovis Road interchange, constructing a grade separation of Slide Road and Loop 289, widening of Slide Road from 4th Street to Loop 289, improvements at the 4th Street and Loop 289 interchange, and the construction of the Quaker/Erskine/Loop 289 interchange. These projects support substantial commercial and residential development on the west side of Lubbock.

Other major road construction in Lubbock includes construction on 98th Street from Slide Road to Frankford Avenue and construction of the Marsha Sharp Freeway by the Texas Department of Transportation (TXDOT). This freeway will run east from West Loop 289 to link up with Interstate 27. The first phase of the project is completed and included widening Loop 289 from four to six lanes from 34th Street to Slide Road and rebuilding the frontage road system under the main lanes – three lanes on each side. It also included building the 50th Street overpass and extending 50th Street to Frankford Avenue. TXDOT awarded the bid for the second phase of the Marsha Sharp Freeway that began construction in May 2005. The Marsha Sharp Freeway will benefit Lubbock by providing a western connection to West Loop 289 ensuring a more efficient flow of traffic throughout Lubbock. It will also reduce the congestion on north/south and east/west major arterials and provide faster access to all points in Lubbock, specifically Texas Tech University, the central business district, education centers, and medical facilities. The entire project is expected to cost $360 million and be completed sometime after 2015.

One of the key components of Lubbock's transportation system is the Lubbock Preston Smith International Airport located 7 miles north of Lubbock's central business district on 3,000 acres of land adjacent to Interstate 27. The airport is operated as a department of the City and includes a 220,000 square foot passenger terminal building. The airport has two commercial service runways; one 11,500 feet in length and one 8,000 feet in length. The airport's third general aviation runway is 2,869 feet in length. Air traffic control services include a 24-hour Federal Aviation Administration control tower and a full range of instrument approaches. The airport is currently served by three major passenger airlines and two major cargo airlines having over 80 commercial flights per day.

The City of Lubbock annexed two areas during FY 2005-06. One of the areas annexed included 95.1 acres located north of Erskine and west of North Milwaukee that is under development as Shadow Hills Estates. The other area annexed was 66.1 acres south of 98th Street and west of Avenue P that is now under development as the Stonebridge Community.

The City is financially accountable for a legally separate civic services corporation and an economic development corporation, both of which are reported separately within the City's financial statements as discretely presented component units. Additional information on these legally separate entities can be found in the notes to the financial statements.

Annual Budget Process

The annual budget serves as the foundation for the City's financial planning and control. All City departments are required to submit requests for appropriation to the City Manager in June of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the City Council for review before August 31. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department directors are held accountable for managing their departments on total appropriation basis. Transfers of appropriations between funds and departments requires the approval of the City Council.

Budget-to-actual comparisons are provided in this report for the General Fund as part of the basic financial statements.

ECONOMIC CONDITION AND OUTLOOK

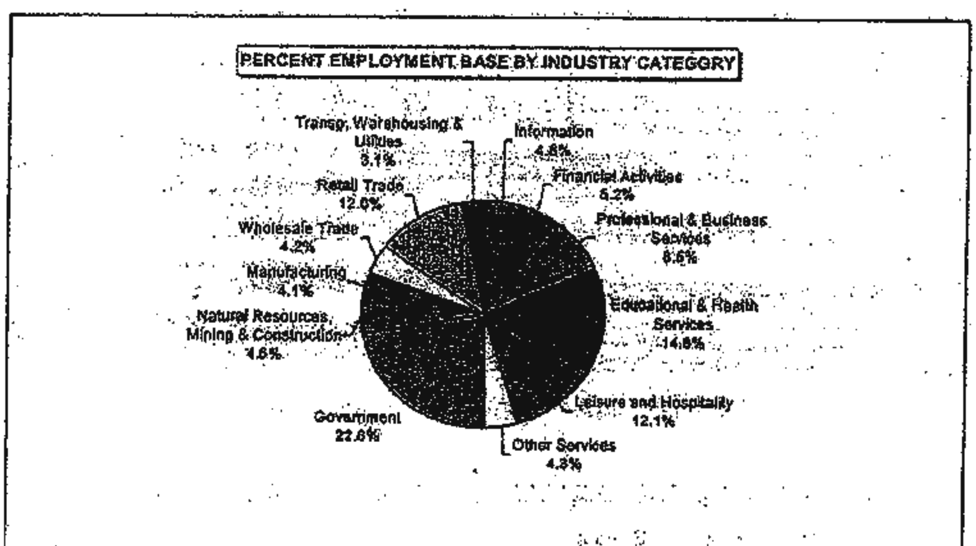
The information presented in the financial statements is perhaps best understood when it is considered within the context of the Lubbock's local economy. The following information is provided to highlight a broad range of economic forces that support the City's operations.

Local Economy

Lubbock has a stable economy with historically slow and steady growth, which has continued through September 2006. Lubbock's agriculturally based economy has diversified over the past 20 years, which minimizes the effects of business cycles experienced by individual sectors.

The South Plains is one of the most productive agricultural areas in the United States. In 2006, almost 12% of the nation's cotton crop and 43% of the state's cotton crop were produced by farmers in the Southern High Plains District. Production in the Southern High Plains District is estimated to total 2.5 million bales for 2006, down 41% from last years production due to lack of rain during the peak growing season.

Lubbock has strong manufacturing, wholesale and retail trade, services, and government sectors. The manufacturers are a diverse group of employers who support approximately 5,200 workers. A central location and access to transportation have contributed to Lubbock's development as a regional warehousing and distribution center. Lubbock also serves as the major retail trade center and health-care provider for a region of more than a half million people. A breakdown of the percent of employment base by industry category has been provided below, which gives a "snapshot" of the industry base of Lubbock.



Two major components of the local economy are education and health care services. Lubbock is home to three universities and one community college; Texas Tech University, Lubbock Christian University, Wayland Baptist University – Lubbock Center and South Plains College. Total enrollment for all higher education institutions in Lubbock for Fall 2006 is 42,241. This is a slight decrease from the enrollment for Fall of 2005. The availability of the schools in Lubbock is an added advantage for our industries as they provide a ready source of labor for their successful operation.

The healthcare and social services sector is also a vital component of the Lubbock economy. This sector employs more than 18,000 people, whose payroll of more than $628 million and related contributions provide a substantial impact to the Lubbock area.
(Source: 2004 County Business Patterns)

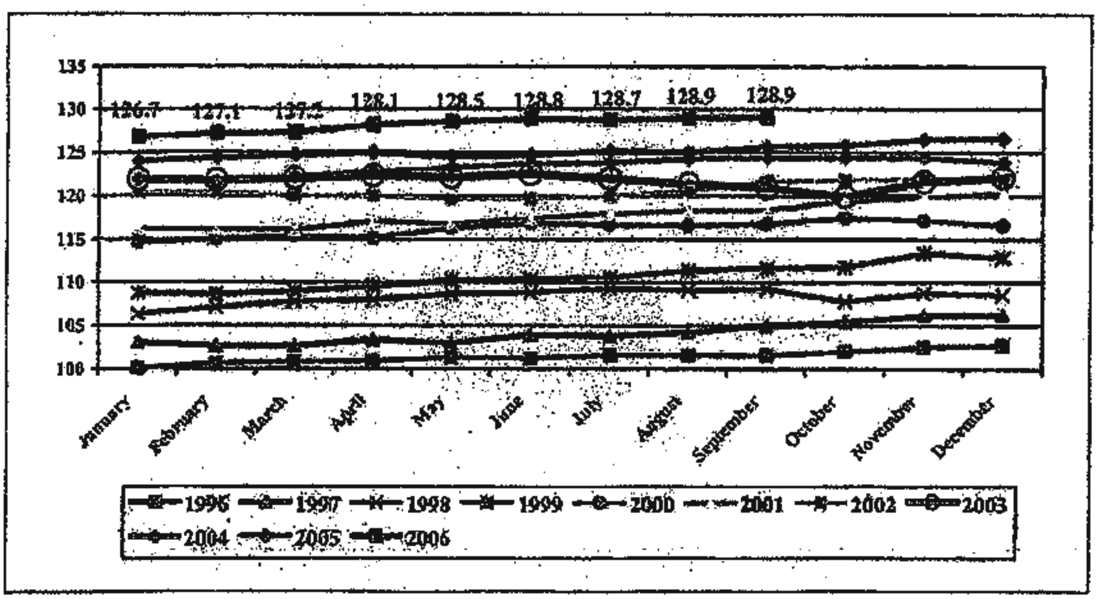
Other current and trend information has been provided below, which gives a picture of the overall city economy.

Lubbock Economic Index.

The Lubbock Economic Index is designed to represent the general condition of the Lubbock economy by tracking local economic growth rates. It is based at 100.0 in January 1996. The economic index for September 2006 was 128.9, which is 2.7% improved over the index for September 2005.

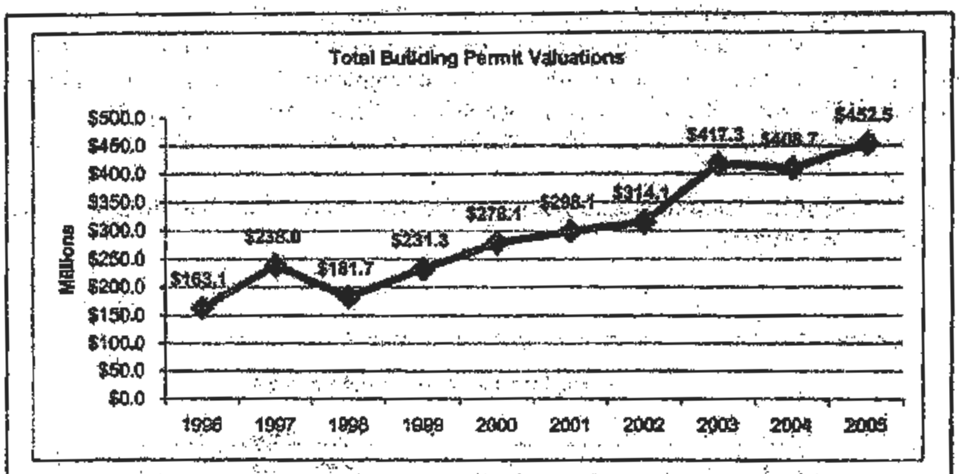
The Lubbock Economic Index remains at a record level through September 2006, suggesting that the overall Lubbock economy continues to perform at a high aggregate level.
(Source: Lubbock Economic Index September 2006)

Lubbock Economic Index
January 1996 to September 2006



Building Permit Valuations.

Construction continues to make a strong contribution to the Lubbock economy even though the value of all building permits issued so far in 2006 is down by 5.8% from last year's total through September. The $333.2 million in building permits issued through the first nine months of 2006 is slightly down from the record setting levels that have been seen in the city over the last few years.
(Source: Economic and Demographic Overview: Building Valuations – 10-Year Trend / Original Source of Data: Building Inspection Statistical Report)



Total new residential permits decreased by 14.3% through September 2006 when compared to the same period in 2005. The $154.4 million in residential building permits issued for the first 9 months of 2006 is slightly down from the record setting levels of 2003 through 2005. Average home sale price year-to-date through September 2006 has increased by 4.7% from September 2005 to September 2006.
(Source: Economic and Demographic Overview: Building Valuations – 10-Year Trend / Original Source of Data: Building Inspection Statistical Report and The Real Estate Center at Texas A & M University, Lubbock Residential Housing Activity Report)

Sales Tax Collections

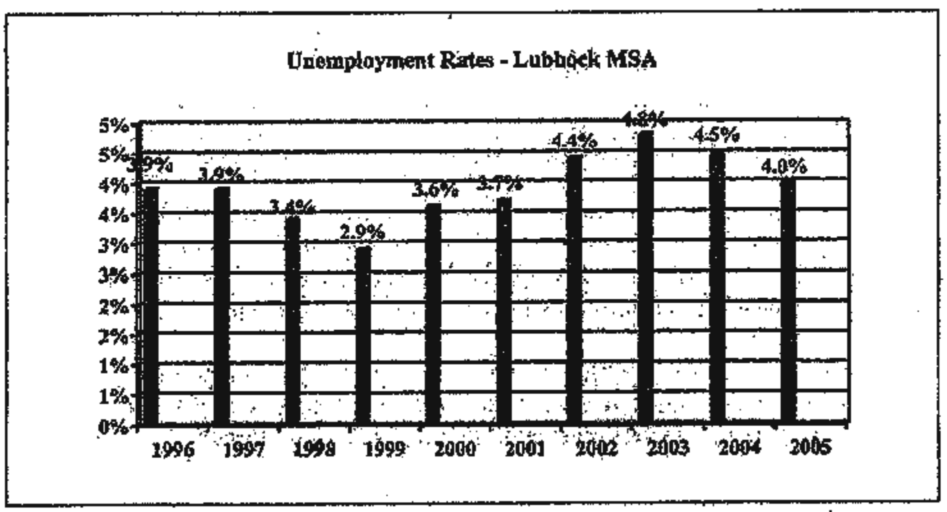
Sales tax collections for September 2006 were 2.82% improved over the September 2005 sales tax collected. Year-to-date sales tax collections through September 2006 were 7.97% improved over the same period in 2005. (Counted in the month the sales tax was collected, not the month it was paid. Does not include sales tax collected by the City of Lubbock and not reported to Comptroller of Public Accounts)
(Source: Economic and Demographic Overview; Monthly Sales Tax Collections – Calendar Year – City of Lubbock. / Original Source of Data: State Comptroller of Public Accounts – Allocation Historical Summary)

Tourism/Visitor Related Indicators

Lodging tax receipts increased from $2.4 million in September 2005 to $2.5 million in September 2006. This is a year-to-date increase through September 2006 of 3.2%. Airline boardings at Lubbock Preston Smith International Airport also increased in 2006 by 3.1% over the same period last year.
(Source: Lubbock Economic Index)

Employment

The total non-agricultural employment estimate for September 2006 was 127,600. This was .5% improved over September of last year. There were 600 more people employed in September 2006 than in the same period of 2005. The unemployment rate for the Lubbock MSA in September 2006 was 3.8%, 4th lowest in the State of Texas. Historically Lubbock has a low rate of unemployment that is generally 1% - 2% below the national rate and about 1% below the rate for Texas.
(Source: Lubbock Economic and Demographic Overview / Original Source of data: Texas Workforce Commission)



Note: The methodology for calculating the unemployment rate was changed in 2005 and the last five years were recalculated based on the new method. The Lubbock MSA also changed in 2005 to include both Lubbock and Crosby Counties.

Economic Development

Economic development is a priority for the City of Lubbock. In 1995, the City Council created Market Lubbock, Inc., a non-profit corporation, to oversee economic development for the City. Market Lubbock, Inc. is funded with three cents of the property tax allocation. In October 2004, the Lubbock Economic Development Alliance (LEDA), an economic development sales tax corporation, assumed the responsibility for economic development in Lubbock. LEDA program strategies include business retention, business recruitment, workforce development, foreign trade zone, and the bioscience initiative. LEDA is funded by a 1/8 cent economic development sales tax. Total estimated revenues for LEDA for FY 2006-07 are $3,905,080. During the last year, through their business retention, expansion, and attraction programs, LEDA assisted 13 companies in the creation of 295 new jobs with an estimated annual payroll of $9.2 million and capital investment of $2.3 million.

The City's Business Development Department works closely with LEDA to provide the support needed to assist in their economic development projects. Business Development is responsible for tracking and maintaining economic and demographic information for the City, assisting with city-related business issues, the enterprise zone and tax abatement programs, the two Tax Increment Financing Reinvestment Zones, and all Public Improvement Districts. Business Development also works with retail and commercial projects that do not fit the criteria required by the state for economic development sales tax corporations.

Development Initiatives

Overton Park

Overton Park is a 300+-acre revitalization project that is underway in the heart of Lubbock and has been called the largest privately funded revitalization project in the United States. Overton Park is the complete revitalization of a blighted area called North Overton.

Overton Park has developed much faster than anticipated. It is projected that the build-out of this public/private project will occur over a seven-year period. According to the latest Project and Finance Plan for the North Overton Tax Increment Financing Reinvestment Zone (TIRZ), there are planned expenditures of approximately $41.7 million for public infrastructure improvements, which will result in future development/redevelopment that will increase the taxable value by approximately $530 million over the Zone's 30-year life. The 2006 appraised value of the North Overton TIRZ was $185.4 million, which is a $158.5 million increase over the 2002 base year value.

To-date, three student-oriented apartment complexes have been completed along with The Centre, a $26 million, 618,000 square foot project that includes the construction of a multi-story apartment complex built over an upscale retail shopping center and more than 226,000 square feet of parking. Also completed are City Bank, Starbucks, and the new 200,000 square foot Wal-Mart near 4th Street and Avenue Q. A retail center adjacent to the new Wal-Mart is nearing completion and will house several different retail businesses. Construction was completed on the first condominiums in Overton Park during 2006 and construction of the first single-family houses will begin in the next few months. Construction will begin on a new hotel/conference center project in early 2007. A new retail center adjacent to the hotel/conference center will begin construction in February 2007. The project, as a whole, is running about three years ahead of schedule with much of the construction now expected to be completed by the end of 2008.

North & East Lubbock Community Development Corporation

While Lubbock grew during the last 50 years, North and East Lubbock experienced an out-migration of people. From 1960 to 2000, the area's population decreased by 47%. In response to the deterioration of North and East Lubbock, the City of Lubbock created the North & East Lubbock Community Development Corporation (CDC) to oversee and promote development in the area and committed to providing funding to the CDC for four years. The North and East Lubbock CDC has experienced significant progress in their projects during the past year. King's Dominion is a new single-family housing project with five home buyers who have closed and moved into their new homes, and five more houses are under construction. The CDC has also placed three clients into scattered site development, one client's home is presently under construction, and an additional three clients have been approved for mortgages within the target area. The North and East Lubbock CDC has originated $1,079,643 in mortgages for King's Dominion and an additional $702,187 for scattered site developments this year.

The CDC also awarded Somethin' Fresh Cleaners, a North and East Lubbock business, a $40,000 micro-enterprise loan and has received a grant from the US Department of Health and Human Services, Office of Community Services to go towards the development of the Parkway Place Shopping Center.

Central Business District Tax Increment Reinvestment Zone

The City of Lubbock Central Business District (CBD) has been developed over the years typically with office, retail, and governmental agency uses. Like many cities in the last ten to twenty years, retail has moved to shopping areas and other areas outside the CBD and office development has stagnated. In an effort to reverse that trend and to stimulate further development downtown, the City established a CBD Tax Increment Finance Reinvestment Zone (TIRZ) on December 3, 2001. The Board of the CBD TIRZ created a project plan that includes projects that will assist redevelopment in the CBD. Under the revised Project Plan and Finance Plan, it is expected that the CBD TIRZ planned expenditure of almost $10.4 million for public infrastructure improvements will result in future development and redevelopment in the CBD TIRZ which will increase the taxable value by approximately $122.9 million over the zone's 20-year life. The 2006 appraised value of the Central Business District TIRZ was $137.8 million which is an increase of $31.9 million over the 2001 base year value.

Central Lubbock Stabilization and Revitalization Master Plan

The Central Lubbock Stabilization and Revitalization Master Plan is a comprehensive guide for future growth and prosperity for the Central Lubbock Area. The plan was developed with the assistance of Gould Evans Affiliates through a public process bringing together local residents, local employers, city staff, and major stakeholders. This plan is intended to provide a framework for future development in Central Lubbock and to be a "living document" evolving to address any unforeseen future concerns or strategies. As a result of the plan, the 34th Street Business Association, made up of business owners on 34th Street, was formed in 2005.

Other Residential/Commercial Development

Growth in commercial and residential construction has been occurring at a phenomenal rate over the past few years. During the past year, construction on several new residential developments started in Lubbock. The Willow Bend Project, is being constructed on the North side of Lubbock with an expected investment of $177.3 million. North Point is being constructed along Quaker Avenue and is projected to have investment in new development of $200.9 million. Vintage Township is another residential/commercial development underway and is, a new concept in community development that will have an estimated $350 million investment in new development. The construction of Milwaukee Avenue is a public/private partnership between the City of Lubbock and developers who own property along the corridor that is expected to generate a total investment in new commercial/residential development of approximately $844 million in the next five to ten years. Canyon West has already started development of its outdoor mall on Milwaukee Avenue with the construction and opening of a new Target store. Other commercial projects already planned or underway in Canyon West are Main Event and Cracker Barrel.

Other projects underway or almost completed in Lubbock include a new Market Street on 98th Street, a new Wal-Mart in Southwest Lubbock, Grace Clinic, and Quaker Avenue Medical Center.

Downtown Redevelopment Commission

The City Council created the Downtown Redevelopment Commission (Commission) in May 2005 to develop an action plan for the redevelopment of the downtown area. The Commission is composed of eleven members that are citizens of Lubbock and stakeholders in the downtown area. After collecting information on the issues in the downtown area as well as ongoing activities, the Commission drafted a fund-raising action plan for the development of a downtown master plan. Over the last year, the Commission has raised $324,000 for the master plan from private sources and the Central Business District Tax Increment Financing Reinvestment Zone. The Commission hired EDAW to draft the downtown master plan and they began work on the plan in July 2006. EDAW completed the Assessment Phase and have begun the Visioning Phase of the project. The Commission is expecting the Downtown Redevelopment Plan to be completed by the second quarter of 2007.

Lubbock Entertainment and Arts Facilities Task Force

The Mayor created the Lubbock Entertainment and Arts Facilities (LEAF) Task Force in September 2006 to look at Lubbock's current and future needs for public facilities. The task force is made up of 15 Lubbock citizens whose responsibilities include a review of existing public facilities to determine if they meet current and future needs as well as establishing whether there is a need for upgrades to the existing facilities or construction of new facilities. LEAF will complete its work in early January 20?? and submit a recommended plan of action to the City Council.

FINANCIAL INFORMATION

Long-term financial planning

The City uses 35 - year rate models for long-range planning in the General Fund and all enterprise funds. These models are based on current projects and policies and are driven by the idea that the rate should be annually adjusted to reflect the service needs of the citizens. Because of this philosophy, the rates in the models are annually trimmed to leave as little excess as possible, after allowing for financially sound net-asset reserves, as established by City Council Policy. The models, in association with the City's "5-year Forecast", provide anticipated trends given current policies. These forward looking models provide a basis for budget discussion and policy decision-making.

During fiscal year 2003, the City formed the Citizens Advisory Committee to survey City-wide infrastructure needs and priorities. The committee developed a six-year program for future capital needs for which general obligation bonds have been or will be issued. The bond issuance was approved by the citizens of Lubbock in a bond election held in May 2004.

Cash management policies and practices

Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, U.S. Agencies, money market mutual funds, and state investment pools. The maturities of the investments range from 1 day to 3-1/2 years, with an average maturity of approximately 10-1/2 months. The average yield on investments was 4.35% for the City's operating funds and 4.70% for the City's bond funds. Investment income is offset by decreases in the fair value of investments. Decreases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk management

During 2006, the City continued its use of third party workers' compensation coverage. The current coverage provides for coverage to begin with the initial dollar of claims. The City is primarily self-insured for medical and dental coverage. Stop loss coverage of $250,000 per insured per year is currently maintained with a third-party insurer to mitigate risk associated with medical coverage. Additional information on the City's risk management activities can be found in the notes to the financial statements.

Pension benefits

The City sponsors a multiple-employer hybrid defined benefit pension plan for its employees other than firefighters. Each year, an independent actuary engaged by the plan calculates the amount of the annual contribution that the City must make to the plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City's conservative funding policy, the City has succeeded as of

December 31, 2005, in funding 74.6% of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 25 years as part of the annual required contribution calculated by the actuary.

The City also provides benefits for its firefighters. These benefits are provided through a single-employer defined benefit pension plan, the Lubbock Firemen's Relief and Retirement Fund (LFRRF), which is administered by the Board of Trustees of the LFRRF. The City contributes an amount that is determined by Formula and is anticipated to average 19.9 percent of firefighter's pay annually.

The City does provide 25% to 60% of post retirement health and dental care benefits for retirees or their dependents.

Additional information on the City's pension arrangements and post employment benefits can be found in the notes to the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lubbock for its comprehensive annual financial report for the fiscal year ended September 30, 2005. The City reapplied for this prestigious award last year after a one-year lapse. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

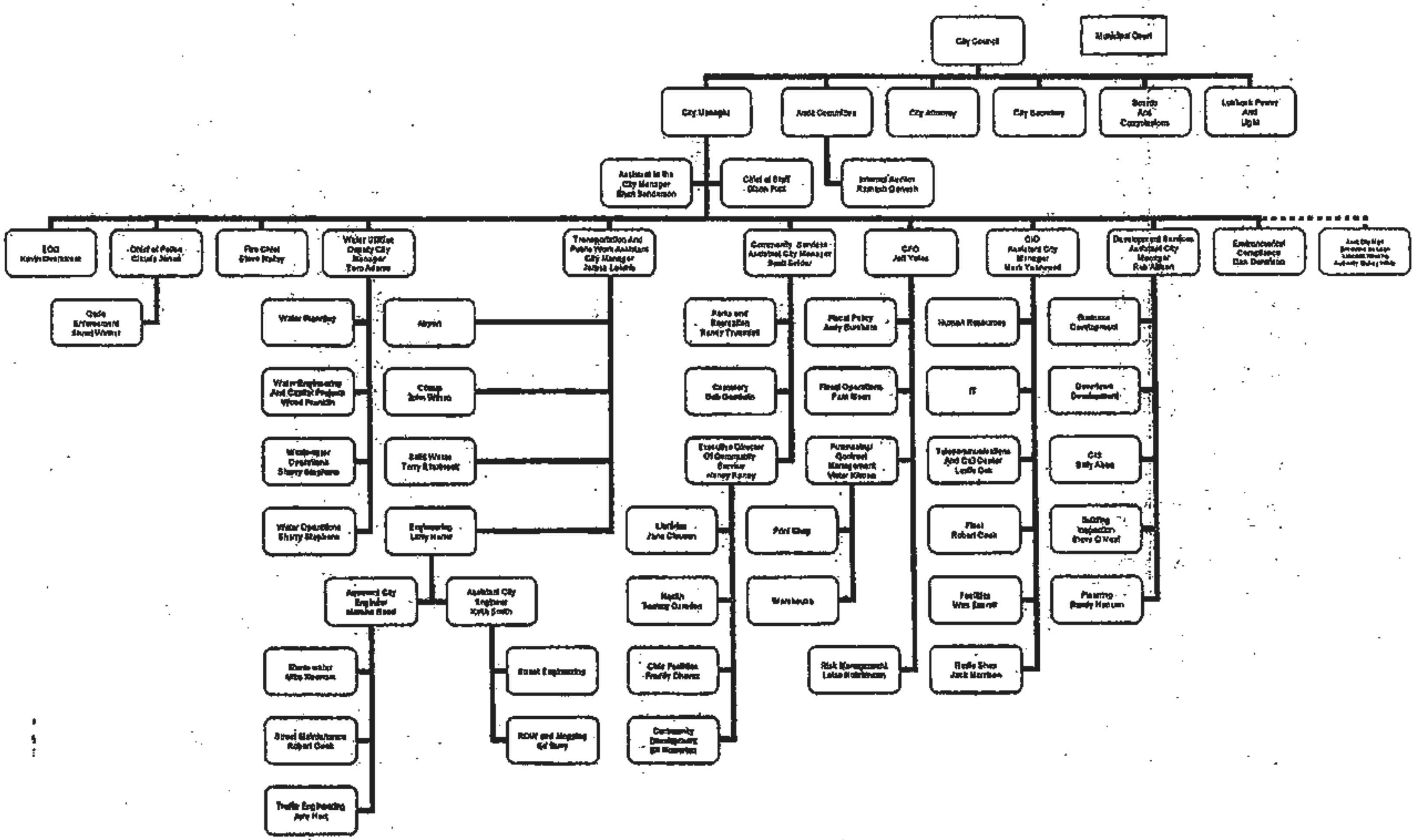
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. Exceptional and tireless effort was invested by the Accounting Department. We would particularly like to thank Pamela Moon, Director of Accounting, and the Senior Accountants, and Accountants for their countless hours of work on this financial report. We would like to express our appreciation to all members of the departments who assisted with and contributed to the preparation of this report. Credit is also given to City Council and the Audit Committee for their interest and support in planning and conducting the operations of the City of Lubbock in a responsible and progressive manner.

Respectfully submitted,

Lee Ann Dumbauld
City Manager

Jeffrey A. Yates
Chief Financial Officer

City of Lubbock, Texas
Organization Chart
September 30, 2006



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lubbock Texas

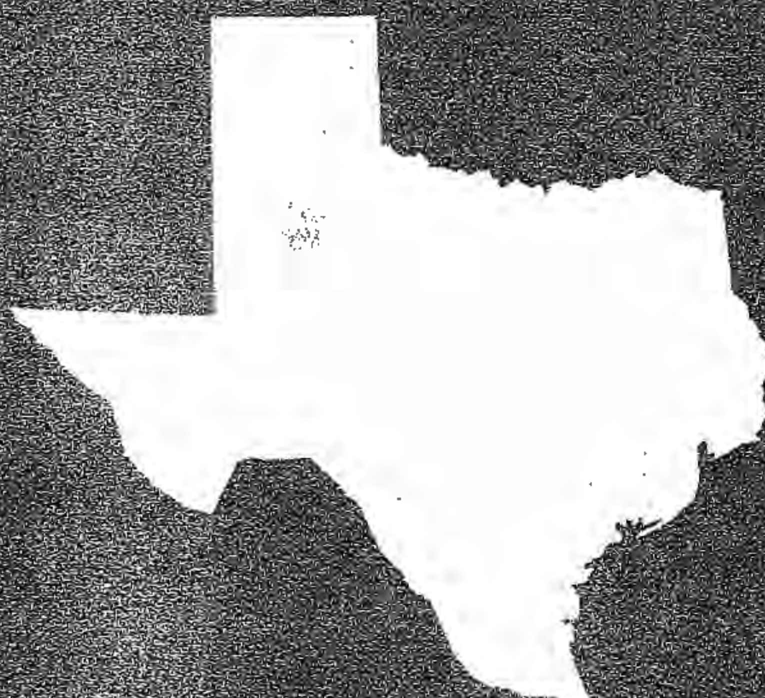
For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CAFR



BKD LLP

Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor and City Council
City of Lubbock, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lubbock, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Civic Lubbock, Inc.; Market Lubbock Economic Development Corporation d/b/a Market Lubbock and Lubbock Economic Development Alliance, which comprise the aggregate discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units Civic Lubbock, Inc.; Market Lubbock Economic Development Corporation d/b/a Market Lubbock; Lubbock Economic Development Alliance and the major fund West Texas Municipal Power Agency, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lubbock, Texas, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying information in the introductory and statistical sections as listed in the table of contents has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD, LLP

December 22, 2006, except for Note V.
as to which the date is January 10, 2007

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2006

As management of the City of Lubbock, Texas (City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006.

We encourage readers of these financial statements to consider the information included in the transmittal letter and in the other sections of the Comprehensive Annual Financial Report (CAFR) e.g., combining statements and the statistical section in conjunction with this discussion and analysis.

Financial Highlights

These financial highlights summarize the City's financial position and operations as presented in more detail in the Basic Financial Statements (BFS), as listed in the accompanying Table of Contents.

- The assets of the City exceeded its liabilities at September 30, 2006 by $583.5 million (net assets). Of this amount, $97.8 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by $38.0 million as a result of operations during the fiscal year.
- The ending unreserved fund balance for the General Fund was $19.8 million or approximately 20.2% of total General Fund revenues; an increase of $2.5 million over the prior year amount.
- All of the City's governmental funds reported combined ending fund balances of $96.8 million. Of this total amount, $39.8 million is available for spending at the City's discretion.
- All of the City's business-type activities reported combined ending net assets of $470.8 million. Of this total amount, $71.7 million is available for spending at the City's discretion.
- The City's proprietary funds net assets increased by $35.6 million from $429.7 million to $465.3 million.
- During FY 2006, the City issued $79.7 million in debt for various capital projects and issued $18.8 million in debt to refund $18.0 million in outstanding debt. The City also participated in the issuance of $18.6 million of contract revenue bonds with the Canadian River Municipal Water Authority.

Overview of the Financial Statements

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

Government-Wide Financial Statements. The GWFS, shown on pages 37-39 of this report, contain the *statement of net assets* and the *statement of activities*, described below:

The *statement of net assets* presents information on all of the City's assets and liabilities (including capital assets and short- and long-term liabilities), with the difference between the two reported as *net assets* using the accrual basis. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2006

The *statement of activities* presents a comparison between direct expenses and program revenues for each of the City's functions or programs (referred to as "activities"). Direct expenses are those that are specifically associated with an activity and are therefore clearly identifiable with that activity. Program revenues include charges paid by the recipient of the goods or services offered by the program, in addition to grants and contributions that are restricted to meeting the operational or capital requirements of a particular activity. Revenues that are not directly related to a specific activity are presented as general revenues. The comparison of direct expenses with revenues from activities identifies the extent to which each activity is self-financing, or alternatively, draws from any City generated general revenues. The governmental activities (activities that are principally supported by taxes and intergovernmental revenues) of the City include administrative services, community services, cultural and recreation, economic and business development, fire, health, police, other public safety, streets and traffic, and non-departmental. The business-type activities (activities intended to recover all of their costs through user fees and charges) of the City include Electric (LP&L), Water, Wastewater, Solid Waste, Storm Water, Transit, and Airport. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs (accrual basis), regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as uncollected taxes and earned but unused vacation leave.

Component Units. The GWFS include not only the City itself (the "primary government"), but also three legally separate entities (the "component units): Market Lubbock Economic Development Corporation, d/b/a Market Lubbock, Inc., Lubbock Economic Development Alliance, and Civic Lubbock, Inc., for which the City is financially accountable. These entities provide economic development services and arts and cultural activities for the City. Financial information for these component units is reported separately in the GWFS in order to differentiate them from the City's financial information. None of these component units are considered major component units.

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

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

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

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

The City maintains 31 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund only. The General Fund is considered to be a major fund. Data from the other governmental funds are combined into a single aggregated presentation. The City adopts a budget annually for the General Fund and all other funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. It is presented in the FFS following the statement of revenues, expenditures, and changes in fund balances. The governmental FFS can be found on pages 40-43 of this report.

Proprietary FFS. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the GWFS. Enterprise FFS provide the same type of information as the GWFS, only in more detail. The City uses enterprise funds to account for its Electric (LP&L), Water, Wastewater, West Texas Municipal Power Agency (WTMPA), Storm Water, Transit, Solid Waste, and Airport activities, of which the first five activities are considered to be major funds by the City and are presented separately. The latter three activities are considered nonmajor funds by the City and are combined into a single aggregated presentation.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, management information systems, risk management, print shop, and central warehouse activities among others. The services provided by the internal service funds benefit both governmental and business-type activities, and accordingly, they have been included within governmental activities and business-type activities, as appropriate, in the GWFS. All internal service funds are combined into a single aggregated presentation in the proprietary FFS. Reconciliations are provided for both the proprietary fund statement of net assets and the proprietary fund statement of revenues, expenses, and changes in fund net assets to facilitate the comparison between enterprise funds and business-type activities. The proprietary FFS can be found on pages 46-57 of this report.

Fiduciary FFS. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the GWFS because the resources of those funds are not available to support the City's own programs. The City had one agency fund, which was closed in FY 2006.

Notes to Basic Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the GWFS and FFS. The notes can be found on pages 59-94 of this report.

Required Supplementary Information Other Than MD&A. The City has presented required supplementary information relating to its progress in funding its obligation to provide pension benefits to its employees in the Notes to the BFS.

Government-Wide Financial Analysis

As noted earlier, net assets serve as a useful indicator of the City's financial position. For the City, assets exceeded liabilities by $583.5 million (*net assets*) at the close of the fiscal year. This compared to assets exceeding liabilities by $545.5 million (*net assets*) at the end of the prior fiscal year. As a result of operations, total net assets increased by $38.0 million during the period.

City of Lubbock Net Assets
September 30
(in 000's)

	Governmental Activities		Business-Type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Current and other assets	$ 124,446	116,021	203,858	170,945	328,304	286,966
Capital assets	160,550	138,614	700,154	637,444	860,704	776,058
Total assets	284,996	254,635	904,012	808,389	1,189,008	1,063,024
Current liabilities	35,197	16,837	54,322	25,505	89,519	42,342
Noncurrent liabilities	137,078	127,169	378,896	348,036	515,974	475,205
Total liabilities	172,275	144,006	433,218	373,541	605,493	517,547
Net assets:						
Invested in capital assets, net of related debt	76,483	82,330	380,149	363,227	456,632	445,557
Restricted	10,149	8,770	18,915	26,276	29,064	35,046
Unrestricted	26,089	19,529	71,730	45,345	97,819	64,874
Total net assets	$ 112,721	110,629	470,794	434,848	583,515	545,477

By far the largest portion of the City's net assets, 78.3%, reflect its investment in capital assets, e.g., land, buildings, infrastructure, machinery, and equipment, less any related debt used to acquire those assets that is still outstanding at the close of the fiscal year. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 5.0%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of $98.7 million may be used to meet the City's ongoing obligations to citizens and creditors.

The City also reports positive balances in all three categories of net assets for the City as a whole, as well as for its separate governmental activities and business-type activities.

The City's governmental activities experienced an increase in net assets of $2.1 million, while net assets increased by $6.3 million during the prior fiscal year. The increase in FY 2006 is primarily due to higher than expected sales tax collections due to better than anticipated retail sales and an increase in franchise taxes from power companies due to increased fuel and electric prices.

City of Lubbock, Texas
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The City's business-type activities experienced an increase in net assets of $35.9 million during the current fiscal year as compared to a decrease of $7.6 million during the prior fiscal year. The increase in net assets was budgeted to meet City Council and LP&L Board goals of minimum unrestricted net asset balances.

City of Lubbock Changes in Net Assets
For the Year Ended September 30
(in 000's)

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	$ 9,632	10,583	313,782	272,902	323,414	283,485
Operating grants and contributions	10,203	13,296	8,352	8,156	18,555	21,452
Capital grants and contributions	845	-	17,625	5,206	18,470	5,206
General Revenues:						
Property taxes	42,771	39,748	-	-	42,771	39,748
Sales taxes	45,577	41,803	-	-	45,577	41,803
Other taxes	4,447	4,242	-	-	4,447	4,242
Franchise fees	13,348	11,154	-	-	13,348	11,154
Investment earnings	4,394	1,633	6,140	3,758	10,534	5,391
Other	6,898	4,110	4,277	1,388	11,175	5,498
Total revenues	138,115	126,569	350,176	291,410	488,291	417,979
Expenses:						
Administrative services	9,910	8,220	-	-	9,910	8,220
Community services	6,112	6,145	-	-	6,112	6,145
Cultural and recreation	18,915	17,745	-	-	18,915	17,745
Economic development	10,283	9,739	-	-	10,283	9,739
Fire	26,711	23,517	-	-	26,711	23,517
Health	5,014	5,040	-	-	5,014	5,040
Police	42,063	38,452	-	-	42,063	38,452
Other public safety	5,240	4,977	-	-	5,240	4,977
Streets and traffic	11,850	12,467	-	-	11,850	12,467
Non-departmental	5,206	6,253	-	-	5,206	6,253
Interest on long-term debt	4,326	3,195	-	-	4,326	3,195
Electric	-	-	213,027	192,902	213,027	192,902
Water	-	-	32,830	28,738	32,830	28,738
Sewer	-	-	21,274	17,804	21,274	17,804
Solid Waste	-	-	14,971	14,695	14,971	14,695
Stormwater	-	-	5,175	5,586	5,175	5,586
Transit	-	-	9,349	9,003	9,349	9,003
Airport	-	-	7,997	8,151	7,997	8,151
Total Expenses	145,630	135,750	304,623	276,879	450,253	412,629
Change in net assets before special items and transfers	(7,515)	(9,181)	45,553	14,531	38,038	5,350
Special items	-	-	-	(6,637)	-	(6,637)
Transfers	9,607	15,469	(9,607)	(15,469)	-	-
Change in net assets	2,092	6,288	35,946	(7,575)	38,038	(1,287)
Net assets - beginning of year	110,629	104,341	434,848	442,423	545,477	546,764
Net assets - end of year	$ 112,721	110,629	470,794	434,848	583,515	545,477

Changes in Net Assets. Details of the above summarized information can be found on pages 38-39 of this report.

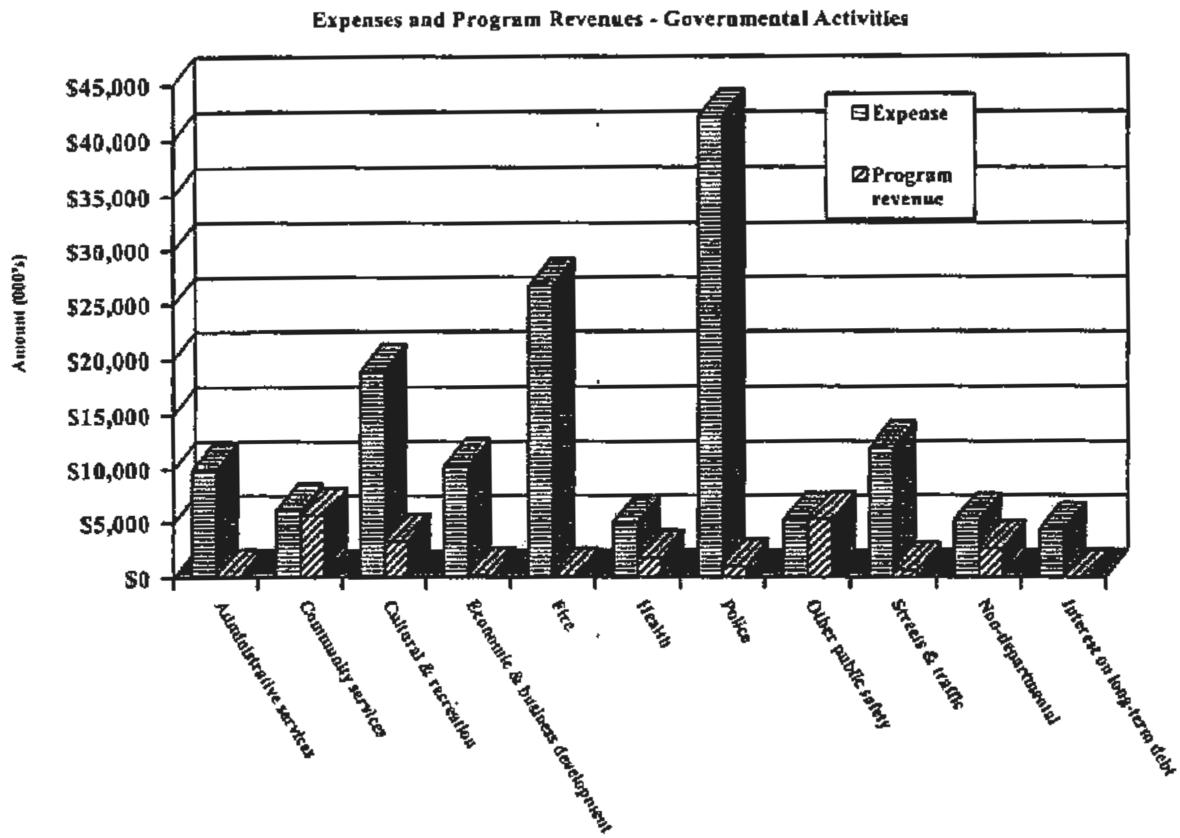
Governmental activities. Governmental activities increased the City's net assets by $2.1 million. Key elements of the increase include:

- Transfers to/from business-type activities during the fiscal year increased governmental activities net assets by $9.6 million. During the prior fiscal year these transfers increased governmental activities net assets by approximately $15.5 million. This is a net decrease of $5.9 million in resources to governmental activities. Transfers from the business-type activities included payments in lieu of taxes, franchise fees, and indirect costs of operations for centralized services such as payroll and purchasing.

- Total expenses increased by $9.9 million from the prior year primarily due to increased spending in public safety functions. City Council has continued to be committed to public safety and has allocated more resources to public safety than other areas in the government. Fire expenses increased $3.2 million and police expenses increased $3.6 million in FY 2006. Administrative expenses increased $1.7 million due to moving facilities management from an internal service fund to the General Fund. These expenses were previously spread to many different functions. Interest on long-term debt increased $1.1 million due to new debt issuances. These were offset by a $1.0 million decrease in non-departmental functions, which was mainly due to Federal Emergency Management Administration (FEMA) expenses incurred in FY 2005 while hosting evacuees from Louisiana and southeast Texas during Hurricanes Katrina and Rita.

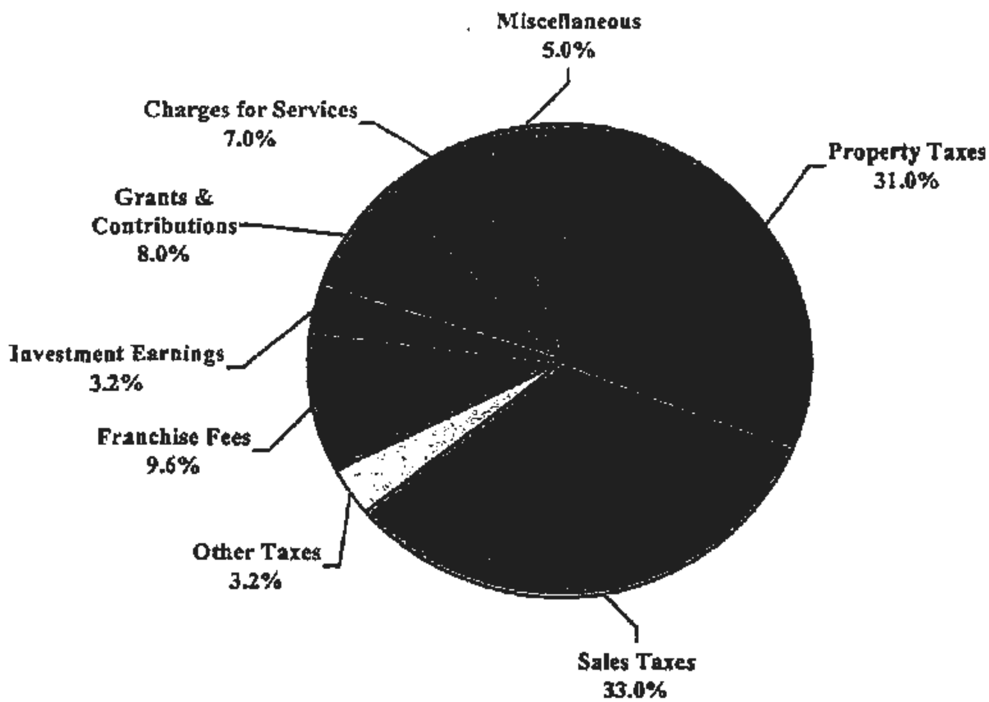
- Revenues increased by approximately $11.5 million. Grants and contributions decreased by $2.2 million, partially due to decrease in FEMA and other emergency management funds. The property tax rate was reduced to $.44720 per $100 assessed value in FY 2006, down from the $.45970 per $100 assessed value rate in FY 2005; however, property tax revenues increased $3.1 million due to increased assessments. Sales tax revenue increased $3.8 million in FY 2006 due to an improved economy. Franchise taxes increased $2.2 million, primarily due to increased costs on gas and electric bills to consumers and an increase in the franchise rate from 2.0% to 5.0% percent on one electric company. Investment income increased $2.8 million due to increases in interest rates and improved cash balances. Other revenues increased $2.8 million due to developer contributions in the Gateway Capital Project Fund.

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



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

Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net assets by $35.9 million as a result of operations. Key elements of the increase include:

- Charges for services for business-type activities were $313.8 million in FY 2006, an increase of $40.9 million. Expenses for business-type activities were $304.6 million in FY 2006, an increase of $27.7 million.

- Electric operations accounted for $33.8 million of the increase in charges for services. Electric operations include both Lubbock Power and Light (LP&L) and West Texas Municipal Power Agency (WTMPA). Because of the interfund activity between LP&L and WTMPA, approximately one third of the combined electric revenue was eliminated for the entity wide statements. Operating revenues consist principally of the retail sales of electricity to residential, commercial, and government customers, and off-system sales to wholesale power customers. LP&L charges a base rate for electric service plus a fuel cost adjustment rate for electric service. While the base rate has remained consistent between years, there have been many fuel cost adjustments during FY 2006 which have cumulatively increased the rates charged to customers. Also, WTMPA gas sales to third parties increased from $65.2 million in FY 2005 to $76.2 million in FY 2006, again due to fuel cost adjustments. Electric operation expenses increased $20.1 million, from $192.9 million in FY 2005 to $213.0 million in FY 2006. The increase in expenses is primarily due to the nation's increased fuel and energy costs in FY 2006, which affected both LP&L and WTMPA cost of power.

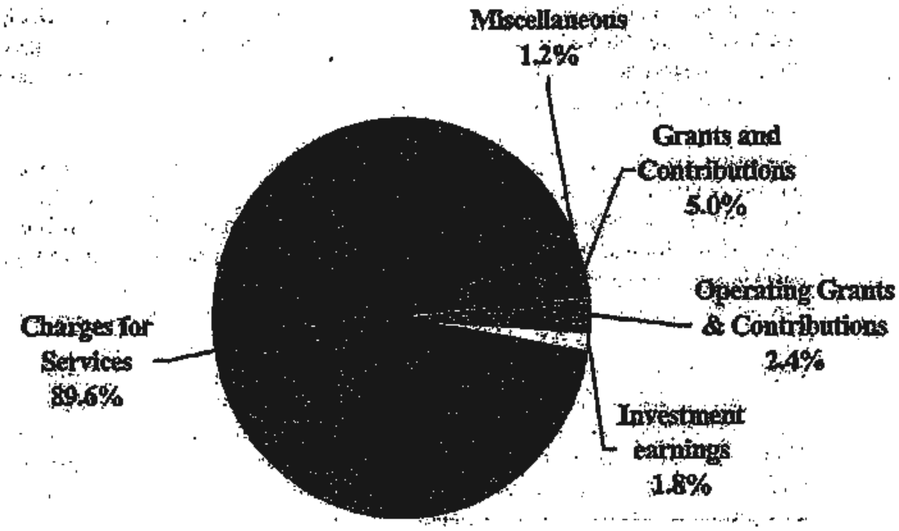
- Revenues were also up slightly in most of the City's other enterprise funds, with the Water and Wastewater Funds accounting for the largest increase. Water usage, which effects both Water and Wastewater Funds, increased due to drought conditions. Water rates also increased 3% in FY 2006. Construction activity was also higher in FY 2006 and contractors contributed $6.6 million in Water and Wastewater assets, $2.4 more than prior year.

- Operating grants, capital grants, and contributions continue to be a significant revenue source for business-type activities during the current fiscal year, producing nearly $26.0 million in revenue. This is a $12.6 million increase over prior year support of $13.4 million. The Airport Fund incurred the largest increase due to receiving federal grants of $12.0 million for aviation apron and taxiway improvements. In the prior year the Airport received $2.2 million in federal grants. The Water and Wastewater Funds also received additional developer contributions.

- Expenses in Water and Wastewater Funds increased in total by $7.6 million over the prior fiscal year. In FY 2006 the Wastewater Fund paid $2.4 million for a Water Resource Master Plan. These funds also incurred almost $2 million additional utility costs to run their plants due to the higher fuel and electrical costs. The Wastewater and Water Funds also had an additional $1.5 million in depreciation expense, which is directly attributed to the recent capital activities that are now placed in service and depreciated.

The following graph reflects the revenue sources generated by the business-type activities. As noted earlier, these activities include LP&L, Water, Wastewater, Solid Waste, Transit, WTMPA, Airport, and Storm Water Drainage.

Revenues by Source – Business-type Activities



Financial Analysis of the City's Funds

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance serves as a useful measure of the City's resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of $96.8 million, compared to $85.2 million at the end of the prior fiscal year. This increase is primarily the result of debt issuance for park capital projects, which resulted in an increase of fund balance of $9.5 million. Also affecting this increase was the result of operations of the General Fund where fund balance increased by $2.5 million. Of the ending governmental fund balance, $39.8 million or 41.1% percent, constituted unreserved fund balance which is available for spending at the City's discretion. This compared to $25.9 million or 30.4% at the end of the prior fiscal year. The remainder of the fund balance is reserved to indicate it has already been committed to pay debt service, use in construction of approved capital projects, or is restricted for other purposes.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance in the General Fund was approximately $19.8 million compared to $17.3 million in the previous fiscal year, representing an increase of approximately $2.5 million. Total fund balance (reserved and unreserved) was $19.9 million at the end of the fiscal year compared to $17.4 million at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund revenues. Unreserved fund balance represented 20.2% of total General Fund revenues, which is an improvement over 19.7% of total General Fund revenues in the prior year. Total fund balance was 20.4% of total General Fund revenues compared to 19.8% in the prior year.

Proprietary funds. The City's proprietary funds provide essentially the same type of information found in the GWFS, but in more detail.

Unrestricted net assets of the major proprietary funds at the end of September 30 are shown next with amounts presented in 000s:

	2006	2005
Electric Fund	$ 32,141	14,151
Water Fund	10,878	6,818
Wastewater Fund	9,593	5,964
WTMPA	1,307	1,314
Stormwater	10,022	7,420
	$ 63,941	35,667

The LP&L Fund increased unrestricted net assets by $18.0 million compared to an increase of $7.1 million during the prior year. This is mainly due to the results of operations and the decision by City Council not to charge for payments in lieu of taxes and franchise fees until adequate cash reserves are established. Increase in net assets was $16.4 million in FY 2006 and $3.0 million in FY 2004-05.

The Water Fund reflected a current year increase in unrestricted net assets of nearly $4.1 million compared to a decrease of $7.3 million during the prior year. In the current year, revenues were higher than expected due to increased water usage, while in prior year the Water Fund had a loss due to termination of an interest rate swap agreement.

The Wastewater Fund reflected a current year increase in unrestricted net assets of approximately $3.6 million compared to a $.4 million decrease during the prior year. In current year, revenues were higher than expected due to the discharge of a higher volume of water consumption.

The WTMPA Fund had a slight decrease in unrestricted net assets. The prior fiscal year's change was a decrease in unrestricted nets assets of $.4 million, primarily as a result of operations.

The Storm Water Fund experienced an increase in unrestricted net assets of $2.6 million during the fiscal year compared to a $6.1 million increase in the prior fiscal year. The increase is due to the result of operations.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately $7.5 million in increases to expenditures and transfers out. The main reason for the increase was budgeting for purchase of machinery and equipment through the issuance of capital leases.

Revenues in the General Fund exceeded budget by $4.3 million primarily due to higher than expected sales tax collections and franchise fees. The General Fund ended the fiscal year with expenditures and transfers out of $459,394 more than budgeted. The primary reason for this overage was related to higher than anticipated energy and fuel costs across all departments. The City Manager has implemented the following additional controls to ensure more stringent budget control:

- Biweekly Budget Forecasting and Manager Review
- Position Control Management System and Requisition Review
- Biweekly Overtime Reporting and Management Review
- General Ledger Reconciliation Policy
- Centralized Facilities Management, and Utilities Budgeting
- Improved Monthly Management Reporting to City Council
- Changes in the Home Storage of Fleet Vehicles

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities at September 30, 2006 amounted to $860.7 million, net of accumulated depreciation. This was an $84.6 million increase over the prior fiscal year's balance of $776.1 million, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, equipment, construction in progress, and infrastructure.

Major capital asset events during the fiscal year included the following:

- Many large street projects progressed due to dedicated funding from the local franchise tax, which earmarks 2% of the 5% franchise fees to fund Gateway Street Projects. The largest Gateway Street Project continued with the construction of a T-2 thoroughfare street with $12.6 million expended in the fiscal year on Milwaukee Avenue from 34th Street to 98th Street.

- Large amounts of existing infrastructure and reconstruction of roadways has been accomplished within the North Overton Tax Increment Financing (TIF) Reinvestment Zone. The funding for these projects comes from taxes generated from the increment of property valuation growth within the TIF. The funds used to finance the projects are generated within the zone, and do not impact taxes or fees to citizens outside the TIF.

- The Water Fund acquired $19.1 million in water rights from the Canadian Municipal Water Rights Authority and continued work on numerous water line change outs and extensions.

- Approximately 38,000 square yards of new paving was constructed at the Lubbock Preston Smith International Airport to help serve air carrier aircraft. This project also involved removal and installation of new taxiway lighting and drainage improvements. Expenditures on this project totaled $9.7 million during the fiscal year. Expenditures to date on the project total $10.5 million.

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- The City continues work on a flood relief project linking South Lubbock's chain of playa lakes with an underground drainage system, spending $12.8 million during the fiscal year. Expenditures to date on the project total $26.1 million.

At the end of the fiscal year, the City has construction commitments of $159.7 million.

City of Lubbock Capital Assets
(Net of Accumulated Depreciation)
September 30
(In 000's)

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	$ 8,971	8,951	31,949	31,949	40,920	40,900
Buildings	29,870	28,146	64,092	65,951	93,962	94,097
Improvements other than buildings	50,443	43,895	389,474	347,393	439,917	391,288
Machinery and equipment	20,615	19,829	77,993	63,719	98,608	83,548
Construction in progress	50,650	37,793	136,646	128,432	187,296	166,225
Total	$ 160,549	138,614	700,154	637,444	860,703	776,058

Additional information about the City's capital assets can be found on pages 72-75 of this report.

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

City of Lubbock Outstanding Debt
General Obligation and Revenue Bonds
September 30
(In 000's)

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation bonds	$ 124,457	102,720	323,568	286,750	448,025	389,470
Revenue bonds	-	-	58,079	42,800	58,079	42,800
Total	$ 124,457	102,720	381,647	329,550	506,104	432,270

There is no direct debt limitation in the City Charter or under State law. The City operates under a Home Rule Charter that limits the maximum tax rate for all City purposes to $2.50 per $100 of assessed valuation. The Attorney General of the State of Texas permits an allocation of $1.50 of the $2.50 maximum tax rate for general obligation bonds debt service. The current interest and sinking fund tax rate per $100 of assessed valuation is $0.06094, which is significantly below the maximum allowable tax rate.

As of September 30, 2006, the City's total outstanding debt has increased by $73.8 million or 17.1% over the prior fiscal year. The increase in outstanding debt is attributed to the issuance of $98.3 million in debt, offset by the payment of scheduled debt service totaling $25.3 million, and the issuance of $18.8 million of debt to defease debt of $18.0 million.

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

- $2.7 million of General Obligation Bonds, Series 2006 were issued to fund the current capital improvements plan. This issuance was the third installment of the $30.0 million capital improvement debt issuance approved by voters in 2004.

- $77.0 million of Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2006 were issued to finance projects in Water, Wastewater, Solid Waste, Storm Water, Airport, Tax Increment Financing , Lubbock Power & Light, and Gateway Streets; as well as Parks, Streets and Municipal Building projects throughout the City.

- $18.6 million in bonds were issued by the Canadian River Municipal Water Authority (CRMWA) for Lubbock's share of the $49.1 million CRMWA Contract Revenue Bonds, Series 2006 (Conjunctive Use Groundwater Supply Project) for the purchase of water rights. The City of Lubbock is contractually obligated to pay the debt service on these bonds over a 20 year period.

- $18.8 million of General Obligation Refunding Bonds, Series 2006 were issued to defease $18.0 million in outstanding bonds in order to achieve interest savings.

All bonds issued during the fiscal year were insured to provide a lower cost of interest expense for the City's taxpayers. It is the City's policy to evaluate each bond issue to determine whether it is economically feasible to purchase bond insurance.

On November 22, 2005, the City of Lubbock received a rating outlook upgrade from "stable" to "positive" from Moody's Investors Service. The City currently maintains an "AA-" rating from Standard & Poor's and Fitch Ratings, Inc. and an "A1" rating from Moody's Investors Service for general obligation debt. All three rating agencies have placed the City on a positive outlook, which indicates the possibility of a rating upgrade in the near term. On December 21, 2005, LP&L received a rating upgrade from "BBB-" to "BBB" from Standard & Poor's. The LP&L revenue bonds are currently rated "BBB" by Standard & Poor's, "BBB+" by Fitch Ratings, Inc., and "A3" by Moody's Investors Service.

Additional information about the City's long-term debt can be found on pages 81-86 of this report.

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

- At the end of the City's fiscal year, the unemployment rate for the Lubbock area was 3.8%. This is the same rate as September 2005. This compares favorably to the state's unemployment rate of 4.7 % and the national rate of 4.4 % for September 2006.

- Retail sales figures are only available through the third quarter of FY 2006. Total retail sales reflected a 7.3% increase for that period over the same period in 2005.

- The number of building permits for new construction decreased from 2,222 during FY 2005 to 2,052 in FY 2006, or about a 7.7% decrease. This compares to a 20.5% decrease during the prior period. Building permit values for new construction decreased from $388.4 million in FY 2005 to $376.2 million in FY 2006, or about a 3.1% decrease. The number of new construction permits and new construction valuations hit an all-time high in FY 2004. The current numbers are still much improved over years prior to FY 2004.

- Total occupancy in local hotels and motels improved and the local occupancy tax totaled nearly $3.4 million, a 4.6% increase over last fiscal year.

- City Council again decided to support the operations of LP&L by forgoing transfers for payments in lieu of taxes and franchise fees for the upcoming fiscal year. The City Council intends to continue this support until such time as LP&L has adequate monetary reserves as set by City ordinance.

All of these factors were considered in preparing the City of Lubbock's budget for FY 2007.

- During FY 2007 the City adopted a $.00444 increase in the General Fund property tax rate. The General Fund increase will bring an additional $1.7 million increase in revenue from both property value growth and the adjusted tax rate. The additional revenues will help cover medical insurance inflation costs, a $1,200 cost of living adjustment for all employees, increased fuel costs, and 29 public safety positions added mid-year of FY 2006 that will have the full effect of cost in FY 2007.

- During FY 2007 the City adopted a $.01035 increase in the Debt Service Fund real estate tax rate. In the last several years, City Council has adopted a number of capital improvement projects to address changing community needs. The bonds for these projects were sold in 2006 and related debt service begins in FY 2007, necessitating an increase in the interest and sinking fund tax rate.

- In FY 2005 the City adopted a master lease program to replace public safety vehicles and other equipment that had been neglected. The cumulative effect of master leasing the last two years will increase debt service payments on master lease obligations in FY 2007.

- The City has prepared a 5 year projection of utility rates for Water, Storm Water, Wastewater, and Solid Waste Funds. The Water Fund will experience an increase in rates as the City aggressively seeks to obtain water rights, plans on adding infrastructure to transport water to the City, and maintains existing infrastructure. The Water Fund rates will increase 11% in FY 2007 and are expected to rise over the remaining 4 years to fund debt service on water capital projects. The Storm Water Fund will incur debt as the City focuses on infrastructure through the South Lubbock Drainage project and ongoing maintenance. Storm water rates are adequate for the future debt and are not expected to increase until FY 2010. The Wastewater Fund and Solid Waste Fund are also expecting slight fee increases over the next 5 years due to operational cost increases and increased debt service.

- At the March 23, 2006 City Council meeting, the City Council approved the "Policy on General Fund Unrestricted Fund Balance and Appropriable Net Assets for All Other Funds". The policy targets an unrestricted fund balance in an amount equal to at least 20% of regular general fund operating revenues. The policy targets appropriable net assets in the Water and Wastewater funds in an amount equal to 25% of regular operating revenues, appropriable net assets in the Solid Waste, Airport and Storm Water funds in an amount equal to 15% of regular operating revenues, and appropriable net assets in the Internal Service funds in an amount equal to 8% of regular operating revenues. Funds that have budgeted utilization of net assets that exceed the appropriate target policy include: $3.0 million in Water Fund, $1.5 million in Wastewater Fund, $2.2 million in Solid Waste Fund, and $2.2 million in Storm Water Fund. The City has not planned any use of General Fund fund balance in FY 2007. The LP&L Board has set their unrestricted net assets goal to be $50 million, or 4 months of operating expenditures, whichever is greater. In FY 2007, LP&L has budgeted to increase unrestricted net assets by $19.3 million.

- LP&L FY 2007 base rates will be consistent with FY 2006 rates, but the fuel cost adjustment rates will vary based on supplier cost. One of the main suppliers of fuel to LP&L has applied for a 15% increase in rates, and if approved, could increase fuel costs up to 15% in early 2007. This may cause electric rates to increase in FY 2007.

Requests for Information

This financial report is designed to provide a general overview of the City of Lubbock's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Chief Financial Officer, City of Lubbock, P.O. Box 2000, Lubbock, Texas, 79457.

City of Lubbock, Texas
Statement of Net Assets
September 30, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 21,577,439	$ 37,135,183	$ 58,712,622	$ 5,950,665
Investments	19,013,367	33,373,806	52,387,173	225,144
Receivables (net of allowance for uncollectibles)	11,719,391	27,620,285	39,339,676	1,052,895
Internal balance	2,009,936	(2,009,936)	-	-
Due from other governments	3,487,278	-	3,487,278	-
Due from others	2,369,856	1,863,690	4,233,546	-
Inventories	212,052	3,116,055	3,328,107	82,758
Investment in property	208,103	-	208,103	-
Prepaid expenses	920,722	-	920,722	53,490
Restricted assets:				
Cash and cash equivalents	4,002,576	18,915,606	22,918,182	176,852
Investments	52,987,526	80,658,868	133,646,394	-
Receivables	124,694	106,010	230,704	7,000,000
Mortgage receivables	5,813,330	-	5,813,330	-
Capital assets (net of accumulated depreciation):				
Non-depreciable	59,621,807	168,594,938	228,216,745	1,404,299
Depreciable	100,927,834	531,559,552	632,487,386	829,241
Deferred charges	-	3,077,777	3,077,777	-
Total assets	284,995,911	904,011,834	1,189,007,745	16,775,344
LIABILITIES				
Accounts payable	5,666,721	16,869,683	22,536,404	1,018,218
Accrued expenses	6,953,799	3,155,693	10,109,492	162,308
Accrued interest payable	959,422	4,261,554	5,220,976	-
Customer deposits	-	2,990,665	2,990,665	-
Unearned revenue	5,176,605	-	5,176,605	7,133,046
Noncurrent liabilities due within one year:				
Compensated absences	6,133,264	2,571,795	8,705,059	-
Accrued insurance claims	2,512,041	2,444,632	4,956,673	-
Contracts and leases payable	1,426,999	1,974,403	3,401,402	1,412,685
Bonds payable	6,367,599	20,053,550	26,421,149	-
Noncurrent liabilities due in more than one year:				
Compensated absences	10,126,773	2,794,001	12,920,774	-
Landfill closure and postclosure care	-	3,299,131	3,299,131	-
Accrued insurance claims	249,115	2,816,344	3,065,459	-
Contracts and leases payable	6,103,560	6,414,565	12,518,125	1,241,971
Bonds payable	120,598,987	363,571,365	484,170,352	-
Total liabilities	172,274,885	433,217,381	605,492,266	10,968,228
NET ASSETS				
Invested in capital assets, net of related debt	76,483,334	380,149,135	456,632,469	2,164,396
Restricted for:				
Passenger facility charges	-	3,630,625	3,630,625	-
Debt service	4,002,576	15,284,981	19,287,557	-
Grant programs	6,145,719	-	6,145,719	-
Primary government agreement	-	-	-	100,000
Unrestricted	26,089,397	71,729,712	97,819,109	3,542,720
Total net assets	$ 112,721,026	$ 470,794,453	$ 583,515,479	$ 5,807,116

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Statement of Activities
For the Year Ended September 30, 2006

	Expenses	Charges for Services	Program Revenues: Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Administrative services	$ 9,910,392	$ 54,356	$ -	$ -
Community services	6,112,193	-	5,677,173	-
Cultural and recreation	18,915,265	2,590,241	668,258	-
Economic and business development	10,283,007	188,856	-	-
Fire	26,711,389	13,165	36,632	86,614
Health	5,013,691	722,113	1,028,999	-
Police	42,063,023	209,251	386,165	397,054
Other public safety	5,239,386	4,984,968	17,452	321,962
Streets and traffic	11,849,496	494,312	104,885	39,300
Non-departmental	5,206,309	374,629	2,283,899	-
Interest on long-term debt	4,326,128	-	-	-
Total governmental activities	145,630,279	9,631,891	10,203,463	844,930
Business-type activities:				
Electric	213,026,628	226,373,638	-	-
Water	32,830,002	37,330,953	59,296	2,754,551
Wastewater	21,273,796	21,087,364	-	3,808,242
Solid Waste	14,971,421	13,948,861	-	21,633
Stormwater	5,174,635	6,348,461	31,740	-
Transit	9,349,206	3,268,441	7,294,964	-
Airport	7,996,692	5,424,016	965,605	11,040,385
Total business-type activities	304,622,380	313,781,734	8,351,605	17,624,811
Total primary government	$ 450,252,659	$ 323,413,625	$ 18,555,068	$ 18,469,741
Component units:				
Civic Lubbock, Inc.	$ 1,772,007	$ 1,703,598	$ 249,220	$ -
Market Lubbock, Inc.	6,350,716	96,728	6,082,671	-
Lubbock Economic Development Alliance	2,638,367	-	6,435,160	-
Total component units	$ 10,761,090	$ 1,800,326	$ 12,767,051	$ -

General revenues:
Property taxes
Sales taxes
Occupancy taxes
Other Taxes
Franchise Taxes
Investment Earnings
Miscellaneous
Transfers, net
Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Net assets - ending

See accompanying Notes to Basic Financial Statements

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (9,856,036)	$ -	$ (9,856,036)	$ -
(435,020)		(435,020)	
(15,656,766)	-	(15,656,766)	-
(10,094,151)	-	(10,094,151)	-
(26,574,978)	-	(26,574,978)	-
(3,262,579)	-	(3,262,579)	-
(41,070,553)	-	(41,070,553)	-
84,996	-	84,996	-
(11,210,999)	-	(11,210,999)	-
(2,547,781)	-	(2,547,781)	-
(4,326,128)	-	(4,326,128)	-
(124,949,995)	-	(124,949,995)	-
	13,347,010	13,347,010	-
-	7,314,798	7,314,798	-
-	3,621,810	3,621,810	-
-	(1,000,927)	(1,000,927)	-
-	1,205,566	1,205,566	-
-	1,214,199	1,214,199	-
-	9,433,314	9,433,314	-
-	35,135,770	35,135,770	-
(124,949,995)	35,135,770	(89,814,225)	-
-	-	-	180,811
-	-	-	(171,317)
-	-	-	3,796,793
-	-	-	3,806,287
42,770,826	-	42,770,826	-
45,576,582	-	45,576,582	-
3,410,920	-	3,410,920	-
1,036,283	-	1,036,283	-
13,348,364	-	13,348,364	-
4,393,782	6,140,436	10,534,218	14,735
6,898,288	4,277,297	11,175,585	-
9,607,211	(9,607,211)		-
127,042,256	810,522	127,852,778	14,735
2,092,261	35,946,292	38,038,553	3,821,022
110,628,765	434,848,161	545,476,926	1,986,094
$ 112,721,026	$ 470,794,453	$ 583,515,479	$ 5,807,116

City of Lubbock, Texas
Balance Sheet
Governmental Funds
September 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 8,456,754	$ 11,897,583	$ 20,354,337
Investments	7,605,360	10,344,578	17,949,938
Taxes receivable (net)	8,642,511	517,184	9,159,695
Accounts receivable (net)	1,825,656	341,907	2,167,563
Interest receivable	336,741	49,608	386,349
Due from other funds	2,415,681	631,346	3,047,027
Due from other governments	-	3,487,278	3,487,278
Due from others	797,380	1,375,633	2,173,013
Investment in property	-	208,103	208,103
Inventory	168,964	-	168,964
Restricted cash	-	4,002,576	4,002,576
Restricted investments	-	50,430,838	50,430,838
Mortgage receivables	-	5,813,330	5,813,330
Total assets	$ 30,249,047	$ 89,099,964	$ 119,349,011
LIABILITIES			
Accounts payable	$ 3,285,899	$ 2,199,533	$ 5,485,432
Due to other funds	-	2,621,995	2,621,995
Accrued liabilities	4,303,221	1,713,024	6,016,245
Accrued interest payable	-	206,557	206,557
Deferred revenues	2,735,216	5,454,344	8,189,560
Total liabilities	10,324,336	12,195,453	22,519,789
FUND BALANCES			
Reserved for:			
Prepaid items/inventory	168,964	-	168,964
Debt service	-	3,081,539	3,081,539
Capital projects	-	52,331,096	52,331,096
Special revenue - grants	-	1,392,508	1,392,508
Perpetual care	-	89,220	89,220
Unreserved, reported in			
General fund	19,755,747	-	19,755,747
Special revenue funds	-	20,010,148	20,010,148
Total fund balance	19,924,711	76,904,511	96,829,222
Total liabilities and fund balances	$ 30,249,047	$ 89,099,964	$ 119,349,011

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
September 30, 2006

Total fund balance - governmental funds	$	96,829,222
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		160,549,641
Internal service funds (ISF's) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of the assets and liabilities of the ISF's primarily serving governmental funds are included in governmental activities in the statement of net assets as follows:		
Net assets		3,100,464
Net book value of capital assets		(906,088)
Compensated absences		61,808
Amounts due from business-type ISFs for amounts undercharged		1,584,904
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities are as follows:		
General obligation bonds		(124,457,280)
Capital leases payable		(7,530,559)
Compensated absences		(16,260,037)
Accrued interest on general obligation bonds		(752,865)
Arbitrage payable		(151,716)
Environmental remediation		(922,555)
Bond premiums are recognized as an other financing source in the fund statements but the premiums are amortized over the life of the bonds in the government-wide statements.		(2,357,592)
Actual City contributions to the fire fighter's pension trust fund is greater than the actuarially determined required contribution. This will reduce future funding requirements and is not recognized as an asset at the fund level but is a prepaid expense in the Statement of Net Assets.		920,722
Revenue earned but unavailable in the funds is deferred.		3,012,957
Net assets of governmental activities	$	112,721,026

See accompanying Notes to Basic Financial Statements.

City of Lubbock, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 75,999,624	$ 16,865,905	$ 92,865,529
Franchise taxes	8,008,973	5,339,391	13,348,364
Fees and fines	3,981,978	-	3,981,978
Licenses and permits	2,250,635	-	2,250,635
Intergovernmental	408,997	10,639,396	11,048,393
Charges for services	4,781,043	1,307,162	6,088,205
Interest	921,742	2,953,198	3,874,940
Miscellaneous	1,465,215	5,501,042	6,966,257
Total revenues	97,818,207	42,606,094	140,424,301
EXPENDITURES			
Current:			
Administrative services	9,356,059	-	9,356,059
Community services	-	5,932,820	5,932,820
Cultural and recreation	13,986,576	1,409,701	15,396,277
Economic and business development	1,146,267	8,973,916	10,120,183
Fire	24,638,814	-	24,638,814
Health	3,738,790	908,623	4,647,413
Police	37,463,740	913,251	38,376,991
Other public safety	4,287,806	360,056	4,647,862
Streets and traffic	7,439,045	527,745	7,966,790
Non-departmental	1,882,255	2,376,525	4,258,780
Debt service:			
Principal	1,009,368	6,324,040	7,333,408
Interest and other charges	144,858	3,996,563	4,141,421
Capital outlay	7,184,866	28,460,783	35,645,649
Total expenditures	112,278,444	60,184,023	172,462,467
Excess (deficiency) of revenues over (under) expenditures	(14,460,237)	(17,577,929)	(32,038,166)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	-	27,526,113	27,526,113
Bond premium (discount)	-	620,860	620,860
Capital leases	5,119,980	-	5,119,980
Transfers in	13,325,046	5,352,042	18,677,088
Transfers out	(1,436,498)	(6,840,909)	(8,277,407)
Net other financing sources (uses)	17,008,528	26,658,106	43,666,634
Net change in fund balances	2,548,291	9,080,177	11,628,468
Fund balances - beginning of year	17,376,420	67,824,334	85,200,754
Fund balances - end of year	$ 19,924,711	$ 76,904,511	$ 96,829,222

See accompaning Notes to Basic Financial Statements

City of Lubbock, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds To the Statement of Activities
For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds	$ 11,628,468
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $35,645,649 exceeded depreciation of $13,291,425 in the current period.	22,354,224
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds of $27,526,113 exceeded repayments and debt defeasence of $5,789,102.	(21,737,011)
Capital lease transactions provide current financial resources to governmental funds and repayment of principal is an expenditure. This is the amount by which proceeds of $5,119,980 exceeded repayments of $1,544,306.	(3,575,674)
Bond premiums are recognized as an other financing source in the governmental funds, but are considered deferred assets on the Statement of Net Assets. Premiums are amortized over the life of the bonds. This is the amount by which bond premium issued of $620,860 exceeded amortization of $129,252.	(491,608)
Estimated long-term liabilities are recognized as expenses in the Statement of Activities as earned, but are recognized when current financial resources are used in the governmental funds.	
Arbitrage payable	(151,716)
Compensated absences	(124,692)
Environmental remediation	(922,555)
Property taxes levied and court fines and fees earned, but not available, are deferred in the governmental funds, but are recognized when earned (net of estimated uncollectibles) in the Statement of Activities. This amount is the net change in deferred property taxes and court fines and fees for the year.	(2,759,845)
Actual City contributions to the fire fighter's pension trust fund are greater than the actuarially determined Net Pension Obligation (NPO). This amount is recognized as an expenditure at the fund level but is accrued when overpaid and reduces expenses on the Statement of Activities.	11,610
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	(1,724,658)
Accrued interest is recognized as expenses in the Statement of Activities as incurred, but is recognized when current financial resources are used in the governmental funds. This amount is the net change in the accrued interest this year.	(162,255)
The net effect of various miscellaneous transactions involving capital assets (e.g., sales and trade-ins) is to decrease net assets.	(252,027)
Change in net assets of governmental activities	$ 2,092,261

See accompanying Notes to Basic Financial Statements.

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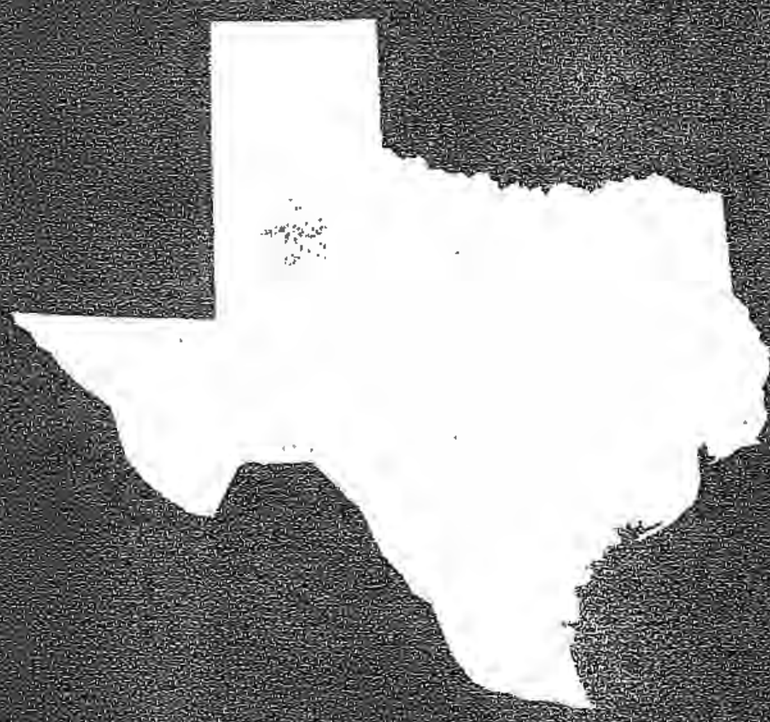

City of Lubbock, Texas
Budget Comparison Statement
General Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes	$ 73,888,110	$ 73,888,110	$ 75,999,624	$ 2,111,514
Franchise taxes	6,886,000	6,916,000	8,008,973	1,092,973
Fees and fines	3,782,866	3,868,099	3,981,978	113,879
Licenses and permits	2,170,512	2,351,155	2,250,635	(100,520)
Intergovernmental	406,638	406,638	408,997	2,359
Charges for services	4,530,123	4,347,518	4,781,043	433,525
Interest	660,073	660,073	921,742	261,669
Miscellaneous	1,066,411	1,081,411	1,465,215	383,804
Total revenues	93,390,733	93,519,004	97,818,207	4,299,203
EXPENDITURES				
Current:				
Administrative services	8,877,967	9,036,722	9,356,059	(319,337)
Cultural and recreation	13,393,317	13,393,317	13,986,576	(593,259)
Economic and business development	1,180,867	1,173,897	1,146,267	27,630
Fire	24,466,277	24,623,844	24,638,814	(14,970)
Health	3,634,443	3,649,443	3,738,790	(89,347)
Police	38,802,898	38,802,898	37,463,740	1,339,158
Other public safety	4,367,615	4,413,756	4,287,806	125,950
Streets and traffic	8,281,641	6,981,641	7,439,045	(457,404)
Non-departmental	1,422,064	672,294	1,882,255	(1,209,961)
Debt service:				
Principal		1,044,682	1,009,368	35,314
Interest and other charges		150,606	144,858	5,748
Capital outlay	486,290	8,028,860	7,184,866	843,994
Total expenditures	104,913,379	111,971,960	112,278,444	(306,484)
Excess (deficiency) of revenues over (under) expenditures	(11,522,646)	(18,452,956)	(14,460,237)	3,992,719
OTHER FINANCING SOURCES (USES)				
Capital leases	-	6,210,000	5,119,980	(1,090,020)
Transfers in	12,371,843	12,548,843	13,325,046	776,203
Transfers out	(849,200)	(1,283,588)	(1,436,498)	(152,910)
Net other financing sources (uses)	11,522,643	17,475,255	17,008,528	(466,727)
Net change in fund balances	(3)	(977,701)	2,548,291	3,525,992
Fund balances - beginning of year	17,376,420	17,376,420	17,376,420	-
Fund balances - end of year	$ 17,376,417	$ 16,398,719	$ 19,924,711	$ 3,525,992

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Enterprise Funds			
	Electric	Water	Wastewater	WTMPA
ASSETS				
Current assets:				
Cash and cash equivalents	$ 14,436,691	$ 6,167,041	$ 4,990,325	$ 1,296,219
Investments	14,329,105	5,362,050	4,338,932	366,253
Accounts receivable	15,545,253	4,292,453	2,257,674	1,800,814
Interest receivable	53,919	25,851	17,612	-
Due from others	-	70,919	145,322	-
Due from other funds	-	-	-	6,173,451
Inventories	246,533	273,979	-	-
Total current assets	44,611,501	16,192,293	11,749,865	9,636,737
Noncurrent assets:				
Restricted cash and cash equivalents	4,455,759	6,136,977	2,937,014	-
Restricted investments	3,669,238	21,029,028	16,435,385	-
Restricted interest receivable	-	3,611	-	-
Restricted accounts receivable	-	23,640	24,090	-
Deferred charges	3,077,777	-	-	-
Total noncurrent assets	11,202,774	27,193,256	19,396,489	-
Capital assets:				
Land	756,714	12,724,350	12,578,775	-
Construction in progress	8,814,299	32,078,599	8,377,603	-
Buildings	8,054,811	21,640,589	24,013,170	-
Improvements other than buildings	180,986,045	261,578,561	114,818,170	-
Machinery and equipment	53,267,250	31,342,138	17,684,958	25,200
Less accumulated depreciation	(109,872,651)	(90,024,387)	(63,919,720)	(25,200)
Total capital assets	142,006,468	269,339,850	113,552,956	-
Total noncurrent and capital assets	153,209,242	296,533,106	132,949,445	-
Total assets	$ 197,820,743	$ 312,725,399	$ 144,699,310	$ 9,636,737

See accompanying Notes to Basic Financial Statements

Enterprise Funds			
Stormwater	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 6,013,928	$ 3,342,335	$ 36,246,539	$ 2,111,746
5,228,922	2,975,896	32,601,158	1,836,077
689,268	2,917,543	27,503,005	-
4,529	9,665	111,576	11,488
-	1,647,449	1,863,690	196,843
-	1,540,853	7,714,304	-
-	663,001	1,183,513	1,975,630
11,936,647	13,096,742	107,223,785	6,131,784
1,358,770	4,027,086	18,915,606	-
21,504,033	9,370,844	72,008,528	11,207,028
15,169	18,676	37,456	30,350
-	-	47,730	115,168
-	-	3,077,777	-
22,877,972	13,416,606	94,087,097	11,352,546
283,337	5,605,535	31,948,711	65,343
65,636,771	21,083,879	135,991,151	655,076
64,580	42,129,035	95,902,185	1,608,618
8,353,591	98,576,429	664,312,796	649,868
2,832,458	54,977,238	160,129,242	7,737,422
(9,252,045)	(117,037,649)	(390,131,652)	(7,808,182)
67,918,692	105,334,467	698,152,433	2,908,145
90,796,664	118,751,073	792,239,530	14,260,691
$ 102,733,311	$ 131,847,815	$ 899,463,315	$ 20,392,475

City of Lubbock, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Enterprise Funds			
	Electric	Water	Wastewater	WTMPA
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,035,206	$ 2,635,560	$ 1,066,886	$ 8,329,910
Accrued liabilities	1,535,678	165,716	129,143	-
Accrued interest payable	1,405,988	1,501,852	473,697	-
Due to other funds	6,173,451	-	-	-
Customer deposits	2,924,883	58,710	-	-
Compensated absences	1,076,262	542,602	269,716	-
Accrued insurance claims	-	-	-	-
Leases payable	321,414	248,255	509,081	-
Bonds payable	5,623,977	7,503,179	4,460,688	-
Total current liabilities	20,096,859	12,655,874	6,909,211	8,329,910
Noncurrent liabilities:				
Compensated absences	1,385,951	421,359	209,448	-
Accrued insurance claims	-	-	-	-
Landfill closure and post closure care	-	-	-	-
Leases payable	1,274,449	1,020,101	1,187,000	-
Bonds payable	65,369,133	148,948,252	54,315,110	-
Rebatable arbitrage	11,338	15,669	31,806	-
Total noncurrent liabilities	68,040,871	150,405,381	55,743,364	-
Total liabilities	88,137,730	163,061,255	62,652,575	8,329,910
NET ASSETS				
Invested in capital assets, net of related debt	73,086,733	132,649,091	69,516,462	-
Restricted for:				
Passenger facility charges	-	-	-	-
Debt service	4,455,759	6,136,977	2,937,014	-
Unrestricted	32,140,521	10,878,076	9,593,259	1,306,827
Total net assets	$ 109,683,013	$ 149,664,144	$ 82,046,735	$ 1,306,827

See accompanying Notes to Basic Financial Statements.

Enterprise Funds			
Stormwater	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 1,146,437	$ 1,919,467	$ 16,133,466	$ 917,506
27,237	1,195,171	3,052,945	117,747
666,542	213,475	4,261,554	-
-	1,927,000	8,100,451	38,885
-	7,072	2,990,665	-
50,483	431,693	2,370,756	228,056
-	-	-	4,956,673
21,145	706,244	1,806,139	168,264
1,540,083	925,623	20,053,550	-
3,451,927	7,325,745	58,769,526	6,427,131
39,202	479,155	2,535,115	293,677
-	-	-	3,065,459
-	3,299,131	3,299,131	-
81,020	2,467,085	6,029,655	384,910
76,804,339	18,063,340	363,500,174	-
-	12,378	71,191	-
76,924,561	24,321,089	375,435,266	3,744,046
80,376,488	31,646,834	434,204,792	10,171,177
10,976,138	92,543,019	378,771,443	2,354,971
-	3,630,625	3,630,625	-
1,358,770	396,461	15,284,981	-
10,021,915	3,630,876	67,571,474	7,866,327
$ 22,356,823	$ 100,200,981	$ 465,258,523	$ 10,221,298

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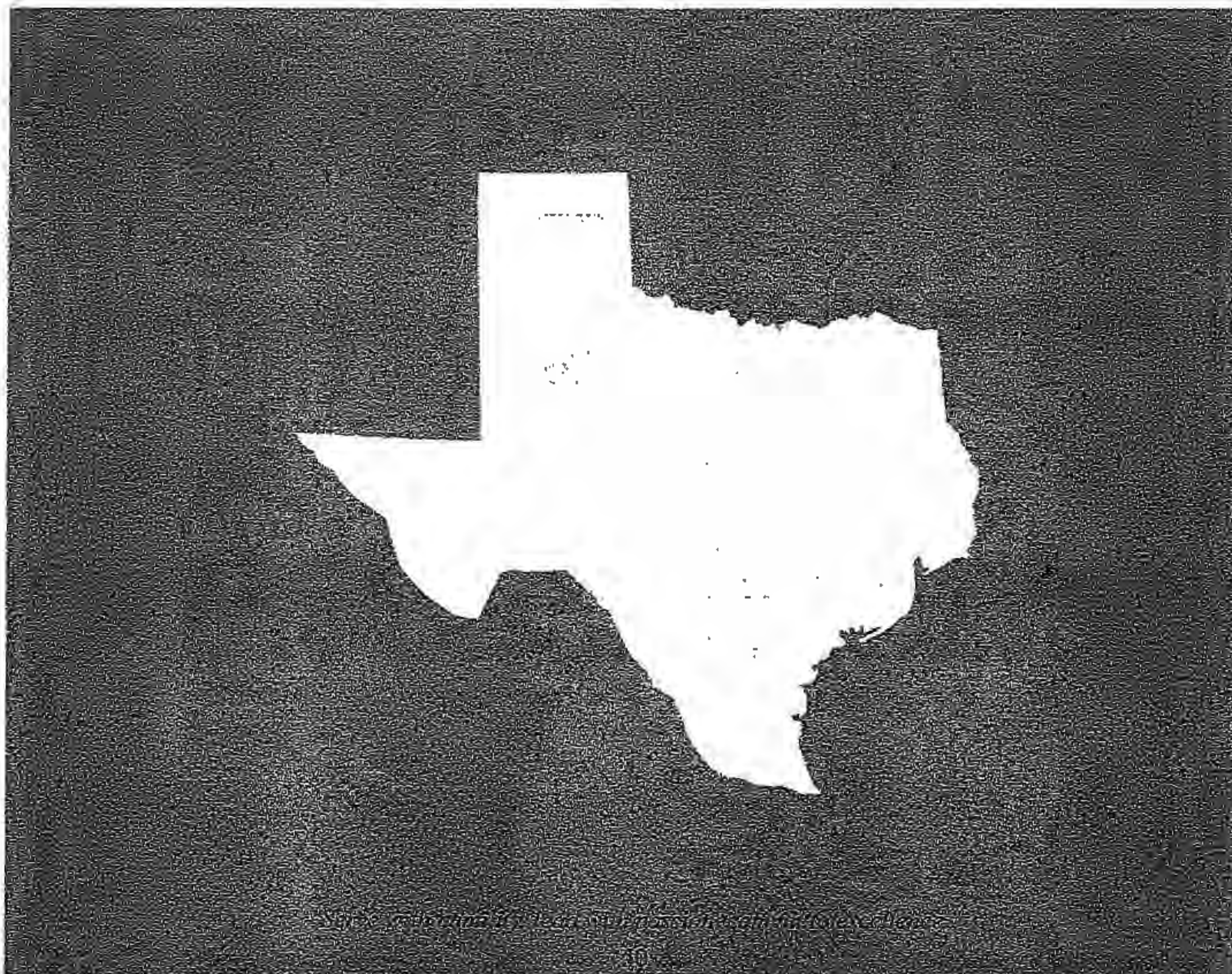

City of Lubbock, Texas
Reconciliation of the Statement of Net Assets - Proprietary Funds To the Statement of Net Assets
September 30, 2006

Total net assets - proprietary funds	$ 465,258,523
Amounts reported for business-type activities in the Statement of Net Assets are different because:	
Internal service funds (ISFs) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of assets and liabilities of the ISFs primarily serving enterprise funds are included in business-type activities in the Statement of Net Assets as follows:	
Net assets of business-type ISFs	7,120,834
Amounts due to governmental ISFs for amounts overcharged	(1,584,904)
Net assets of business-type activities	$ 470,794,453

See accompanying Notes to Basic Financial Statements.

City of Lubbock, Texas
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2006

	Enterprise Funds			
	Electric	Water	Wastewater	WTMPA
OPERATING REVENUES				
Charges for services (net)	$ 212,074,481	$ 37,330,953	$ 21,087,364	$ 183,322,521
Miscellaneous	-	-	-	-
Total operating revenues	212,074,481	37,330,953	21,087,364	183,322,521
OPERATING EXPENSES				
Personal services	10,718,282	5,910,861	3,816,414	-
Insurance	-	-	-	-
Supplies	884,891	1,210,729	972,075	-
Materials	-	-	-	-
Maintenance	1,907,683	2,458,357	1,176,302	-
Purchase of fuel and power	167,854,029	-	-	183,149,178
Collection expense	-	1,482,000	926,172	-
Other services and charges	4,072,409	9,658,448	6,887,394	503,655
Depreciation and amortization	8,972,917	7,118,132	5,462,027	-
Total operating expenses	194,410,211	27,838,527	19,240,384	183,652,833
Operating income (loss)	17,664,270	9,492,426	1,846,980	(330,312)
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	1,063,573	1,321,864	844,020	16,565
Passenger facility charges/Federal grants	-	59,296	-	-
Disposition of assets	(463,749)	(110,320)	92,221	-
Miscellaneous	2,042,509	407,216	128,000	-
Pass-through grant payments	-	-	-	-
Interest expense	(3,301,209)	(4,775,332)	(2,064,305)	-
Net nonoperating revenues (expenses)	(658,876)	(3,097,276)	(1,000,064)	16,565
Income (loss) before contributions and transfers	17,005,394	6,395,150	846,916	(313,747)
Capital contributions	-	2,754,551	3,808,242	-
Transfers in	637,075	663,221	620,238	306,756
Transfers out	(1,211,566)	(4,874,264)	(2,623,397)	-
Change in net assets	16,430,903	4,938,658	2,651,999	(6,991)
Total net assets - beginning	93,252,110	144,725,486	79,394,736	1,313,818
Total net assets - ending	$ 109,683,013	$ 149,664,144	$ 82,046,735	$ 1,306,827

See accompanying Notes to Basic Financial Statements.

Enterprise Funds				
Stormwater	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 6,348,461	$ 22,641,318	$ 482,805,098	$ 39,460,284
-	112,610	112,610	-
6,348,461	22,753,928	482,917,708	39,460,284
868,480	11,782,232	33,096,269	4,199,269
-	-	-	22,296,187
80,572	2,803,942	5,952,209	94,876
-	-	-	9,907,836
5,680	3,331,021	8,879,043	2,180,157
-	-	351,003,207	-
504,732	512,832	3,425,736	-
212,115	4,911,389	26,245,410	2,569,274
384,514	8,497,448	30,435,038	322,088
2,056,093	31,838,864	459,036,912	41,569,687
4,292,368	(9,084,936)	23,880,796	(2,109,403)
1,618,842	893,718	5,758,582	901,559
-	8,697,882	8,757,178	31,740
-	16,774	(465,074)	69,239
180,359	973,645	3,731,729	427,892
-	(437,313)	(437,313)	-
(3,096,082)	(432,527)	(13,669,455)	(863)
(1,296,881)	9,712,179	3,675,647	1,429,567
2,995,487	627,243	27,556,443	(679,836)
-	11,062,018	17,624,811	119,897
-	849,200	3,076,490	32,915
(907,310)	(3,100,079)	(12,716,616)	(792,470)
2,088,177	9,438,382	35,541,128	(1,319,494)
20,268,646	90,762,599	429,717,395	11,540,792
$ 22,356,823	$ 100,200,981	$ 465,258,523	$ 10,221,298

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City of Lubbock, Texas
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds
To the Statement of Activities
For the Year Ended September 30, 2006

Net change in fund net assets - total enterprise funds	$ 35,541,128
Amounts reported for business-type activities in the statement of activities are different because:	
Internal service funds (ISFs) are used by management to charge the costs of certain activities such as fleet services, central warehousing activities, management information activities, etc. to individual funds. The net revenue (expense) of certain ISFs is reported with business-type activities.	405,164
Change in net assets of business-type activities	$ 35,946,292

See accompanying Notes to Basic Financial Statements.

City Of Lubbock, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2006

	Electric	Water	Wastewater	West Texas Municipal Power Agency (WTMPA)
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 211,732,604	$ 37,152,261	$ 21,154,689	$ 187,743,764
Payments to suppliers	(184,633,458)	(13,074,362)	(9,198,476)	(188,068,136)
Payments to employees	(10,718,282)	(5,910,861)	(3,816,414)	-
Other receipts (payments)	1,578,760	356,192	136,463	-
Net cash provided (used) by operating activities	17,959,624	18,523,230	8,276,262	(324,372)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in from other funds	637,075	663,221	620,238	306,756
Transfers out to other funds	(1,211,566)	(4,874,264)	(2,623,397)	-
Short-term interfund borrowings	6,173,451	-	(145,322)	-
Operating grants	-	-	-	-
Payments received/(made) on advances (to)/from other funds	-	-	-	-
Net cash provided (used) by noncapital and related financing activities	5,598,960	(4,211,043)	(2,148,481)	306,756
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(11,965,276)	(29,900,154)	(6,312,263)	-
Sale of capital assets	131,729	118,078	152,222	-
Receipts (payments) on leases	(34,338)	1,268,356	1,278,169	-
Principal paid on bonds and other debt	(5,289,070)	(5,911,003)	(3,932,162)	-
Bond issuance cost paid	(36,963)	(286,741)	(85,600)	-
Interest paid on revenue bonds	(3,131,934)	(1,533,126)	-	-
Interest paid on bonds and other debt	-	(2,727,081)	(1,839,429)	-
Issuance of revenue, G.O. bonds, and capital leases	7,732,563	34,418,322	14,985,740	-
Passenger facility charges/capital grants	-	-	-	-
Rebatable arbitrage	-	15,669	31,806	-
Contributed capital	-	329,685	1,199,940	-
Net cash provided (used) for capital and related financing activities	(12,593,289)	(4,207,995)	5,478,423	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	7,678,162	21,210,534	14,471,454	-
Purchase of investments	(17,998,344)	(33,308,076)	(26,219,184)	(366,253)
Interest earnings on cash and investments	1,028,921	1,311,182	921,370	16,565
Net cash provided by (used for) investing activities	(9,291,261)	(10,786,360)	(10,826,360)	(349,688)
Net increase (decrease) in cash and cash equivalents	1,674,034	(682,168)	779,844	(367,304)
Cash and cash equivalents - beginning of year	17,218,416	12,986,186	7,147,495	1,663,523
Cash and cash equivalents - end of year	$ 18,892,450	$ 12,304,018	$ 7,927,339	$ 1,296,219
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 17,664,270	$ 9,492,426	$ 1,846,980	$ (330,312)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	8,972,917	7,118,132	5,462,027	-
Other income (expense)	1,578,760	356,192	136,463	-
Change in current assets and liabilities:				
Accounts receivable	(341,877)	(178,692)	67,325	(704,746)
Inventory	8,977	(58,173)	-	-
Due from other governments	-	(28,475)	-	-
Accounts payable	(11,074,043)	1,752,655	702,046	(4,415,303)
Due from others	-	-	-	5,125,989
Other accrued expenses	242,913	(7,190)	20,373	-
Customer deposits	656,110	29,355	-	-
Increase in compensated absences	251,597	47,000	41,048	-
Net cash provided (used) by operating activities	$ 17,959,624	$ 18,523,230	$ 8,276,262	$ (324,372)
Supplemental cash flow information:				
Noncash capital contributions and other charges	$ -	$ 1,509,919	$ 2,337,901	$ -

See accompanying Notes to Basic Financial Statements.

Enterprise Funds			
Stormwater	Other Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ 6,315,727	$ 21,686,091	$ 485,785,136	$ 39,453,127
(288,843)	(10,097,933)	(405,361,208)	(38,617,334)
(868,480)	(11,690,079)	(33,004,116)	(4,199,269)
86,684	985,352	3,143,451	50,782
5,245,088	883,431	50,563,263	(3,312,694)
-	849,200	3,076,490	32,915
(907,310)	(3,100,079)	(12,716,616)	(792,470)
(4,500,000)	1,071,633	2,599,762	(129,808)
-	7,294,964	7,294,964	-
-	(1,540,853)	(1,540,853)	-
(5,407,310)	4,574,865	(1,286,253)	(889,363)
(13,982,108)	(26,285,549)	(88,445,350)	(369,790)
1,058	97,017	500,104	496,305
-	-	2,512,187	482,631
(19,983,521)	(2,392,824)	(37,508,580)	-
(240,030)	(41,615)	(690,949)	-
(3,096,082)	-	(7,761,142)	-
-	(294,016)	(4,860,526)	-
27,018,321	9,462,160	93,617,106	70,744
-	965,605	965,605	-
-	12,378	59,853	-
-	11,062,018	12,591,643	-
(10,282,362)	(7,414,826)	(29,020,049)	679,890
1,360,757	10,806,625	55,527,532	16,824,689
(2,009,595)	(15,562,310)	(95,463,762)	(16,511,105)
1,709,580	995,059	5,982,677	887,593
1,060,742	(3,760,626)	(33,953,553)	1,201,177
(9,383,842)	(5,717,156)	(13,696,592)	(2,320,990)
16,756,540	13,086,577	68,858,737	4,432,716
$ 7,372,698	$ 7,369,421	$ 55,162,145	$ 2,111,726
$ 4,292,368	$ (9,084,936)	$ 23,880,796	$ (2,109,403)
384,514	8,497,448	30,435,038	322,088
86,684	900,665	3,058,764	50,782
(32,734)	(733,257)	(1,923,981)	(7,157)
-	(54,556)	(103,752)	(380,619)
-	(124,114)	(152,589)	-
266,346	1,017,859	(11,750,440)	58,566
-	-	5,125,989	-
240,703	131,087	627,886	(1,260,890)
-	300	685,765	-
7,207	332,935	679,787	13,939
$ 5,245,088	$ 883,431	$ 50,563,263	$ (3,312,694)
$ -	$ -	$ 3,847,820	$ 119,897

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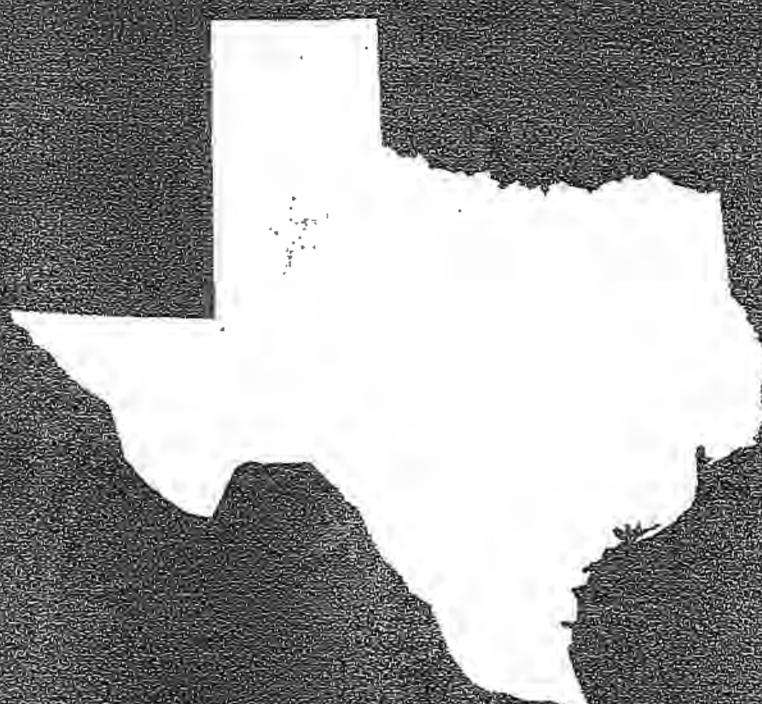

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Basic Financial Statements (BFS) of the City of Lubbock, Texas (City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to government units, including specialized industry practices as specified in the American Institute of Certified Public Accountants audit and accounting guide titled *State and Local Governments*. The Governmental Accounting Standards Board (GASB) is the acknowledged standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities related to business-type activities and enterprise funds, including component units, the City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant accounting policies are described below.

A. REPORTING ENTITY

The City is a municipal corporation governed by a Council-Manager form of government. The City, incorporated in 1909, is located in the northwestern part of the state. The City currently occupies a land area of 119.1 square miles and serves a population exceeding 211,000. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City provides a full range of services, including police and fire protection; recreational activities and cultural events; construction and maintenance of highways, streets, and other infrastructure; and sanitation services. The City also provides utilities for electricity, water, wastewater, and stormwater as well as a public transportation system.

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

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

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS

The Urban Renewal Agency (URA) has been included in the City's financial reporting entity within the primary government using the blended method because, although it is legally separate, its operations are so intertwined with the City that it is, in substance, a part of the City. The URA was formed to provide urban renewal services including rehabilitation of housing, acquisition of housing, and disposition of land. The URA Board is composed of nine members appointed by the Mayor with the consent of the City Council, and acts only in an advisory capacity to the City Council. All powers to govern the URA are held by the City Council. There are no separate financial statements available for the URA.

West Texas Municipal Power Agency (WTMPA) is a legally separate municipal corporation, a political subdivision of Texas, and body politic and corporate, formed in 1983, governed by an eight member Board of Directors. The board consists of two directors from each city. One member is elected as the president who presides over monthly meetings. Directors serve without compensation. WTMPA has no employees and instead contracts with the City for general operations. WTMPA may engage in the business of generation, transmission, sale, and exchange of electric energy to the four participating public entities: Lubbock, Tulia, Brownfield, and Floydada. WTMPA may also participate in power pooling and power exchange agreements with other entities. WTMPA provides electricity to its four member cities with the City having a 92.2% interest in its operations. Each member city appoints two members to the WTMPA board, however an affirmative vote of the "majority in interest" is required to approve the operating budget, approve capital projects, approve debt issuance, and approve any amendments to WTMPA rules and regulations. The City maintains the "majority in interest" vote based on Kilowatt purchases, and consequently has majority voting control. As the City purchases approximately 92.2% of the electricity brokered, WTMPA provides services almost exclusively to the City and is therefore presented as a blended enterprise fund. Their separate audited financial statements may be obtained through the City.

DISCRETELY PRESENTED COMPONENT UNITS

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

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

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

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

RELATED ORGANIZATIONS

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

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

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

The **Lubbock Housing Finance Corporation, Inc.** was formed pursuant to the Texas Housing Finance Corporation Act, to finance the cost of decent, safe, and affordable residential housing. The Mayor appoints the seven-member board.

North and East Lubbock Community Development Corporation (CDC) was formed from the recommendation of the mayor's commission formed in May 2002 to examine the condition of North & East Lubbock. Incorporated in February 2004, the CDC began work to effectuate change in North and East Lubbock. The North & East Lubbock Community Development Corporation is a local entity that drives social change, promotes autonomy and empowerment by increasing the supply of quality and affordable housing, generating economic activity, and coordinating the efficient delivery of social services. The City Council appoints two members of an eleven-member board. The City Council is not able to impose its will on the entity and there is no financial benefit/burden relationship.

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

The Lubbock Firemen's Retirement and Relief Fund (Pension Trust Fund) operates under provisions of the Firemen's Relief and Retirement Laws of the State of Texas for purposes of providing retirement benefits for the City's firefighters. The Mayor's designee, the Director of Fiscal Planning, three firefighters elected by members of the Pension Trust Fund and two at-large members elected by the Board, govern its affairs. It is funded by contributions from the firefighters and City matching contributions. As provided by enabling legislation, the City's responsibility to the Pension Trust Fund is limited to matching monthly contributions made by the members. Title to assets is vested in the Pension Trust Fund and not in the City. The State Firemen's Pension Commission is the governing body over the Pension Trust Fund and the City cannot significantly influence its operations. Their separate audited financial statements may be obtained through the City.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City's financial statements are prepared using the reporting model specified in GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* – Omnibus, GASB Statement No. 38 – *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. As specified by Statement No. 34, the Basic Financial Statements (BFS) include both Government-Wide and Fund Financial Statements. In FY 2006 the City adopted the provisions of GASB Statement No. 44 – *Economic Condition Reporting: The Statistical Section*. This new standard improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model.

The Government-Wide Financial Statements (GWFS) (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City and its blended component units as a whole. The discretely presented component units are also aggregately presented within these statements. The effect of interfund activity has been removed from these statements by allocation of the activities of the various internal service funds to the governmental and business-type activities on a fund basis based on the predominant users of the services. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the GWFS using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The GWFS focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The Government-Wide Statement of Net Assets reports all financial and capital resources of the City, excluding those reported in the fiduciary fund. It is displayed in the format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: (1) invested in capital assets net of related debt, (2) restricted, and (3) unrestricted. Invested in capital assets net of related debt equals capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as invested in capital assets net of related debt or restricted, are shown as unrestricted. Reservations or designations of net assets imposed by the City, whether by administrative policy or legislative actions of the City Council that do not otherwise meet the definition of restricted net assets, are considered unrestricted in the GWFS.

The Government-Wide Statement of Activities demonstrates the degree to which the direct expenses for a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Also part of the BFS are Fund Financial Statements (FFS) for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the GWFS. The focus of the FFS is on major funds, as defined by GASB Statement No. 34. GASB Statement No. 34 sets forth minimum criteria for determination of major funds, i.e., a percentage of assets, liabilities, revenue, or expenditures/expenses of fund category and of the governmental and enterprise funds combined. However, it also gives governments the option of displaying other funds as major funds. The City can elect to add some funds as major funds because of outstanding debt or community focus. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the FFS. Other non-major funds are combined in a single column in the appropriate FFS.

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

Fund Financial Statements

The GWFS are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary FFS. The City's fiduciary FFS includes only an agency fund that uses the accrual basis of accounting. However, because agency funds report only assets and liabilities, this fund does not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Because the enterprise funds are combined into a single business-type activities column on the GWFS, certain interfund activities between these funds are eliminated in the consolidation for the GWFS, but are included in the fund columns in the proprietary FFS. The effect of inter-fund activity has been eliminated from the GWFS. For instance, 92.2% of the operations of WTMPA representing transactions between WTMPA and Lubbock Power & Light have been eliminated for the GWFS presentation and for the electric BTA. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's electric, water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental FFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is necessary, (1) to demonstrate legal and covenant compliance, (2) to demonstrate the sources and uses of liquid resources, and (3) to demonstrate how the City's actual revenues and expenditures conform to the annual budget. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available, generally, if they are collected within 45 days of the end of the current fiscal period, with the exception of sales taxes which are considered to be available if they are collected within 60 days of year end. The City considers the grant availability period to be one year for revenue recognition. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when the liability has matured. Because the governmental FFS are presented on a different basis of accounting than the GWFS, reconciliations are provided immediately following each fund statement. These reconciliations explain the adjustments necessary to convert the FFS into the governmental activities column of the GWFS.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fund Accounting

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

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

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

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

The Electric Fund accounts for the activities of Lubbock Power & Light (LP&L), the City-owned electric production and distribution system.

The Water Fund accounts for the activities of the City's water system.

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

The West Texas Municipal Power Agency (WTMPA) Fund accounts for the activities of power generation and power brokering to member cities. Member cities include Lubbock with 92% ownership, and Tulia, Brownfield, and Floydada comprising the remaining 8% ownership.

The Stormwater Fund accounts for the activities of the stormwater utility, which provides stormwater drainage for the City.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following non-major funds:

Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest (other than debt service payments made by proprietary funds).

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital improvements (other than those recorded in the proprietary funds).

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

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

Internal Service Funds are used to account for services provided to other departments, agencies of the departments or to other governments on a cost reimbursement basis (i.e., Fleet Maintenance Fund, Central Warehouse Fund, Print Shop Fund, Self-Insurance Fund, etc.).

Fiduciary Fund is an **Agency Fund** that is used to account for assets held by the City as an agent for private organizations. This fund closed in FY 2006 and is not part of the government-wide financials.

D. BUDGETARY ACCOUNTING

The City Manager submits a proposed operating budget and capital improvement plan to the City Council annually for the upcoming fiscal year. Public hearings are conducted to obtain taxpayer comments, and the budget is legally enacted through passage of an ordinance by City Council. City Council action is also required for the approval of any supplemental appropriations.. All budget amounts presented in the budget comparison statement reflect the original budget and the amended budget, which have been adjusted for legally authorized supplemental appropriations to the annual budget during the fiscal year. The operating budget is adopted on a basis consistent with GAAP for the General Fund. Budgetary control is maintained at the department level in the following expenditure categories: personnel services, supplies, other charges, and

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY ACCOUNTING (Continued)

capital outlay. Management may make administrative transfers and increases or decreases in accounts within categories without Council approval, as long as expenditures do not exceed budgeted appropriations at the fund level, the legal level of control. All annual operating appropriations lapse at the end of the fiscal year. Capital budgets do not lapse at fiscal year end but remain in effect until the project is completed and closed.

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

E. ENCUMBRANCES

At the end of the fiscal year, encumbrances for goods and services that have not been received are canceled. At the beginning of the next fiscal year, management reviews all open encumbrances. During the budget revision process, encumbrances may be re-established. On October 1, 2006, the General Fund had no significant amounts of open encumbrances.

F. ASSETS, LIABILITIES AND FUND BALANCE/NET ASSETS

Equity in Cash and Investments - The City pools the resources of the various funds in order to facilitate the management of cash and enhance investment earnings. Records are maintained which reflect each fund's equity in the pooled account. The City's investments are stated at fair value, which is based on quoted market prices as of the valuation date.

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 present an insignificant risk of changes in value because of changes in interest rates. Restricted cash includes cash equivalents that have been restricted by bond covenants for debt service requirements and passenger facility charges.

Investments – Investments include securities in the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. Restricted investments include investments that have been restricted for bond financed capital projects and money restricted for claims in the Risk and Health Insurance Funds.

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

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ASSETS, LIABILITIES, AND FUND BALANCE/NET ASSETS (Continued)

the City. The City adjusts the allowance for uncollectible taxes and deferred tax revenue at fiscal year end based upon historical collection experience. To write off property taxes receivable, the City eliminates the receivable and reduces the allowance for uncollectible accounts.

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

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

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

Mortgage Receivables - Mortgage receivables consist of loans made to Lubbock residents and businesses under the City's Community Development loan program. These loans were originally funded primarily through grants received from the U.S. Department of Housing and Urban Development.

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

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

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

Infrastructure/Improvements	10-50 years
Buildings	15-50 years
Equipment	3-15 years
Water rights	85 years

Interest Capitalization – Because the City issues general-purpose capital improvement bonds, which are recorded within the proprietary funds, the City capitalizes interest costs for business-type activities and enterprise funds according to the Financial Accounting Standards Board (FASB) Statement No. 34 *Capitalization of Interest Cost* and FASB Statement No. 62 *Capitalization of Interest Costs*. The City capitalized interest of approximately $961,000 net of interest earned, for the business-type activities and the enterprise funds during the current fiscal year.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ASSETS, LIABILITIES, AND FUND BALANCE/NET ASSETS (Continued)

Restricted Net Assets – Certain enterprise fund and governmental activities assets are restricted for construction and debt; consequently, net assets have been restricted for these amounts. The excess of other restricted assets over related liabilities are included as restricted net assets for bond proceeds, bond indentures requirements, and passenger facility charges.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

G. REVENUES, EXPENSES AND EXPENDITURES

Interest Income on pooled cash and investments is allocated monthly based on the percentage of a fund's six-month rolling average monthly balance in pooled cash and investments to the total citywide six-month rolling average monthly balance in pooled cash and investments, except for certain Fiduciary Funds, certain Special Revenue Funds, Capital Project Funds, and certain Internal Service Funds. The interest income on pooled cash and investments of these funds is reported in the General Fund or the Debt Service Fund.

Sales Tax Revenue for the City results from an allocation of 1.5% of the total sales tax levy of 8.25%, which is collected by the State of Texas and remitted to the City monthly. The tax is collected by the vendor and is required to be remitted to the State by the 20th of the month following collection. The tax is then paid to the City by the 10th of the next month.

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

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

Compensated Absences consists of vacation leave and sick leave. Vacation leave of 10-20 days is granted to all regular employees dependent upon the date employed, years of service, and civil service status. Currently, up to 40 hours of vacation leave may be "carried over" to the next calendar year. The City is obligated to make payment upon retirement or termination for employees in good standing for any available, unused vacation leave.

Sick leave for employees is accrued at 1-¼ days per month with a maximum accrual status of 200 days. After 15 years of continuous full time service for non-civil service personnel, vested sick leave is paid on retirement or termination at the current hourly rate for up to 90 days. Upon retirement or termination, Civil Service Personnel (Police) are paid for up to 90 days accrued sick leave after one year of employment. Civil Service Personnel (Firefighters) are paid for up to 90 days of accrued sick leave upon retirement or termination. The Texas Civil Service laws dictate certain benefits and personnel policies above and beyond those policies of the City.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. REVENUES, EXPENSES AND EXPENDITURES (Continued)

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

Post Employment Benefits for retirees of the City of Lubbock include the option to purchase health and life insurance benefits at their own expense. However, employees that retire with 15 years of service or Civil Service employees that retire who have a sick-leave balance in excess of 90 days will be able to elect to continue receiving medical coverage in full 30-day periods for the term of the balance of their sick leave. Amounts to cover premiums and administrative costs, with an incremental charge for reserve funding, are determined by the City's health care administrator. Employer contributions are funded on a pay-as-you-go basis and approximated $1.4 million for fiscal 2005. These contributions are included in the amount of insurance expense reflected in the financial activity reported in the Health Insurance Internal Service Fund.

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. RESTRICTED NET ASSETS

Restricted net assets are only used for their intended purpose. For projects funded by tax exempt debt proceeds, the debt proceeds are used first, then unrestricted resources are used.

B. NET ASSET/FUND BALANCE DEFICIT

The deficit of $198,884 in the Health Benefits Internal Service Fund is due to unusually high health claim activity in FY 2006. The revenues charged to user departments were based on predetermined rates. The health rates have been reevaluated in FY 2007 to prevent future deficits.

C. GENERAL FUND BUDGET OVERAGE

The General Fund FY 2006 amended budgeted expenditures and transfers out were $113,255,548 and actual expenditures and transfers out were $113,714,942, an overage of $459,394. Management has recently issued new policies for departmental review of budgets.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. DEPOSITS AND INVESTMENTS

Deposits

On September 30, 2006, the bank balance of the City's deposits was $3,002,928. All of the bank balances are covered by federal depository insurance or collateralized. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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. The City's Investment Policy requires the minimum collateral level to be 102% of market value of principal and accrued interest.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

A. CASH AND DEPOSITS (Continued)

At September 30, 2006, bank balances was exposed to custodial credit risk as follows:

Insured	$ 400,000
Uninsured and uncollateralized	
Uninsured and collateral held by pledging financial institution	2,602,928
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the City's name	-
	$3,002,928

Investments

At September 30, 2006, the City had the following investments and maturities:

	September 30, 2006		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Repurchase Agreements *	$ 1,796,529	$ 1,796,529	-
Federal Home Loan Banks	9,929,600	9,929,600	-
Federal Home Loan Mortgage Corporation	10,579,104	8,591,704	$ 1,987,400
Federal National Mortgage Association	36,548,440	30,605,040	5,943,400
Farm Credit Note	1,980,000	1,980,000	-
Federal Home Loan Step Up Note	3,978,600	1,981,400	1,997,200
Money market mutual funds **	35,926,078	35,926,078	-
State Investment Pools **	166,306,317	166,306,317	-
	$ 267,044,668	$ 257,116,668	$ 9,928,000

*Considered cash equivalent for financial reporting.

** Money market mutual funds and State Investment Pools are considered cash equivalents for financial reporting, unless restricted for bond financed capital projects and claims for Risk and Health Insurance Funds.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to those that can be held to maturity and by limiting final maturity to no more than five (5) years. The money market mutual funds and investment pools are presented as an investment with a maturity of less then one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's policy allows investment in direct obligations of and other obligations guaranteed as to principal of the U.S. Treasury and U.S. agencies and instrumentalities with the exception of mortgage backed securities. It allows obligations of investment in 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. It may also invest in fully collateralized repurchase agreements, fully collateralized certificates of deposit, commercial paper and bank acceptances with a stated maturity of 270 days or fewer from the date of issuance, AAA-rated, no-load money market mutual funds regulated by the Securities and Exchange Commission, and AAA-rated, constant dollar investments pools authorized by the City Council. At September 30, 2006, Standard & Poor's rated the investment pools and the money market mutual funds AAAm. The senior unsecured debt for investments in FNMA and FHLMC are rated AAA by Standard & Poor's and Moody's.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

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 required that deposits and repurchase agreements be held in an institution that has a minimum collateral level of 102% of the market value. FHLB, FHLMC, and FNMA investments are held in the City's name in third party safekeeping by a Federal Reserve member financial institution designated as a City depository. The City shall maintain a list of authorized broker/dealers and financial institutions, which are approved by the Audit 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. At September 30, 2006, the City's investments constituted the following percentages of total investments: repurchase agreements – 0.7%, FHLB – 5.2%, FHLMC – 0.4%, FNMA – 13.7%, FFCN - 0.7%, Money Market Mutual Funds – 13.45%, and State Investment Pools – 62.28%.

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

B. INTERFUND TRANSACTIONS

Interfund balances, specifically the due to and due from other funds, are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. These outstanding balances are repaid within the following fiscal year.

Interfund balances, specifically advances to and from other funds, are longer-term loans to cover Council directed internal financing of certain projects. At September 30, 2006 the City had $10,761,331 in internal financing. These balances are assessed an interest charge and are repaid over time through operations and transfers.

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

	Interfund Receivables (Thousands)				
	Governmental Funds		Proprietary Funds		
Interfund Payables (Thousands)	General	Nonmajor Government	WTMPA	Nonmajor Enterprise	Totals
Governmental Funds:					
Nonmajor Governmental	$ 450	$ 631	$ -	$ 1,541	$ 2,622
Proprietary Funds:					
Electric	-	-	6,173	-	6,173
Nonmajor Enterprise	1,927	-	-	-	1,927
Internal Service	39	-	-	-	39
Totals	$ 2,416	$ 631	$ 6,173	$ 1,541	$ 10,761

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

B. INTERFUND TRANSACTIONS (Continued)

~~Net transfers of $9,607,211 from business-type activities to governmental activities, down $5.9 million from~~ the prior year, on the government-wide statement of activities is primarily the result of 1) debt service payments made from the debt service fund, but funded from an operating fund; 2) subsidy transfers from unrestricted funds; and 3) transfers to move indirect cost allocations, payments in lieu of taxes (PILOT), and franchise fees to the general fund or other funds as appropriate. The following interfund transfers are reflected in the fund financial statements (all amounts in thousands):

	Interfund Transfers Out: (Thousands)								
	Governmental Funds		Proprietary Funds						
Interfund Transfers In: (Thousands)	General	Nonmajor Gov.	Electric	Water	Sewer	Storm-Water	Nonmajor Enterprise	Internal Service	Totals
Governmental Funds:									
General Fund	$ -	$ 723	$ 880	$ 4,649	$ 2,623	$ 907	$ 2,828	$ 714	$ 13,324
Nonmajor Governmental	587	4,632	25	-	-	-	30	78	5,352
Proprietary Funds:									
Electric	-	312	-	225	-	-	100	-	637
Water	-	521	-	-	-	-	142	-	663
Wastewater	-	620	-	-	-	-	-	-	620
Stormwater	-	-	-	-	-	-	-	-	-
WTMPA	-	-	307	-	-	-	-	-	307
Nonmajor Enterprise	849	-	-	-	-	-	-	-	849
Internal Service Funds	-	33	-	-	-	-	-	-	33
Total	$ 1,436	$ 6,841	$ 1,212	$ 4,874	$ 2,623	$ 907	$ 3,100	$ 792	$ 21,785

C. DEFERRED CHARGES

The total deferred charge of $3,077,777 in the LP&L Enterprise Fund represents an advertising contract with the United Spirit Arena. The advertising (and amortization) began with the opening of the sports arena in fiscal year 2000 and will continue for 30 years.

D. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, was as follows:

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

D. CAPITAL ASSETS (Continued)

Primary Government:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	$ 8,951,100	$ 20,354	$ -	$ 8,971,454
Construction in Progress	37,793,428	27,701,223	14,844,298	50,650,353
Total Capital Assets Not Depreciated	46,744,528	27,721,577	14,844,298	59,621,807
Capital Assets Depreciated:				
Buildings	57,606,045	3,674,134	330,543	60,949,636
Improvements Other than Buildings	136,398,990	11,520,452	914,367	147,005,075
Machinery and Equipment	60,242,876	8,065,957	3,336,666	64,972,167
Total Capital Assets Depreciated	254,247,911	23,260,543	4,581,576	272,926,878
Less Accumulated Depreciation:				
Buildings	29,459,873	1,934,827	314,587	31,080,113
Improvements Other than Buildings	92,503,760	4,834,434	775,906	96,562,288
Machinery and Equipment	40,414,655	7,057,454	3,115,466	44,356,643
Total Accumulated Depreciation	162,378,288	13,826,715	4,205,959	171,999,044
Total Capital Assets Depreciated, Net	91,869,623	9,433,828	375,617	100,927,834
Governmental Activities Capital Assets, Net	$ 138,614,151	$ 37,155,405	$ 15,219,915	$ 160,549,641

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

Governmental activities:	
Administrative Services	$ 386,871
Community Services	144,336
Cultural and Recreation Services	3,351,006
Economic and Development	146,397
Fire	1,213,165
Health	271,771
Other Public Safety	496,369
Police	3,163,233
Street and Traffic Engineering	3,791,173
Non-Departmental	327,104
Internal Service Funds	130,646
Total depreciation expense - governmental activities	13,422,071
Transfer in to accumulated depreciation - governmental activities	404,644
Increase in accumulated depreciation - governmental activities	$ 13,826,715

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

D. CAPITAL ASSETS (Continued)

Business-Type Activities:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	$ 31,948,711	$ -	$ -	$ 31,948,711
Construction in Progress	128,432,179	58,415,600	50,201,552	136,646,227
Total Capital Assets Not Depreciated	160,380,890	58,415,600	50,201,552	168,594,938
Capital Assets Depreciated:				
Buildings	97,027,146	483,657	-	97,510,803
Improvements Other than Buildings	605,412,170	59,621,921	375,396	664,658,695
Machinery and Equipment	138,670,688	27,169,630	4,116,964	161,723,354
Total Capital Assets Depreciated	841,110,004	87,275,208	4,492,360	923,892,852
Less Accumulated Depreciation:				
Buildings	31,075,692	2,342,667	-	33,418,359
Improvements Other than Buildings	258,019,184	17,325,603	159,373	275,185,414
Machinery and Equipment	74,952,427	12,057,269	3,280,169	83,729,527
Total Accumulated Depreciation	364,047,303	31,725,539	3,439,542	392,333,300
Total Capital Assets Depreciated, Net	477,062,701	55,549,669	1,052,818	531,559,552
Business-Type Activities Capital Assets, Net	$637,443,591	$113,965,269	$ 51,254,370	$ 700,154,490

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

Business-Type Activities:	
Electric	$ 8,839,585
Water	7,118,132
Wastewater	5,462,027
Stormwater	384,514
Solid Waste	3,875,819
Airport	3,281,317
Transit	1,340,312
Internal Service	191,442
Total depreciation expense - business-type activities	30,493,148
Transfer in to accumulated depreciation - business-type activities	1,232,391
Increase in accumulated depreciation - business-type activities	$ 31,725,539

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

D. CAPITAL ASSETS (Continued)

Construction Commitments

The City of Lubbock has active construction projects at fiscal year end. The Parks Department projects include a 12-field fastpitch softball complex. The City continues to work on a large street project involving Milwaukee Avenue from 34th Street to 98th Street. This project is in the Gateway Street Projects Fund.

Water projects include the design and construction of a new pump station in southwest Lubbock. The recompaction of 98th Street from Slide to just beyond Frankford Avenue is a major wastewater project. The City is busy working at the airport to construct 38,000 square yards of new pavement to help serve air carrier aircrafts. Stormwater operations continue to work on two very large construction projects. The first project provides for flood relief for Clapp Park and the eleven playa lakes immediately upstream. The second project provides for the construction of a flood relief project for south Lubbock's chain of playa lakes.

Projects	Original Commitments	Spent-to-Date	Remaining Commitments
Public Safety	$ 1,708,338	$ 1,553,720	$ 154,618
Park Improvements	27,149,311	8,620,769	18,528,542
Street Improvements	26,133,199	10,999,784	15,133,415
General Capital Projects	925,000	6,575	918,425
General Facilities Improvements	4,456,673	2,259,430	2,197,243
Tax Increment Fund Capital Projects	24,131,566	6,537,195	17,594,371
Gateway Street Projects	23,349,000	19,684,371	3,664,629
Electric	26,476,192	8,814,299	17,661,893
Water	71,421,032	32,078,599	39,342,433
Wastewater	17,400,000	8,377,603	9,022,397
Solid Waste	7,215,680	991,100	6,224,580
Airport	30,994,699	20,092,779	10,901,920
Stormwater	83,688,018	65,636,771	18,051,247
Internal Service Fund	1,000,000	655,076	344,924
Total	$ 346,048,708	$ 186,308,071	$ 159,740,637

E. RETIREMENT PLANS

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

Summary of significant data for each retirement plan follows:

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

Plan Description

The City provides pension benefits for all of its full-time employees (with the exception of firefighters) through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of 811 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years.

Contributions

The contribution rate for the employees is 7% and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

Actuarial Assumptions

The actuarial assumptions for the December 31, 2005 valuations are as follows:

Actuarial cost method:	Unit credit
Amortization method:	Level percent of payroll
Remaining amortization period:	25 years- open period
Asset valuation method:	Amortized cost
Investment rate of return:	7%
Projected salary increases:	None
Includes inflation at:	3.5%
Cost of Living adjustments:	None

As of September 30	Annual Pension Cost	Contribution Made
2004	$ 8,708,867	8,708,867
2005	9,933,373	9,933,373
2006	10,904,031	10,904,031

TEXAS MUNICIPAL RETIREMENT SYSTEM
THREE-YEAR HISTORICAL SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

As of December 31	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)
2003	$ 182,884,183	239,809,434	76.3%	56,925,251
2004	186,398,545	248,432,807	75.0%	62,034,262
2005	195,046,632	261,430,108	74.6%	66,383,476

As of December 31	Annual Covered Payroll	UAAL as a % Of Covered Payroll
2003	$ 57,577,743	98.9%
2004	61,931,003	100.2%
2005	65,424,918	101.5%

The City of Lubbock is one of 811 municipalities having the benefit plan administered by TMRS. Each of the municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

LUBBOCK FIREFIGHTER'S RELIEF AND RETIREMENT FUND (LFRRF)

Plan Description

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

The LFRRF provides service retirement, death, disability and withdrawal benefits. These benefits fully vest after 20 years of credited service. A partially vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. Employees may retire at age 50 with 20 years of service. A reduced early service retirement benefit is provided for employees who terminate employment with 20 or more years of service. The LFRRF Plan effective November 1, 2003 provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 68.92% of final 48-month average salary plus $335.05 per month for each year of service in excess of 20 years.

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

There is no provision for automatic postretirement benefit increases. LFRRF has the authority to provide, and has periodically provided for in the past, ad hoc postretirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighter's Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

Contributions Required and Contributions Made

The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

State law requires that each plan of benefits adopted by LFRRF be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, LFRRF's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize LFRRF's unfunded actuarial accrued liability (UAAL), if any, and the number of years needed to amortize LFRRF's unfunded actuarial liability, if any, is determined using a level percentage of payroll method.

The costs of administering the plan are financed by LFRRF.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

Annual Pension Cost

For the fiscal year ended September 30, 2006, the City of Lubbock's Annual Pension Cost (APC) for the Lubbock Fire Fund was equal to $3,208,595 as described in item 4 in the table below. Based on the results of the December 31, 2004 actuarial valuation of the Plan Effective November 1, 2003, the most recent biennial actuarial valuation, the Board's actuary found that the fund had an adequate financing arrangement, as described in the paragraph below, based on the fixed level of the firefighter contribution rates and on the assumed level of City contribution rates. Based on the Plan Effective November 1, 2003, LFRRF's funding policy requires contributions equal to 12.43% of pay by the firefighters. Contributions by the City are based on a formula, which causes the City's contribution rate to fluctuate from year to year. The December 31, 2004 actuarial valuation assumes that the City's contributions will average 19% of payroll in the future.

Therefore, based on the December 31, 2004 actuarial valuation of the Plan Effective November 1, 2003, the Annual Required Contributions (ARC) are not actuarially determined but are equal to the City's actual contributions beginning January 1, 2005. This actuarial valuation satisfied the parameters of the Governmental Accounting Standards Board (GASB) Statement No. 27. Prior to January 1, 2005, the ARC were not actuarially determined but, based on the December 31, 2002 actuarial valuation, were equal to the City's actual contributions in calendar year 2004. This actuarial valuation also satisfied the parameters of GASB Statement No. 27.

The following shows the development of the Net Pension Obligation (NPO) as of September 30, 2006:

1.	Annual Required Contributions (ARC)	$ 3,220,205
2.	Interest on NPO	(72,729)
3.	Adjustment to ARC	61,119
4.	Annual Pension Cost (APC)	3,208,595
5.	Actual City contributions made	(3,220,205)
6.	Increase (Decrease) in NPO/(asset)	(11,610)
7.	NPO/(asset) at October 1, 2005	(909,112)
8.	NPO/(asset) at September 30, 2006	($920,722)

The ARC for the period October 1, 2005 through September 30, 2006 was based on the December 31, 2002 and the December 31, 2004 actuarial valuations. The entry age actuarial cost method was used with the normal cost calculated as a level percentage of payroll. The actuarial value of assets was market value smoothed by a five-year deferred recognition method, with the actuarial value not more than 110% or less than 90% of the market value of assets. The actuarial assumptions included in an investment return assumption of 8% per year (net of expenses), projected salary increases including promotion and longevity averaging 5.7% per year over a 30-year career, and no postretirement cost-of-living adjustments. An inflation assumption of 4% per year was included in the investment return and salary increase assumptions. The UAAL is amortized with the excess of the assumed total contribution rate over the normal cost rate. The number of years needed to amortize the UAAL is determined using an open, level percentage of payroll method, assuming that the payroll will increase 4% per year, and was 24.7 years as of the December 31, 2002 actuarial valuation and 20.6 years as of December 31, 2004 actuarial valuation, both based on the plan provisions effective November 1, 2003.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

Further details concerning the financial position of the LFRRF and the latest actuarial valuation are available by contacting the Board of Trustees, LFRRF, City of Lubbock, P.O. Box 2000, Lubbock, Texas 79457. A stand-alone financial report is available by contacting the LFRRF.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
9/30/04	$ 2,582,713	101 %	(897,648)
9/30/05	3,016,942	100	(909,112)
9/30/06	3,208,595	100	(920,722)

Analysis of Funding Progress
Required Supplementary Information (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) /Funding excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c) 4	UAAL/ Funding Excess as a Percentage of Covered Payroll ((b-a)/c)
12/31/00 1,2	$119,660,788	114,675,049	(4,985,739)	104.3%	12,243,913	(40.7)%
12/31/02 1,3	111,261,775	127,850,414	16,588,639	87.0	13,521,366	122.7
12/31/04 5	130,174,984	143,991,975	13,816,991	90.4	14,711,366	93.9

1. Economic and demographic assumptions were revised.
2. Reflects changes in plan benefit provisions effective December 1, 2001.
3. Reflects changes in plan benefit provisions effective November 1, 2003.
4. The covered payroll is based on estimated annualized salaries used in the valuation.
5. Demographic assumption was revised.

F. DEFERRED COMPENSATION

The City offers its employees two deferred compensation plans in accordance with Internal Revenue Code ("IRC") Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans' assets are held in trust for the exclusive benefits of the participants and their beneficiaries.

The City does not provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the BFS.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

G. SURFACE WATER SUPPLY

Canadian River Municipal Water Authority

The Canadian River Municipal Water Authority (CRMWA) is a Conservation and Reclamation Authority established by the Texas Legislature to construct a dam, water reservoir, and aqueduct system for the purpose of supplying water to surrounding cities. The Authority was created in 1953 and comprises eleven cities, including the City of Lubbock. The budget, financing, and operations of the Authority are governed by a Board of Directors selected by the governing bodies of each of the member cities, each city being entitled to one or two members dependent upon population. At September 30, 2006, the Board was comprised of 18 members, two of which represented the City.

The City contracted with the CRMWA to reimburse it for a portion of the cost of the Canadian River Dam and aqueduct system in exchange for surface water. The City's pro rata share of annual fixed and variable operating and reserve assessments are recorded as an expense of obtaining surface water.

Prior to FY 1999, long-term debt was owed to the U.S. Bureau of Reclamation for the cost of construction of the facility, which was completed in 1969. The City's allocation of project costs was $32,905,862. During FY 1999, bonds in the principal amount of $12,300,000 were issued to pay off the construction obligation owed to the U.S. Bureau of Reclamation via CRMWA in the amount of $20,809,067. The difference of $8,509,067 was a discount in the remaining principal provided by the U.S. Bureau of Reclamation to the member cities. This discount has been recorded as a deferred gain on refunding and is being amortized over the life of the refunding bonds. At September 30, 2006, $4,091,071 remains unamortized. The annual principal and interest payments are included in the disclosures for other City related long-term debt. The above cost for the rights are recorded as capital assets and are being amortized over 85 years. The cost and debt are recorded in the Water Enterprise Fund.

In 2005, the Canadian River Municipal Authority issued $48,125,000 in Contract Revenue Bonds. The City of Lubbock shared in this issue in the amount of $17,960,000.

The Canadian River Municipal Authority issued a new Contract Revenue Bond, Series 2006 in April 2006 in the amount of $49,075,000. The City of Lubbock shared in the issue for $18,573,906 and other costs of $492,465, and received depreciable assets (water rights) valued at $19,066,371. These assets and liabilities are recorded in the Water Enterprise Fund.

Brazos River Authority - Lake Alan Henry

During 1989, the City entered into an agreement with the Brazos River Authority (BRA) for the construction, maintenance, and operation of the facilities known as Lake Alan Henry. The BRA, which is authorized by the State of Texas to provide for the conservation and development of surface waters in the Brazos River Basin, issued bonds for the construction of a dam and lake facilities on the South Fork of the Double Mountain Fork of the Brazos River. The BRA issued $16,970,000 in revenue bonds in 1989 and $39,685,000 in revenue bonds in 1991, which were refunded in July 1995. The asset, Lake Alan Henry dam and facilities, are recorded as capital assets and are being depreciated over 50 years. The financial activity, along with related obligation, is accounted for in the Water Enterprise Fund.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT

GENERAL OBLIGATION BONDS AND CERTIFICATES OF OBLIGATION:

Interest Rate%	Issue Date	Maturity Date	Amount Issued	Outstanding 9-30-06
5.39	10-01-93	02-15-14	$ 2,550,000	$ 1,040,000
5.20	10-01-93	02-15-14	1,470,000	225,000
5.14	10-01-93	02-15-14	19,215,000	2,895,000
4.91	01-15-97	02-15-09	17,530,000	5,225,000
4.61	01-01-98	02-15-08	1,330,000	320,000
4.71	01-01-98	02-15-18	10,260,000	2,575,000
4.36	01-15-99	02-15-14	20,835,000	16,710,000
4.58	01-15-99	02-15-19	15,355,000	2,310,000
4.77	04-01-99	02-15-19	6,100,000	915,000
4.71	04-01-99	02-15-19	12,300,000	8,060,000
5.37	09-15-99	02-15-20	24,800,000	3,100,000
5.54	03-15-00	02-15-20	7,000,000	875,000
4.90	02-01-01	02-15-21	9,100,000	1,560,000
4.81	02-01-01	02-15-21	2,770,000	560,000
5.25	06-01-01	02-15-31	35,000,000	3,710,000
4.68	02-15-02	02-15-22	9,400,000	8,470,000
4.71	02-15-02	02-15-22	6,450,000	5,805,000
4.70	02-15-02	02-15-22	1,545,000	1,385,000
4.62	07-01-02	02-15-22	2,605,000	2,250,000
3.18	07-01-02	02-15-10	10,810,000	4,635,000
4.42	07-15-03	02-15-23	11,885,000	10,415000
4.47	07-15-03	02-15-24	9,775,000	9,130,000
4.48	07-15-03	02-15-24	685,000	635,000
4.47	07-15-03	02-15-24	3,595,000	3,355,000
4.87	07-15-03	02-15-34	40,135,000	38,710,000
4.47	07-15-03	02-15-24	3,800,000	3,550,000
4.60	08-15-03	04-15-23	8,900,000	7,810,000
4.60	08-15-03	04-15-23	13,270,000	11,655,000
4.37	06-30-04	08-01-12	1,000,000	750,000
4.09	09-28-04	02-15-24	2,025,000	1,735,000
4.08	09-28-04	02-15-24	3,100,000	2,585,000
3.58	09-28-04	02-15-20	22,620,000	22,100,000
3.89	02-15-05	04-15-25	23,055,000	21,470,000
3.94	06-15-05	02-15-21	49,615,000	49,615,000
4.26	08-15-05	02-15-25	46,525,000	44,950,000
4.82	07-15-05	02-15-21	43,080,000	41,380,000
4.27	07-15-05	02-15-25	7,265,000	7,035,000
4.58	04-15-06	02-15-26	76,950,000	76,950,000
4.58	04-15-06	02-15-26	2,740,000	2,740,000
4.84	05-15-06	02-15-31	18,830,000	18,830,000
Total			$ 605,275,000	$ 448,025,000(A)

(A) Excludes ($4,264,274) net deferred losses on advance refundings, net bond premiums and discounts, and bond issuance costs - ($1,906,682) business-type and ($2,357,592) governmental. Additionally, this amount includes $323,567,720 of bonds used to finance enterprise fund activities.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

At September 30, 2006, management of the City believes that it was in compliance with all financial bond covenants on outstanding general obligation bonded debt, certificates of obligation, and water revenue bonded debt.

LP&L REVENUE BONDS

Interest Rate(%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-06
3.80 to 5.50	6-15-95	4-15-08	$ 13,560,000	$ 1,965,000
4.25 to 6.25	1-01-98	4-15-18	9,170,000	5,520,000
3.10 to 5.00	1-15-99	4-15-19	14,975,000	7,525,000
4.00 to 5.25	7-01-01	4-15-21	9,200,000	6,900,000
Total			$ 46,905,000	$21,910,000 *

* Balance outstanding excludes $274,845 of net deferred losses on advance refundings, bond premiums and discounts, and bond issuance costs.

OTHER REVENUE BONDS

Interest Rate(%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-06
3.983	09-30-05	09-30-25	17,960,000	17,595,417
4.25 to 5.0	04-30-06	02-15-27	18,573,906	18,573,905
			$36,533,906	$36,169,322 *

* Balance outstanding excludes ($461,839) discount and deferred losses on bonds sold or refunded.

The annual requirements to amortize all outstanding debt of the City as of September 30, 2006 are as follows:

Fiscal	Governmental Activities		Business-Type Activities			
	General Obligation Bonds		General Obligation Bonds		Revenue Bonds	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2007	6,367,599	5,970,307	16,182,401	15,617,695	3,871,149	3,021,708
2008	6,815,093	5,270,849	17,019,907	14,101,110	3,777,331	2,612,994
2009	6,855,963	4,994,544	17,004,037	13,406,654	3,016,932	2,448,196
2010	6,677,160	4,718,846	17,147,840	12,696,672	3,062,637	2,315,474
2011	6,892,527	4,428,865	17,557,473	11,942,950	3,110,359	2,181,036
2012-2016	33,943,446	17,559,698	86,021,554	47,795,579	14,872,099	8,860,165
2017-2021	32,655,873	9,916,808	79,014,127	27,439,606	14,887,118	5,089,955
2022-2026	24,249,619	2,482,180	46,720,381	12,003,058	10,891,111	1,655,657
2027-2031	-	-	19,835,000	4,279,800	590,586	29,529
2032-2036	-	-	7,065,000	541,625	-	-
Totals	$ 124,457,280	$ 55,342,097	$ 323,567,720	$ 159,824,748	$ 58,079,322	$ 28,214,714

Capital leases were used to acquire equipment and vehicles. The interest rate on the leases ranged from 2.0% to 4.3%. The annual requirements on capital leases of the City as of September 30, 2006, including interest payments of $1,790,785 are as follows:

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

Fiscal Year	Governmental Capital Lease Minimum Payment	Business-Type Capital Lease Minimum Payment	Total Capital Lease Minimum Payment
2007	1,694,843	2,277,756	3,972,599
2008	1,694,843	1,946,263	3,641,106
2009	1,673,144	1,842,705	3,515,849
2010	1,522,290	1,748,474	3,270,764
2011	725,904	1,086,012	1,811,916
2012-2016	1,116,246	381,832	1,498,078
Less:			
Interest	(896,711)	(894,074)	(1,790,785)
Total	$ 7,530,559	$ 8,388,968	$ 15,919,527

The carrying values on the leased assets of the City as of September 30, 2006 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
Governmental Activities	$ 12,350,672	$ 3,363,345	$ 8,987,327
Business-Type Activities	12,093,797	2,158,891	9,934,906
Total Leased Assets	$ 24,444,469	$ 5,522,236	$ 18,922,233

Long-term obligations (net of discounts and premiums) for governmental and business-type activities for the year ended September 30, 2006 are as follows:

	Debt Payable 9/30/2005	Additions	Deletions	Debt Payable 9/30/2006	Due in one year
Governmental activities:					
Tax-Supported -					
Obligation Bonds	$ 102,720,269	$ 27,526,113	$ 5,789,102	$ 124,457,280	$ 6,367,599
Capital Leases	3,954,885	5,119,980	1,544,306	7,530,559	1,426,999
Compensated Absences	16,288,365	6,313,086	6,341,414	16,260,037	6,133,264
Insurance Claim Payable	2,340,260	19,060,956	18,640,060	2,761,156	2,512,041
Bond Discounts/Premiums	1,865,984	620,860	129,252	2,357,592	-
Arbitrage Payable	-	151,716	-	151,716	-
Total Governmental activities	$ 127,169,763	$ 58,792,711	$ 32,444,134	$ 153,518,340	$ 16,439,903
Business-Type activities:					
Self-Supported -					
Obligation Bonds	286,749,731	70,993,887	34,175,898	323,567,720	16,182,401
Revenue Bonds	42,800,000	18,573,906	3,294,584	58,079,322	3,871,149
Capital Leases	1,354,576	8,158,734	1,124,342	8,388,968	1,974,403
Closure/Post Closure	3,073,391	225,740	-	3,299,131	-
Compensated Absences	5,000,765	2,582,659	2,217,628	5,365,796	2,571,795
Insurance Claim Payable	6,501,898	3,235,231	4,476,153	5,260,976	2,444,632
Bond Discounts/Premiums	2,555,448	648,300	1,297,066	1,906,682	-
Arbitrage Payable	-	71,191	-	71,191	-
Total Business-Type activities	$ 348,035,809	$ 104,489,648	$ 46,585,671	$ 405,939,786	$ 27,044,380

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

Payments on bonds payable for governmental activities are made in the Debt Service Fund. Bonded debt is subject to the applicability of federal arbitrage regulations. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue funds. The Risk Management Internal Service Fund will liquidate insurance claims payable that pertain to governmental activities. Payments for the capital leases that pertain to the governmental activities will be liquidated by the General Fund and Capital Projects Funds.

The total long-term debt is reconciled to the total annual requirements to amortize long-term debt as follows:

Long-term debt - Governmental Activities	$ 153,518,340	
Long-term debt - Business-type Activities	405,939,786	
Interest	243,381,559	
Total amount of debt		$ 802,839,685
Net gains/losses, premiums/discounts	(4,264,274)	
Less: Arbitrage payable	(222,907)	
Less: Capital leases	(15,919,527)	
Less: Insurance claims payable	(8,022,132)	
Less: Compensated absenses	(21,625,833)	
Less: Closure/post closure	(3,299,131)	
Total other debt		(53,353,804)
Total future bonded debt requirements		$ 749,485,881

New Bond Issuances

In April 2006, the City issued $76,950,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2006. The Certificates were issued at a premium of $2,580,245. After paying issuance costs of $541,101, the net proceeds were $78,985,000. Proceeds from the sale of these certificates will be used for airport, Municipal Building, parks, and cemetery improvements, street repairs, and solid waste, stormwater, wastewater, parks, streets, Lubbock Power & Light and economic development projects; and costs associated with the issuance of the Certificates. The proceeds of the debt are recorded in various Enterprise Funds and Capital Projects Funds.

The City also issued $2,740,000 General Obligation Bonds, Series 2006 in April 2006. The General Obligation Bonds were issued at a premium of $8,076. After paying issuance costs of $14,766, the net proceeds were $2,715,000. Proceeds from the sale of these certificates will be used for constructing street improvements including drainage, curbs, gutters, landscaping, sidewalks, curb ramps, utility line relocation and traffic signalization and the acquisition of land and rights-of-way and for acquiring and improving land for park purposes. The proceeds of the debt are recorded in various Capital Projects Funds.

The Canadian River Municipal Authority issued a new Contract Revenue Bond, Series 2006 in April 2006 in the amount of $49,075,000. The City of Lubbock shared in that issue for $18,573,906 and other costs of $492,465, and received depreciable assets (water rights) valued at $19,066,371. These assets and liabilities are recorded in the Water Enterprise Fund.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

Advanced Refundings

The City issued an advance refunding to retire a portion of the City's outstanding debt to lower the debt service requirements on such indebtedness. The net proceeds from the issuance of the Refunding Bonds were deposited with the Escrow Agent (JP Morgan Chase Bank, National Association) in an amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their scheduled redemption date. 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 JP Morgan Chase Bank, the escrow funds are irrevocably pledged to the payment of principal and interest on the Refunded Bonds.

In May 2006, the City issued General Obligation Refunding Bonds, Series 2006 ("Refunding Bonds") with a par value of $18,830,000. The Refunding Bonds refunded $18,015,000 outstanding bonds. They were issued at a net premium of $272,244 and had $208,013 issuance costs. As a result of the refunding, the City decreased its total debt service requirements by $702,199, which resulted in an economic gain of $450,705 and an accounting loss of $862,823. The debt transactions are recorded in an Enterprise Fund.

I. CONDUIT DEBT

The City issued Housing Finance Corporation Bonds, Health Facilities Development Corporation Bonds, and Education Facilities Authority Bonds to provide financial assistance to private sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2006, there were five series of Lubbock Health Facilities Development Corporation Bonds outstanding with an aggregate principal amount payable of $273,890,991. The bonds were issued between 1993 and 2005. Also as of September 30, 2006, there was one series of Lubbock Education Facilities Authority Inc. Bonds outstanding with an aggregate principal amount payable of $8,635,000. The bonds were issued in 1999.

J. RISK MANAGEMENT

The Risk Management Fund was established to account for liability claims, worker's compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, which are based on costs.

In April 1999, the City purchased workers' compensation coverage, with no deductible, from a third party. Prior to April 1999 the City was self-insured for worker's compensation claims. Any claims outstanding prior to April 1999 continue to be the responsibility of the City.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

J. RISK MANAGEMENT (Continued)

The City's self-insurance liability program is on a cash flow basis, which means that the servicing contractor processes, adjusts and pays claims from a deposit provided by the City. The City accounts for the liability program by charging premiums based upon losses, administrative fees and reserve requirements. In order to control the risks associated with liability claims, the City purchased excess liability coverage in September 1999, which is renewed annually. The policy has a $10 million annual aggregate limit and is subject to a $250,000 deductible per claim prior to October 1, 2005, and a $500,000 deductible per claim since October 1, 2005.

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 based upon estimated premiums for the upcoming year.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. Funds are charged based on premium amounts and administrative charges. The City has had no significant reductions in insurance coverage during the fiscal year. Settlements in the current year and preceding two years have not exceeded insurance coverage. The City accounts for all insurance activity in Internal Service Funds.

K. HEALTH INSURANCE

The City provides medical and dental insurance for all full-time employees that are accounted for in the Health Benefits Fund. Revenue for the health insurance premiums are generated from each cost center based upon the number of active full-time employees. The City's plan is self-insured under an Administrative Services Only (ASO) Agreement. The ASO Agreement provides excess coverage of $175,000 per covered individual annually and an aggregate cap of $18,845,757. The insurance vendor based on medical trend, claims history, and utilization determines the aggregate deductible. The contract requires an IBNR reserve of approximately $2.3 million.

The City also provides full-time employees basic term life insurance. Revenues for the life insurance premiums are also generated from each cost center based upon the number of active employees. The life insurance policy has a face value of $10,000 per employee.

Full-time employees may elect to purchase medical and dental insurance for eligible dependents and the City subsidizes dependent premiums to reduce the cost to employees. Employees may also elect to participate in several voluntary insurance programs such as a cancer income policy, voluntary life, and personal accident insurance. Voluntary insurance products are fully paid by the employee.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

K. HEALTH INSURANCE (Continued)

Retiring City employees may elect to retain medical and dental insurance and a reduced amount of life insurance on themselves and eligible dependents. The retiree pays a portion of the premium costs, but the City subsidies retiree premiums by about $1.3 million annually. The life insurance is fully paid by the retiree.

L. ACCRUED INSURANCE CLAIMS

The Self-Insurance Funds establish a liability for self-insurance for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Self-Insurance Funds during the past two years ended September 30:

	FY 2006	FY 2005
Workers' Compensation and Liability Reserves at beginning of fiscal year	$ 6,501,898	$ 6,436,854
Claims Expenses	3,235,231	4,658,359
Claims Payments	(4,476,153)	(4,593,315)
Workers' Compensation and Liability Reserves at end of fiscal year	5,260,976	6,501,898
Medical and Dental Claims Liability at beginning of fiscal year	2,340,260	2,354,536
Claims Expenses	19,060,956	17,432,646
Claims Payments	(18,640,060)	(17,446,922)
Medical and Dental Claims Liability at end of fiscal year	2,761,156	2,340,260
Total Self-Insurance Liability at end of fiscal year	8,022,132	8,842,158
Total Assets to pay claims at end of fiscal year	11,237,066	12,646,638
Accrued insurance claims payable from restricted assets - current	4,956,673	3,943,861
Accrued insurance claims payable - noncurrent	3,065,459	4,898,297
Total accrued insurance claims	$ 8,022,132	$ 8,842,158

M. LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place final covers on its landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and postclosure costs as operating expenses (and recognizing a corresponding liability) in each period based on landfill capacity used as of each balance sheet date.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

M. LANDFILL CLOSURE AND POSTCLOSURE CARE COST (Continued)

The $3,299,131 included in landfill closure and postclosure care liability at September 30, 2006, represents the cumulative amount expensed by the City to date for its two landfills that are registered under TCEQ permit numbers 69 (Landfill 69) and 2252 (Landfill 2252), less amounts that have been paid. Approximately 92 percent of the estimated capacity of Landfill 69 has been used to date, with $806,525 remaining to be recognized over the remaining closure period, which is estimated at two years. Approximately 2.7 percent of the estimated capacity of Landfill 2252 has been used to date, with $23,900,641 remaining to be recognized over the remaining closure period, which is estimated at over 80 years. Postclosure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may be different due to inflation, deflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to provide assurance that financial resources will be available to provide for closure, postclosure care, and remediation or containment of environmental hazards at its landfills. The City is in compliance with these requirements and has chosen the Local Government Financial Test mechanism for providing this assurance. The City expects to finance costs through normal operations.

N. DISAGREGATION OF ACCOUNTS – FUND FINANCIAL STATEMENTS

	Accounts Receivable Summary				
	Court Fines	Property Damage	Paving	Misc.	Balance at 9/30/06
Governmental Activities:					
General Fund	$ 4,394,859	$ 258,940	$ 329,780	$ 175,317	$ 5,158,896
Nonmajor	-	-	-	341,907	341,907
Total	$ 4,394,859	$ 258,940	$ 329,780	$ 517,224	$ 5,500,803

	Accounts Receivable Summary			
	General Consumer	Credit Card	Misc.	Balance at 9/30/06
Business-type Activities:				
LP&L	$ 16,472,414	$ -	$ 81,008	$ 16,553,422
Water	4,737,859	-	250	4,738,109
Wastewater	2,445,149	-	-	2,445,149
Stormwater	775,559	-	-	775,559
WTMPA	1,800,814	-	-	1,800,814
Nonmajor	3,142,939	5,791	125	3,148,855
Total	$ 29,374,734	$ 5,791	$ 81,383	$ 29,461,908

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

N. DISAGREGATION OF ACCOUNTS – FUND FINANCIAL STATEMENTS (Continued)

Allowance for Doubtful Accounts Summary

	Balance at 9/30/06
Governmental	
General Fund	$ 3,333,240
Nonmajor	-
Business-Type	
LP&L	1,008,169
Water	445,656
Wastewater	187,475
Stormwater	86,291
WTMPA	-
Nonmajor	231,312
Total	$ 5,292,143

Accounts Payable Summary

	Vouchers	Accounts	Miscellaneous	Balance at 9/30/06
Governmental:				
General Fund	$ 688,014	$ 2,188,258	$ 409,627	$ 3,285,899
Nonmajor	1,022,563	1,000,889	176,081	2,199,533
Business-Type:				
LP&L	490,514	272,557	272,135	1,035,206
Water	331,100	2,179,886	124,574	2,635,560
Wastewater	149,577	755,676	161,633	1,066,886
Stormwater	55,729	1,075,828	14,880	1,146,437
WTMPA	-	8,329,910	-	8,329,910
Nonmajor	96,251	1,728,886	94,330	1,919,467
Total	$ 2,833,748	$ 17,531,890	$ 1,253,260	$ 21,618,898

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUND (Continued)

O. DISAGREGATION OF ACCOUNTS - GOVERNMENT-WIDE

	Net Receivables				
	Accounts Receivable	Interest Receivable	Taxes Receivable	Internal Service Receivables	Balance at 9/30/06
Governmental Activities	$ 2,167,563	$ 386,349	$ 9,159,695	$ 5,784	$ 11,719,391
Business-type Activities	27,503,005	111,576	-	5,704	27,620,285
Total	$ 29,670,568	$ 497,925	$ 9,159,695	$ 11,488	$ 39,339,676

	Accounts Payable		
	Accounts Payable	Internal Service Payables	Balance at 9/30/06
Governmental Activities	$ 5,485,432	$ 181,289	$ 5,666,721
Business-type Activities	16,133,466	736,217	16,869,683
Total	$ 21,618,898	$ 917,506	$ 22,536,404

NOTE IV. CONTINGENT LIABILITIES

A. FEDERAL GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audits by agents of the granting authority to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grants is not believed to be significant.

B. LITIGATION

The City is currently involved in the following lawsuits which could have an impact on the financial position if the City is found liable.

Charles Emmanuel Bosler, as Surviving Parent of Courtney Nicole Bosler, as Guardian of Colton Bosler v. Travis Riddle and The City of Lubbock:

Plaintiff sued the City of Lubbock and Officer Travis Riddle on behalf of himself and his children arising out of the death of his teenage daughter and injuries to his son from an automobile accident with Officer Travis Riddle. Plaintiff alleges that Officer Riddle was operating his vehicle in a negligent manner and was speeding at the time of the collision. The Defendants asserted that the driver of the vehicle carrying the Bosler children, which was the mother, was negligent in failing to yield the right-of-way to Officer Travis Riddle.

NOTE IV. CONTINGENT LIABILITIES (Continued)

B. LITIGATION (Continued)

The City filed a Motion for Summary Judgment based on the fact that the Plaintiff did not present his notice of claim to the City of Lubbock within six (6) months of the date of the accident. The Plaintiff never filed a notice of claim and filed suit seven (7) months after the date of the accident. The Plaintiff claims that notice was not necessary in that the Defendants had actual notice of the incident.

The trial court granted the City's Summary Judgment based on the fact that the Plaintiff did not file a claim with the City of Lubbock within six (6) months from the date of the accident. The Plaintiff has appealed this decision to the Court of Appeals.

Martha Dillon v. City of Lubbock:

Plaintiff is suing the City of Lubbock for injuries arising from an automobile accident with a City of Lubbock driver. The City of Lubbock driver was exiting an alley when he "T-Boned" the vehicle driven by Martha Dillon. The Plaintiff had undergone previous back surgery, undergone rehabilitation, and had recovered from the previous back surgery to return to work full-time. She had been working full-time for approximately three (3) weeks before this accident occurred.

As a result of this accident she has undergone other procedures including another back surgery at the end of October. According to her treating physician, who is a well respected local physician, her prognosis for being able to return to work on a full-time basis is not very good.

Grace Nunez and Juan Nunez, et al v. City of Lubbock and Taser International, Inc.:

Plaintiffs are suing the City of Lubbock and Taser International arising from the City of Lubbock's police officer's use of a taser in arresting Juan Nunez. The City of Lubbock police officer utilized a taser in arresting Juan Nunez and Nunez died after the taser was utilized.

The City of Lubbock's Plea to the Jurisdiction asserting that the City has no liability under Section 101.057 of the Texas Tort Claims Act has been denied by the trial court. The City has appealed the decision to the Court of Appeals. A recent case with similar facts to the present case was decided by the Waco Court of Appeals in *City of Waco v. Williams*. In that case the appellate court ruled that the City of Waco had immunity under this scenario. This was a 2-1 decision and it is anticipated that the Plaintiffs will appeal the City of Waco case to the Texas Supreme Court.

Grace Nunez and Juan Nunez, et all v. City of Lubbock, Officer Matt Doherty and Taser International, Inc.

This lawsuit presents the same fact situation as described in the previous Nunez lawsuit. The difference is that this lawsuit alleges civil rights violations against the City and Officer Matt Doherty. The suit was filed on December 22, 2006 in the Amarillo Division of the Northern District.

NOTE IV. CONTINGENT LIABILITIES (Continued)

B. LITIGATION (Continued)

Oscar Renda Contracting, Inc., et al v. City of Lubbock, et al:

The Plaintiff is a contractor who bid to perform a contract for the City of Lubbock. Even though Oscar Renda Contracting's bid was over $2,000,000 less than the company who received the award from the City of Lubbock, Oscar Renda Contracting was not awarded such bid. Oscar Renda asserts that the reason it was not awarded the bid was because it has filed a suit against another public entity in El Paso regarding one of its construction projects. They base this on the fact that litigation and the cost of litigation with non-local contractors was mentioned at the time the bid was awarded in August 2006. City of Lubbock filed a Motion for Summary Judgment and it was granted by the trial court. However, the Fifth Circuit of Appeals reversed the decision of the trial court and remanded the case back to trial in a split decision in August 2006. The City of Lubbock has filed a petition with the United States Supreme Court in an effort to get them to review the case.

Layne Stanford v. City of Lubbock and Lubbock Civil Service Commission:

Plaintiff, a fire fighter, filed suit under the Civil Service Act alleging he was wrongfully denied a promotion. He asserts that the Fire Chief wrongfully passed him over for a promotion because he was charged, but not convicted, of DWI.

The main issue in the case pertains to whether he was entitled to have his case heard by a third-party hearing examiner. He asserts that since the City refused to allow the case to be heard by a hearing examiner, he is entitled to the promotion.

The trial court ruled in the Defendant's favor. The case is currently on appeal. Damages are limited to attorney's fees and back pay.

L.J. McCallan, Jr. v. City of Lubbock, et al:

A lawsuit was filed in late November against the City of Lubbock and three Lubbock police officers pertaining to an incident in which a suspect was injured with a taser utilized by one of the Lubbock police officers.

Plaintiff is suing the City and the officers under the Civil Rights Act and is also suing the City under the Texas Tort Claims Act. At this time we do not have much information as we have yet to review the police reports, the investigation by internal affairs, or review the video of the incident. However, it does not appear that there were any significant injuries to the plaintiff.

Terry Ellerbrook v. City of Lubbock:

Plaintiff is a current employee of the City of Lubbock alleging claims of age discrimination, whistle blower claims, retaliation and damages because he was moved from one position to another position within the City. Also, the Plaintiff is asserting open meeting violations by the City. Mr. Ellerbrook is employed as the Director of Solid Waste and is currently earning more money than he was in his prior position. Discovery is ongoing. This case is pending the 237th District Court and is set for trial in August 2007. The City is denying the allegations and claims made by the Plaintiff.

NOTE IV. CONTINGENT LIABILITIES (Continued)

C. SITE REMEDIATION

The City has identified specific locations requiring site remediation relative to underground fuel storage tanks and historical fire training sites. One of the sites referred to below as Lubbock Power & Light (LP&L) Plant 1, represents a liability equally shared by both the City and LP&L.

As of September 30, 2006 the City identified three locations that posed a probable liability. The City recorded the liabilities for the three locations in the Enterprise Funds as follows:

- LP&L Plant 1 ($236,000) – this represents LP&L's portion of the liability only
- LP&L Cooke Plant ($539,000)
- WesTex Aircraft ($300,000)

The City recorded the probable liabilities in the government-wide governmental statements as follows:

- LP&L Plant 1 ($236,000) – this represents the City's portion only
- Police Firing Range ($30,000)
- CFR Training Facility ($114,220)
- Fire Training Academy ($338,335)
- South Fueling Facility ($204,000)

The potential exposure for one remaining location is not readily determinable as of September 30, 2006. In the opinion of management, the ultimate liability for this location will not have a materially adverse effect on the City's financial position.

NOTE V. SUBSEQUENT EVENT

On January 10, 2007, the City sold $54,020,000 General Obligation Refunding Bonds and $25,255,000 Certificate of Obligation Bonds.

APPENDIX B

FORM OF BOND COUNSEL OPINION

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[CLOSING DATE]

$11,805,000
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2008

WE HAVE represented the City of Lubbock, Texas (the "City"), as its Bond Counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

> CITY OF LUBBOCK, TEXAS TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008, dated December 15, 2007, issued in the principal amount of $11,805,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Ordinance") and the Pricing Certificate executed pursuant to the Ordinance.

WE HAVE represented the City as its Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the treatment of interest on the Certificates for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings

of the City, customary certificates of officers, agents and representatives of the City and other public officials, and other certified showings relating to the authorization and issuance of the Certificates. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the City; and

(B) A continuing ad valorem tax upon all taxable property within the City, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the City, including the Certificates, does not exceed any constitutional, statutory or other limitations. In addition, the Certificates are further secured by a limited pledge (not to exceed $1,000) of the surplus net revenues of the City's Waterworks System, as described in the Ordinance.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

Interest on the Certificates is not excludable from gross income for federal income tax purposes under existing law.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the acquisition, ownership or disposition of, or receipt or accrual of interest on, the Certificates.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

OFFICIAL STATEMENT DATED JANUARY 17, 2008

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE CERTIFICATES IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND THE CERTIFICATES ARE NOT PRIVATE ACTIVITY BONDS. SEE "TAX MATTERS – TAX EXEMPTION" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX FOR CORPORATIONS.

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: Moody's Investors Service, Inc. "Aaa"
Standard & Poor's Ratings Services "AAA"
Fitch Ratings "AAA"
See "OTHER INFORMATION – RATINGS" and "BOND INSURANCE" herein.

$52,900,000
CITY OF LUBBOCK, TEXAS
TAX AND WASTEWATER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2008

Dated: January 15, 2008

Due: February 15, as shown on the inside cover

Principal of and interest on the $52,900,000 City of Lubbock, Texas (the "City"), Tax and Wastewater System Surplus Revenue Certificates of Obligation, Series 2008 (the "Certificates") are payable by The Bank of New York Trust Company, National Association, Dallas, Texas (the "Paying Agent/Registrar"). The Certificates are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein. Interest on the Certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months, will accrue from January 15, 2008, and is payable on August 15, 2008, and each February 15 and August 15 thereafter until maturity or earlier redemption, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the last business day of the month preceding each interest payment date (the "Record Date") (see "THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES"). The Certificates are subject to optional redemption prior to their scheduled maturities at the option of the City (see "THE CERTIFICATES – OPTIONAL REDEMPTION").

The Certificates are payable from a combination of (i) the proceeds of a 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 Wastewater System not to exceed $1,000.

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council (the "Ordinance").

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) improvements and extensions to the City's Wastewater System and (ii) professional services rendered in connection therewith. In addition, a portion of the proceeds from the sale of the Certificates will be used to pay the costs of issuance of the Certificates.

The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by FINANCIAL SECURITY ASSURANCE INC. (see "BOND INSURANCE").

FSA.

The Certificates are offered when, as and if issued, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriters named below (the "Underwriters") by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. See "OTHER INFORMATION – LEGAL MATTERS." Delivery of the Certificates through The Depository Trust Company is expected to be on or about February 12, 2008.

Morgan Keegan & Company, Inc.

Merrill Lynch & Co.

Morgan Stanley

Southwest Securities

PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

CUSIP Prefix: 549187

$52,900,000 Tax and Wastewater System Surplus Revenue Certificates of Obligation, Series 2008

(Due February 15)

Maturity	Principal Amount	Interest Rate	Initial Offering Yield (a)	CUSIP Suffix (b)
2009	$ 1,765,000	4.000%	2.670%	6Q0
2010	1,830,000	3.500%	2.700%	6R8
2011	1,895,000	3.500%	2.790%	6S6
2012	1,960,000	3.250%	2.890%	6T4
2013	2,025,000	3.250%	2.980%	6U1
2014	2,095,000	3.250%	3.100%	6V9
2015	2,165,000	3.500%	3.200%	6W7
2016	2,245,000	3.500%	3.320%	6X5
2017	2,325,000	3.625%	3.420%	6Y3
2018 (c)	2,430,000	5.000%	3.520%	6Z0
2019 (c)	2,550,000	5.000%	3.620%	7A4
2020 (c)	2,685,000	5.000%	3.690%	7B2
2021 (c)	2,820,000	5.000%	3.770%	7CO
2022 (c)	2,965,000	5.000%	3.840%	7D8
2023 (c)	3,115,000	5.000%	3.900%	7E6
2024 (c)	3,265,000	4.200%	4.200%	7F3
2025 (c)	3,420,000	5.000%	4.020%	7G1
2026 (c)	3,595,000	5.000%	4.080%	7H9
2027 (c)	3,780,000	5.000%	4.120%	7J5
2028 (c)	3,970,000	5.000%	4.160%	7K2

(a) The initial yields will be established by and are the sole responsibility of the Underwriters, and may subsequently be changed.

(b) CUSIP numbers have been assigned to the Certificates by Standard and Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the registered owners of the Certificates. Neither the City, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(c) The Certificates maturing on February 15, 2018 and thereafter are subject to redemption, at the option of the City, at par value thereof plus accrued interest on February 15, 2017 or any date thereafter (see "THE CERTIFICATES – OPTIONAL REDEMPTION").

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the City or other matters described herein since the date hereof. See "OTHER INFORMATION – CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

The information set forth or included in this Official Statement has been provided by the City and from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

NEITHER THE CITY, THE FINANCIAL ADVISOR, THE UNDERWRITERS NOR BOND COUNSEL MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and Appendix C, "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Certificates; or (iii) the tax exempt status of the interest on the Certificates.

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OFFICIAL STATEMENT SUMMARY

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

THE CITY.. The City of Lubbock, Texas (the "City") is a political subdivision and municipal corporation of the State, located in Lubbock County, Texas. The City covers approximately 119.1 square miles and has an estimated 2008 population of 214,847 (see "INTRODUCTION - DESCRIPTION OF THE CITY").

THE CERTIFICATES....................... $52,900,000 Tax and Wastewater System Surplus Revenue Certificates of Obligation, Series 2008 (the "Certificates"), are dated January 15, 2008, and mature on February 15 in each of the years 2009 through 2028, inclusive.

PAYMENT OF INTEREST.............. Interest on the Certificates accrues from the dated date, and is payable August 15, 2008 and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").

AUTHORITY FOR ISSUANCE....... The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271 of the Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council (the "Ordinance").

SECURITY.. The Certificates are payable from a combination of (i) the proceeds of a 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 Wastewater System not to exceed $1,000.

OPTIONAL REDEMPTION............ The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2018, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

TAX EXEMPTION............................ In the opinion of bond counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates are not private activity bonds. See "TAX MATTERS – TAX EXEMPTION" herein for a discussion of the opinion of bond counsel, including a description of alternative minimum tax for corporations.

USE OF PROCEEDS.......................... Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) improvements and extensions to the City's Wastewater System and (ii) professional services rendered in connection therewith. In addition, a portion of the proceeds from the sale of the Certificates will be used to pay the costs of issuance of the Certificates (see "THE CERTIFICATES - PURPOSE").

RATINGS.. The Certificates are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and "AAA" by Fitch Ratings ("Fitch"), by virtue of an insurance policy to be issued concurrently with the delivery of the Certificates by Financial Security Assurance, Inc. (see "BOND INSURANCE"). The City's underlying ratings on its presently outstanding general obligation debt are "Aa3" by Moody's, "AA" by S&P and "AA" by Fitch. The City also has issues outstanding which are rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch through insurance by various commercial insurance companies (see "OTHER INFORMATION - RATINGS").

BOOK-ENTRY-ONLY SYSTEM.. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM").

PAYMENT RECORD........................ The City has never defaulted in payment of its general obligation tax debt.

- Selected Financial Information -

Fiscal Year Ended 30-Sep	Estimated City Population [a]	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Purpose Funded Tax Debt [b]	Per Capita General Purpose Funded Tax Debt [b]	Ratio Tax Debt to Assessed Valuation [b]	% of Total Tax Collections	Tax Year
2003	204,737	$7,342,344,867	$ 35,862.33	$ 70,188,204	$ 342.82	0.96%	99.21%	2002
2004	206,290	7,921,590,380	38,400.26	70,161,218	340.11	0.89%	98.64%	2003
2005	209,120	8,634,994,862	41,292.06	80,210,269	383.56	0.93%	100.28%	2004
2006	211,187	9,346,613,951	44,257.53	87,231,945	413.06	0.93%	99.71%	2005
2007	212,365	10,002,725,637	47,101.57	92,487,363	435.51	0.92%	99.02%	2006
2008	214,847	10,897,210,563	50,720.79	98,504,904	458.49	0.90%	N/A	2007

[a] Source: The City.

[b] Does not include self-supported debt.

General Fund Consolidated Statement Summary

	2006	2005	2004	2003	2002
Beginning Balance	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 16,598,252	$ 16,716,042
Total Revenues	97,818,207	104,351,116	97,437,436	91,753,809	92,490,374
Total Expenditures	112,278,444	103,203,269	94,160,257	98,934,715	90,594,059
Ending Balance	19,924,711	17,376,420	12,694,525	9,417,346	18,612,357
Reserves & Designations	-	-	-	-	(1,255,041)
Undesignated Fund Balance	$ 19,924,711	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 17,357,316

For additional information regarding the City, please contact:

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Chief Finance Officer
City of Lubbock
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Lubbock, TX 79457
Phone (806) 775-2161
Fax (806) 775-2051

Andy Burcham
Director of Fiscal Policy &
Strategic Planning
City of Lubbock
P.O. Box 2000
Lubbock, TX 79457
Phone (806) 775-2149
Fax (806) 775-2051

Matthew Boles
RBC Capital Markets
2711 N. Haskell Avenue, Suite 2500
Dallas, TX 75204
Phone (214) 989-1672
Fax (214) 989-1650

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Date of Installation to Office	Term Expires	Occupation
David Miller Mayor	May, 2006	May, 2008	Business Owner
Linda DeLeon Council Member, District 1	May, 2004	May, 2010	Business Owner
Floyd Price Council Member, District 2	May, 2004	May, 2008	Retired
Todd R. Klein [1] Council Member, District 3	June, 2007	May, 2010	Grant Consultant
Phyllis Jones Council Member, District 4	May, 2004	May, 2008	Self-Employed
John W. Leonard, III Council Member, District 5	May, 2006	May, 2010	Business Owner
Jim Gilbreath Council Member, District 6	May, 2003	May, 2008	Business Owner

[1] Todd R. Klein was elected June 9, 2007, to fill the unexpired term of District 3 Councilman Gary O. Boren.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Date of Employment in Current Position	Date of Employment with City of Lubbock	Total Government Service
Lee Ann Dumbauld	City Manager	September, 2005	July, 2004	20+
Tom Adams	Deputy City Manager	August, 2004	August, 2004	23
Jeff Yates	Chief Financial Officer	September, 2005	November, 2004	5
Anita Burgess	City Attorney	December, 1995	December, 1995	11
Rebecca Garza	City Secretary	January, 2001	August, 1996	9
Andy Burcham	Director of Fiscal Policy and Strategic Planning	September, 2005	November, 1998	7

CONSULTANTS AND ADVISORS

Auditors .... BKD, LLP
Little Rock, Arkansas

Bond Counsel .... Vinson & Elkins L.L.P.
Dallas, Texas

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

OFFICIAL STATEMENT
RELATING TO

CITY OF LUBBOCK, TEXAS
$52,900,000 TAX AND WASTEWATER SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2008

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $52,900,000 City of Lubbock, Texas Tax and Wastewater System Surplus Revenue Certificates of Obligation, Series 2008 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance authorizing the issuance of the Certificates except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, RBC Capital Markets, Dallas, Texas.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1909, and first adopted its Home Rule Charter in 1917. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six council members. The Mayor is elected at-large for a two-year term ending in an even-numbered year. Each of the six members of the City Council is elected from a single-member district for a four-year term of office. The terms of three members of the City Council expire in each even-numbered year. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, airport, sanitation and solid waste disposal, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 199,564; the estimated 2008 population is 214,847. The City covers approximately 119.1 square miles.

FINANCIAL AND MANAGEMENT CHALLENGES

In recent years, the City experienced a variety of financial and management challenges, and certain investigations and reports conducted or prepared by the City or its consultants found weaknesses in the City's general management and financial practices, both with the City in general and the City's electric utility system, known as Lubbock Power & Light ("LP&L"), in particular. The City is of the view that it has substantially addressed many of these conditions. Reference is made to "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS" for a discussion of these events and a description of how the City has responded to these events.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated January 15, 2008, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15, 2008, and on each February 15 and August 15 thereafter until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein.

PURPOSE

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) improvements and extensions to the City's Wastewater System and (ii) professional services rendered in connection therewith. In addition, a portion of the proceeds from the sale of the Certificates will be used to pay the costs of issuance of the Certificates

AUTHORITY FOR ISSUANCE

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271 of the Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council (the "Ordinance").

SECURITY AND SOURCE OF PAYMENT

The Certificates are payable from a combination of (i) the proceeds of a 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 Wastewater System not to exceed $1,000.

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per $100 taxable assessed valuation.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2018, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for any Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

AMENDMENTS

The City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding, as applicable, amend, add to, or rescind any of the provisions of the Ordinance, except that, without the consent of the registered owners of all of the Certificates, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal on any installment of interest is due payable, reduce the principal amount or the rate of interest, or in any other way modify the terms of their payment, (2) give any preference to any Certificate over any other Certificate or (3) reduce the aggregate principal amount required to be held by owners for consent to any amendment, addition or waiver.

DEFEASANCE

The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Certificates to pay principal, interest and redemption price thereon in any matter permitted by law. Under current Texas law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to principal, premium, if any and all interest to accrue on the Certificates to maturity or redemption and/or (ii) by depositing with a paying agent or other authorized escrow agent amounts sufficient to provide for the payment and/or redemption of the Certificates; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Under current Texas law, upon the making of a deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or to take any other action amending the terms of the Certificates are extinguished; provided however, the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred ond how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificotes ore registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financiol Advisor ond the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participonts, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on o timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

Subject to DTC's policies and guidelines, the City may discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Underwriters.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued, printed Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Trust Company, National Association, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates then outstanding and affected by such change by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first class, postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued with respect to the Certificates, printed certificates will be issued to the registered owners of the Certificates affected and thereafter such obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REMEDIES

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of principal of or interest on the Certificates when due, or if the City defaults in the observance or performance of any of the covenants, conditions or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, a holders of Certificates may not be able to bring such a suit against the City for breach of the Certificate or the Ordinance. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. As noted above, the Ordinance provides that holders of Certificates may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and that all opinions relative to the enforceability of the Ordinance and the Certificates are subject to bankruptcy and other laws affecting creditors rights or remedies generally.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Certificates will be applied as follows:

SOURCES OF FUNDS:	
Principal Amount of Certificates	$52,900,000.00
Original Issue Premium	2,851,566.50
Accrued Interest	175,562.72
Total Sources of Funds	$55,927,129.22
USES OF FUNDS:	
Deposit to Construction Fund	$55,000,000.00
Accrued Interest Deposited to Interest & Sinking Fund	175,562.72
Underwriter's Discount	318,456.44
Cost of Issuance (including bond insurance premium)	433,110.06
Total Uses of Funds	$55,927,129.22

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BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Certificates, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an exhibit to this Official Statement (see APPENDIX C, "SPECIMEN MUNICIPAL BOND INSURANCE POLICY").

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

FINANCIAL SECURITY ASSURANCE INC.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,691,965,000 and its total net unearned premium reserve was approximately $2,201,808,000 in accordance with statutory accounting principles. At September 30, 2007, Financial Security's consolidated shareholder's equity was approximately $2,975,654,000 and its total net unearned premium reserve was approximately $1,721,678,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Certificates, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Certificates or the advisability of investing in the Certificates. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

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FORWARD LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, in particular the information under the heading "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS", that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. Although the City believes such forward-looking statements are based on reasonable assumptions, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to the considerations described below, among others, which could cause the actual financial results of the City to differ materially from those contemplated in such forward-looking statements. Any assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

The City cannot fully predict what effects factors of the nature described below may have on the operations of the City and financial condition of the General Fnnd or its business-type activities, including the City's electric enterprise fund, which operates as Lubbock Power & Light (referred to herein as "LP&L" or the "electric fund"), but the effects could be significant. The discussion of such factors herein does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. With respect to LP&L, extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the securities of the City should obtain and review such information.

Among the factors that could affect the operations and financial condition of the City in general, and its electric utility in particular, are the following:

> Significant changes in governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission, the United States Environmental Protection Agency (the "EPA"), the United States Department of Homeland Security, the United States Department of the Treasury, the Texas Commission on Environmental Quality (the "TCEQ"), the Public Utility Commission of Texas (the "PUC") and the Southwest Power Pool, Inc., with respect to:

- changes in and compliance with environmental and safety laws and policies affecting the City's water, sewer, stormwater and solid waste funds;
- changes in and compliance with national and state homeland security laws and policies effecting the City's water, sewer, solid waste and airport funds;
- electric transmission cost rate structure;
- purchased power and recovery of investments in electric system assets;
- acquisitions and disposal of assets and facilities; and
- present or prospective wholesale and retail competition in the electric industry;

> Unanticipated population growth or decline, and changes in market demand, demographic patterns and the development of technology affecting the City's service area, its general government and public safety expenditures and City revenue from:

- investor owned utility franchise fees,
- City utility and service fees
- sales tax revenues; and
- ad valorem tax revenues;

> With respect to LP&L:

- the implementation of or adjustments made to business strategies adopted by LP&L;
- competition for retail and wholesale customers by LP&L, particularly competition with Xcel (as defined below) and its subsidiaries;
- access to adequate electric transmission facilities to meet current and future demand for energy;
- pricing and transportation of coal, natural gas and other commodities that may affect the cost of energy purchased by LP&L;
- inability of various contractual counterparties to meet their obligations to the City, and with LP&L in particular with respect to LP&L's fuel and power purchase arrangements;

> With respect to the City's financial performance in general:

- legal and administrative proceedings and settlements; and
- significant changes in critical accounting policies.

DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS

In the 2002 and 2003 fiscal years (a fiscal year is referred to herein as "FY", with the year designation being the year in which the fiscal year ends; each City fiscal year begins on October 1 and ends on September 30), the City experienced a variety of financial and management challenges. In response to the events and circumstances that have created such challenges, the City has taken actions to address and correct matters, specifically employing a new management team in 2004, and the City is of the view that progress has been made in correcting these conditions (see "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS"). The following discussion includes an analysis of the events that have occurred in the recent fiscal years, in particular, a summary of the measures taken in response to the challenges that have arisen, and a current description of the City's financial and management position.

FY 2003 FINANCIAL CONCERNS AND MID-YEAR BUDGET AMENDMENTS

In FY 2003, LP&L incurred unanticipated net losses. During FY 2003, interfund loans were made to LP&L from the water fund and the General Fund.

A number of factors contributed to the LP&L losses; a significant factor was that LP&L, unlike most other municipal electric utilities in Texas, competes directly with Southwestern Public Service Company ("SPS"), a subsidiary of a large investor owned energy company, Xcel Energy, Inc. In addition to the service area that has dual certification with Xcel, a small part of the City is also served by South Plains Electric Cooperative ("SPEC"). The City, through LP&L, has competed for both wholesale and retail electric customers against investor owned utilities for over 80 years. This competition has existed despite the fact that the City is not within the transmission system governed by the Electric Reliability Council of Texas ("ERCOT"). ERCOT was opened to retail electric competition through the adoption of State deregulation legislation that went into effect on January 1, 2002.

Prior to FY 2004, the City operated LP&L in a manner that was designed to recover administrative or indirect costs provided by the General Fund for LP&L (such as legal and financial services) as well as certain other general transfers. Such transfers included a payment in lieu of ad valorem taxes, an allocation for indirect costs such as legal and financial services, and a cost of business transfer (which approximates a payment in lieu of franchise taxes. In addition, prior to FY 2003 LP&L was required to annually transfer to the General Fund amounts to support economic development incentives in the City, a payment designated for infrastructure use, a "gas tax" transfer, and a reimbursement of the street lighting expense incurred by the City. Over the ten year period from 1993 to 2002, the average annual operating income of LP&L before transfers was $8 million, and during that period, LP&L transfers to the General Fund for payments in lieu of taxes and recovery of costs of business averaged $8 million per year.

During the preparation of the FY 2003 City budget it was evident that the amount of money transferred from LP&L to the General Fund would need to be reduced given the financial condition of LP&L. Consequently, the FY 2003 budget trimmed $4.8 million from LP&L transfers included in prior year budgets. In February 2003, during a period of extraordinarily high natural gas prices, City finance staff projected that, in the absence of corrective measures, the electric enterprise fund would have an operating loss of $24 million for FY 2003. In the Spring of 2003, the City Council amended the LP&L and General Fund budgets to eliminate $7.7 million in transfers from LP&L to the General Fund. City management then undertook a comprehensive review of the General Fund and other enterprise funds for the purpose of identifying budget cuts throughout City government that would offset the reduced LP&L transfers. Ultimately, the City Council adopted budget amendments during the Spring 2003 mid-year review that totaled $9.7 million for the General Fund (hereinafter referred to as the "2003 Budget Adjustments"), which represented approximately 10.5% of the original FY 2003 General Fund budget.

Other measures that were taken after the 2003 Budget Amendments to address the projected LP&L operating loss included increases in the fuel cost adjustment ("FCA") for residential and small commercial customers, as well as for its two largest customers, which inclnded Texas Tech University ("Texas Tech") and which accounted for approximately 10% of the energy sales of LP&L.

The City is a member of the West Texas Municipal Power Agency ("WTMPA"), a municipal power agency that was formed by concurrent ordinances adopted by the governing bodies of the cities of Brownfield, Floydada, Lubbock and Tulia, Texas (the "Member Cities") in 1983. WTMPA is a separate political subdivision under the laws of the State. In June 1998, WTMPA issued $28,910,000 of its Revenue Bonds, Series 1998 (the "WTMPA Bonds"), to finance the construction and acquisition of a 62 MW electric co-generation project (the "WTMPA Project"). The WTMPA Project consists of a 40 megawatt ("MW") combustion turbine generator (the "Massengale Unit 8 turbine") and the re-powering of an existing 22 MW generation unit, each located at the City's J.R. Massengale Plant.

Numerous issues, both operational and managerial, arose from the WTMPA Project. As a result, the City embarked upon a series of internal financial and management audits of the relationship between LP&L and WTMPA, as well as an analysis of the internal controls of the City with respect to LP&L. No malfeasance was uncovered with respect to the administration of LP&L or WTMPA funds. However, the reviews concluded that the prevailing view that guided the administration of WTMPA affairs by the management of LP&L, was that WTMPA was indistinguishable from LP&L. In April 2003, the WTMPA Member Cities (including the City) engaged Ernst & Young LLP ("E&Y") to conduct an audit of the records of WTMPA and LP&L. The final report of E&Y was delivered in May 2003, and included findings of misallocation of costs among the Member Cities. The report noted that no evidence of misappropriation of assets or intentional omissions of financial information was discovered. The E&Y report found that the misallocations, adding an interest factor for such allocations, and an unbilled 5% management allocation that LP&L was entitled to under the power agreements, would result in a total amount owing to the City of $5,590,746, of which the City owed itself, as a Member City of WTMPA, approximately 90% of the total amount.

In December 2003, the City, WTMPA and the other Member Cities of WTMPA entered into a series of agreements styled the "Comprehensive Settlement Agreement". The Comprehensive Settlement Agreement provided for the reallocation of resources and costs among WTMPA Member Cities, resolved disputes relating to the composition and voting powers of the WTMPA Board, and settled disputed claims incurred by the City on behalf of WTMPA. The City believes the Comprehensive Settlement Agreement better reflects the historical manner in which the Member Cities have engaged in energy activities. WTMPA has been classified as an enterprise fund of the City, which reflects the extensive associations between WTMPA and the City.

In March 2005, the City delivered its Combination Tax and Electric Light and Power System Surplus Revenue Certificates of Obligation, Series 2005, in the aggregate principal amount of $23,055,000. A portion of the proceeds of this issue was used by the City to acquire the WTMPA Project. WTMPA used the proceeds received from the City to defease all of the outstanding WTMPA Bonds. The City now owns and operates the WTMPA Project, as part of LP&L.

SEPTEMBER 30, 2003 FINANCIAL RESULTS

The General Fund . . . As hereafter described in "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - FY 2003 AUDIT RESTATEMENTS, RECLASSIFICATIONS AND INTERNAL CONTROLS ISSUES", the financial position of the City in FY 2003 was impacted by significant changes in the reporting entity and prior period adjustments and reclassifications of the City's FY 2002 financial statements. With respect to the General Fund, the beginning fund balance/net assets were restated from $18.6 million to $16.6 million. The restatement was attributable to the write off of a receivable in the General Fund from the City's golf fund. In addition, the General Fund experienced a $7.2 million reduction in fund balance/net assets in FY 2003, the most significant drawdown of the General Fund reserves in over ten years. The decrease in fund balance occurred because of the $9.3 million transfer to LP&L to ensure the ongoing operation of LP&L and the payment of the senior lien revenue bonds issued by the City for LP&L.

In addition, the General Fund reduction in fund balance was a result of the forgiveness of originally budgeted payments in lieu of taxes, franchise fees and indirect costs of $4.8 million from the electric fund to the General Fund. The aggregate result of restatement of the beginning fund balance and the FY 2003 use of fund balance was a General Fund ending balance of $9.4 million. Coming in to FY 2003, the City had a fund balance (adjusted) of $18.6 million. The City has adopted a policy (the "General Fund Balance Policy") to maintain an unreserved General Fund balance equal to two months operating expenditures. At September 30, 2002 the General Fund balance exceeded the General Fund Balance Policy by $4.5 million. At September 30, 2003, the General Fund Balance Policy required a fund balance of $14.2 million. As a result of the FY 2003 events described above, the City was $4.8 million under the fund balance required under its policy at the close of FY 2003. The decline in General Fund balance limits the City's ability to mitigate future risks of revenue shortfalls and unanticipated expenditures. Reference is made to the information hereafter presented under the headings "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS – CITY'S RESPONSE TO RECENT FINANCIAL AND MANAGEMENT EVENTS - General Fund and General Government Actions – General Fund Budgetary Actions" and "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS – CITY'S RESPONSE TO RECENT FINANCIAL AND MANAGEMENT EVENTS - FY 2007 BUDGET", for a discussion of the results for the General Fund and a summary of the City's planning for FY 2007.

The Electric Fund . . . With respect to LP&L, the measures taken by the City Council during the FY 2003 mid-year budget review yielded substantial results as measured by the projected operating loss of $24 million in February 2003. LP&L ended FY 2003 with a $6.3 million operating loss. Before taking into account transfers from other funds, the electric fund reported a $9 million loss, the first such loss in over ten years. As a consequence of the operating loss, LP&L failed to meet its revenue bond rate covenant under which the City has agreed to set rates for the electric system sufficient to produce net revenues equal to 100% of its senior lien bonded indebtedness. In FY 2003, LP&L produced $0.704 million that was available for the payment of debt service, which represents a 0.3 times coverage of average annual debt service and a 0.2 times coverage of maximum annual debt service, in each case after taking into account the issuance of City general obligation debt for LP&L that occurred in August 2003. Under the terms of its bond ordinances, the failure to meet the rate covenant, while significant, did not result in the acceleration of LP&L's debt. Moreover, the failure did not materially affect LP&L's operations, as LP&L was able to make its debt payments after receiving a $9.3 million contribution from the General Fund, and LP&L has never defaulted in the payment of its bonded indebtedness. In making its debt payments, LP&L has not used any moneys set aside as a debt service reserve fund under its senior lien revenue bond ordinances. Since 2003, LP&L has met the rate covenant, and the City has not made transfers from the General Fund to LP&L.

Despite the relatively small operating income that resulted after taking into account the General Fund contribution to LP&L, total net assets of the electric fund decreased by $3.9 million during FY 2003, to $88.5 million, as a result of a restatement of the beginning fund balance. The restatement reflected the write off of a $4.48 million receivable recorded from WTMPA in FY 2002, although the obligation was disputed by the other Member Cities of WTMPA. As described below under "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS - Recent Measures taken to Address Financial and Management Concerns at LP&L", the WTMPA Settlements have resolved the disputed receivable.

FY 2003 AUDIT RESTATEMENTS, RECLASSIFICATIONS AND INTERNAL CONTROLS ISSUES

As was the case with other municipalities in the State and U.S., the implementation of Government Accounting Standards Board Statement 34 ("GASB 34") by the City in FY 2002 effected a substantial change in the presentation of the City's financial statements. Prior to the implementation of GASB 34, governmental accounting standards did not require the use of a government-wide perspective in the presentation of financial information; instead, fund accounting was generally used to present financial data. Under GASB 34, fund accounting has been supplemented by government-wide statements and certain aspects relating to the presentation of the fund level statements have been modified, as well, particularly with respect to the presentation of restricted and unrestricted net assets within each fund. For additional information regarding accounting policies that are applicable to the City, see Note I. "Summary of Significant Accounting Policies" in the financial statements of the City attached as Appendix A.

The FY 2002 financial statements, and the City's financial statements dating to FY 1993, were audited by Robinson Burdette Martin Seright & Burrows, L.L.P. (the "Former External Auditor"). In keeping with the overall reassessment of its financial and management affairs undertaken by the City, in the Summer of 2003 the City conducted a request for qualifications for its external auditor and selected KPMG L.L.P. ("KPMG") to audit its FY 2003 financial statements. Consequently, the Former External Auditor guided the City through the initial year implementation of GASB 34, while in the second year of GASB 34 financial reporting, the City's financial statements were audited by KPMG. In 2005, the City retained the services of BKD, LLP, to prepare the City's financial statements.

Audit Restatements . . . During the preparation of the FY 2003 CAFR, seven restatements to beginning fund balance/net assets were made to various fund level statements of the City. The restatements totaled $36.7 million. These restatements represented an aggregate increase in net assets of the City of $2.56 million, as some affected funds had their beginning balances restated to a higher figure, while other funds were restated to decrease their beginning fund balance.

The General Fund was restated from a fund balance of $18.6 million to $16.6 million to reflect a write off for an account receivable, which as of September 30, 2002 had ceased to be collectible. Also, the electric fund's beginning fund balance was restated downward by $4.48 million to reflect a receivable from WTMPA that was uncollectible. Other enterprise fund restatements were mede, including an $0.867 million increase in the water fund beginning balance and a $0.722 million increase in the sewer fund beginning balance, each of which were made to reflect a change in accounting treatment pertaining to the appropriate party that is responsible for reimbursement of fees collected by the City for new water and sewer connections. With respect to the impact on a particular fund asset, the most significant restatement in beginning fund balance occurred in the City's community investment fund, a fund used in prior years to account for economic development initiatives, which was restated from a beginning balance of $46.8 million to $36.8 million. The change was associated with an economic development grant made by that fund in FY 2002 that was originally reflected on the accounting statements of the City as a loan. In preparing the 2003 CAFR, it was determined that such transaction should be treated as a grant, not a loan. As a result, the receivable in the community investment fund for the $10 million amount was deleted as an asset of the fund ($6 million of the $10 million grant had originally been funded through an interfund loan to the community investment fund from the water and solid waste funds). Two additional restatements of existing fund balances were made with respect to two entities with which the City has long-standing contractual relationships: a corporate entity that does business under contract with the City as "Citibus", and WTMPA. In the 2003 CAFR, the accounting treatment of these entities was reconsidered, and each was added to the City's financial statements as an enterprise fund. The result of the addition of each of these funds was an increase in net assets, in the amount of $12.3 million for the new transit fund, and $3.2 million for the new WTMPA fund.

Audit Reclassifications . . . In the preparation of the FY 2003 CAFR, it was discovered that the portion of net assets shown in certain of the financial statements, particularly with respect to the enterprise funds (or business-type activities), had been mathematically incorrectly calculated in the FY 2002 CAFR. While the government-wide statement of net assets of the City included in the FY 2002 CAFR showed $37.9 million unrestricted net assets for business-type activities of the City, the fund financial statements showed an aggregate amount of unrestricted net assets of the enterprise funds that totaled $195.2 million of unrestricted net assets. The FY 2003 CAFR reports in the government-wide statement of net assets of the City $32.9 million of unrestricted net assets for business-type activities of the City and the fund financial statements in the FY 2003 CAFR report an aggregate amount of unrestricted net assets for the enterprise funds that total $30.2 million (certain reconciliations are required to balance government-wide and fund level reports, thus small differences should appear between the two presentations).

Internal Controls Issues . . .In accordance with accounting guidelines, the external auditor customarily provides the governmental entity with a "management letter" that includes a discussion of any material weaknesses in the audited government's internal control structure. In its FY 2003 Management Letter (the "2003 Management Letter"), KPMG noted several weaknesses in the City's internal controls, including an overall internal control weakness in the City during FY 2003.

In addition, the 2003 Management Letter noted deficiencies in the year end GAAP financial reporting cycle, citing as examples the significant restatement of beginning net assets/fund balances and the reclassifications described above, as well as numerous adjustments that were required to be posted after the initial closing of the City's books for FY 2003. The failure to timely obtain financial statements from component units, including WTMPA, was also noted. KPMG recommended that the City review the personnel within the City's accounting department and the accounting staff within LP&L to determine whether sufficient qualified personnel were in place to provide accurate and timely closing of the City's books and preparation of annual financial statements. Other material weaknesses noted include the failure of the City to properly reconcile its cash balances, the failure of LP&L to meet its bond rate covenant, a lack of oversight or monitoring of contracts with other entities (for example, WTMPA), and the failure of the City to abide by its General Fund Balance Policy.

CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS

Following the publication of the LP&L/WTMPA Management Audit and the E&Y audit, several key City officers and LP&L management personnel resigned. Between the beginning of FY 2002 and the close of FY 2003, some 29 persons who held senior management positions with the City left the City's employment, some on their own accord and others as a result of a reorganization of City government. Since FY 2004, the City has implemented a number of significant steps to address both its management needs and financial challenges. Certain of the measures taken by the City to strengthen City government in general, and to address its financial challenges, are described below.

General Fund and General Government Actions

> General Fund Budgetary Actions . . . Prior to FY 2007, the City had restored its General Fund balance, within a 2-year period, to roughly 20% of operating revenues. For FY 2007, preliminary projections indicate the General Fund balance will be approximately 18.4% of operating revenues. FY 2007 Expenditures were in line with budget, however, revenues from municipal court fines, franchise taxes, and red light photo enforcement came in $2.5 million less than budgeted, causing a use of approximately $800,000 of General Fund balance. The FY 2007-08 budget incorporates revenue adjustments addressing the shortfalls from the prior year, and has been approved with expenditures balanced to revenues. City management continues monthly assessments of the budgeted expenditures and revenues, a program which was fully implemented in the prior fiscal year.

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

The chairperson is appointed by the Mayor and the other positions are filled by a vote of the City Council. At least two members of the Audit and Investment Committee are required to have a background in financial reporting, accounting or auditing, and at least one member is required to be a certified public accountant, and at least one member is required to have an extensive background in investments. The current membership of the committee consists of Mike Epps, an Executive Vice President at American State Bank in Lubbock, Jim Brunjes, Senior Vice Chancellor and Chief Financial Officer for the Texas Tech University System; R.J. Givens, a real estate agent in the City; Kim Turner, the Director of Internal Audit at Texas Tech; and John Zwiacher, a member of the Board of Directors of LP&L. Mr. Zwiacher is the chair of the Audit and Investment Committee.

> City Management Changes . . . As reflected in "CITY OFFICIALS, STAFF AND CONSULTANTS - SELECTED ADMINISTRATIVE STAFF", the City has in place an experienced management team representing extensive government service experience. This management team has implemented procedures that have addressed the general internal control weakness cited by KPMG in the 2003 Management Letter.

Recent Financial and Management Actions at LP&L

> Fuel Cost Adjustments . . . As of June 1, 2007, LP&L no longer uses fuel cost adjustments to remain competitive with Xcel. Rates are now identical to SPS with a few exceptions, one of which is thet LP&L now has a discount tariff which allows its rates to be lower.

> Establishment of Electric Utilities Board . . . In 2004, several measures were taken to address concerns with the management and operation of LP&L, including: the City Council adopted an ordinance (the "LP&L Governance Ordinance") (1) creating a new Electric Utilities Board (the "Electric Board") for LP&L (the new board replaces a former board that was advisory only), (2) reserving certain duties and responsibilities with respect to LP&L to the City Council (*i.e.*, the powers to approve LP&L's annual budget; set LP&L's rates; issue debt for LP&L; exercise the power of eminent domain for LP&L; and require the payment of an annual fee to the City), aud (3) mandating the creation of certain reserve accounts by LP&L and restricting the transfer of revenues from LP&L to any other fund of the City, including, particularly, the General Fund, until such reserves have been funded; the City initiated a solicitation to the holders of LP&L's senior revenue debt seeking approval to amand each LP&L bond ordinance to provide for the governance of LP&L by the Electric Board; the City, after obtaining the necessary consents, amended the bond ordinances to provide for the governance of LP&L by the Electric Board in January 2005; the voters of the City approved a referendum amending the City Charter to require the establishment of the Electric Board; and the City Council adopted the LP&L Governance Ordinance on December 16, 2004.

The LP&L Governance Ordinance provides that the Electric Board consist of nine members appointed by the City Council, and that the City Council consider extensive business and/or financial experience as the primary qualification for serving on the Electric Board. Electric Board members serve without compensation. Under the LP&L Governance Ordinance, the Board is given the authority, duties and responsibility to (1) approve an annual budget and electric rate schedule for submission to the City Council for approval and, from time to time, submit to the City Council amendments to the budget and/or the electric rate schedule; (2) oversee the audit of the electric fund, and engage an accounting firm for that purpose; and (3) subject to applicable law, including the City Charter and Code of Ordinances, govern, manage, administer and operate the City's electric system, including contracting for legal and other services separate and apart from those provided by the City. In addition, the City Manager is required to consult with, and seek approval of, the Electric Board prior to appointing and/or removing the director of LP&L. In accordance with the New LP&L Governance Ordinance, the director of LP&L reports to the Board. While the City Council retains substantial powers over the electric system, an additional goal of the City in establishing the Electric Board is to develop local expertise in a pool of individuals who can provide a sharper focus by the City on the operation of LP&L than has occurred in the recent past.

> Establishment of Reserve Funds for LP&L; Restriction on Transfers from LP&L . . . The LP&L Governance Ordinance was amended in December of 2006. This amendment included, among other things, changes to the requirements regarding the reserve funds LP&L maintains. As amended, the LP&L Governance Ordinance requires the Electric Utility Board to maintain (i) sufficient operating cash to satisfy all current accounts payable and (ii) a general reserve fund that is equal to the greater of four months gross retail electric revenue as determined by taking the average monthly gross retail electric revenue from the previous fiscal year or $50 million dollars. This general reserve fund shall be used for operational purposes, rate stabilization and for meeting the electric utility demand of any rapid or unforeseen increase in residential and/or commercial development. Under the current LP&L Governance Ordinance, the City may not require the transfer from LP&L any fee equivalent to a franchise fee, a payment in lieu of taxes or other disbursement of the net revenues of LP&L until (a) all bond debt service requirements have been funded (which obligation is senior in right to the obligation to fund the general reserve), (b) sufficient operating cash is maintained, and (c) the general reserve has been fully funded. Additionally, the amendment allows the Electric Utility Board, solely at their discretion and regardless of the funding obligations outlined above, to refund up to one million dollars ($1,000,000) to the ratepayers of the City's electric utility for marketing and competitive purposes. The reserve amounts, franchise fees, payments in lieu of taxes and refunds to the ratepayers of the City's electric utility shall be based on audited, unqualified financial statements from the most recent completed fiscal year. Subject to (i) provisions of State laws that govern municipal utilities, and which stipulate that a first use of the utility's gross revenues be used to pay operating expenses, and (ii) the obligations of the City with respect to LP&L's bonded indebtedness, it is possible that the Electric Board could devise a flow of funds for LP&L that is substantially different from that set forth in the LP&L Governance Ordinance. To date, the Electric Board has not deviated from the flow of funds contemplated under the LP&L Governance Ordinance.

At the end of FY 2007, LP&L partially funded its general reserve fund by the amount of $25.4 million. LP&L has not funded all of the reserve fund established under the LP&L Governance Ordinance, as net revenues have been inadequate for a total funding of such reserve.

> 2008 Proposed Amendment to LP&L Governance Ordinance.... Prior to FY 2004, the City operated LP&L in a manner, consistent with the practice to require its enterprise funds to make a payment in lieu of taxes to the City's General Fund, that provided an annual payment be made by LP&L to the City in lieu of ad valorem taxes and a cost of business transfer (which transfer approximated a payment in lieu of franchise taxes). In an effort to give LP&L an opportunity to regain financial stability, in 2004 the City adopted the LP&L Governance Ordinance which, as described above, mandated the creation of certain reserve accounts by LP&L and restricted the transfer of revenues from LP&L to any other fund of the City, including, particularly, the General Fund, until such reserves had been funded. After FY 2004, the City required, and it is the City's current practice to require, a payment in lieu of taxes from each of its other enterprise funds. During its deliberations concerning the FY 2008 budget, the City Council approved a budgeted $1,000,000 transfer from the net revenues of LP&L to the City's General Fund (the "2008 LP&L Transfer"). The FY 2008 budget was approved by the City Council on September 13, 2007. See "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS – FY 2008 BUDGET." The 2008 LP&L Transfer may not be made until such time that the LP&L Governance Ordinance is amended by the City Council. After audited financial statements are available for September 30, 2007, LP&L and City Finance Staff will make a recommendation to the Electric Utility Board and the City Council that will outline a fiscally sound, graduated policy to begin the limited payment in lieu of franchise fees, while continuing to build the reserve to the required policy levels.

> New Full Requirements Energy Agreement . . . In June 2004, WTMPA entered into a 15 year full requirements wholesale power agreement (the "New Power Agreement") with SPS. The New Power Agreement became effective July 1, 2004, and replaced a series of existing agreements between WTMPA and SPS and the City and SPS, which had expiration dates in 2004 and 2005. Under the New Power Agreement, SPS or its permitted assigns is obligated to provide all energy requirements for each of the Member Cities of WTMPA, including the City, during the term of the agreement, which terminates on June 30, 2019. SPS may terminate the agreement upon the occurrence of an adverse regulatory action under which SPS is required to sell generation assets, and WTMPA may terminate the agreement upon notice and during the final four years of the scheduled termination date if WTMPA acquires an interest in replacement, coal-fired generation. Each party may require adequate assurances of performance whenever there is a reasonable basis therefor.

The New Power Agreement represented a significant departure for LP&L, in that it reflected a long-term commitment to take all of its energy from SPS. The contract reflected a decision of the City to abandon the role of power generator, although, as described below, in connection with the consummation of the New Power Agreement the City has entered into two unit contingency agreements (the "Unit Contingency Agreements") with SPS that will require LP&L to maintain its generation units for dispatch by SPS. Among the implications for LP&L of the New Power Agreement are that LP&L has resolved its long-term power supply issues, and lessened its exposure to fuel price volatility, although SPS will pass through its fuel charges to LP&L on a monthly billing basis. SPS, in turn, may not pass its fuel costs through to its retail customers in the City more frequently than once every six months under current State law that requires SPS to seek a rate order from the PUC before increasing retail fuel cost charges. As a result, the New Power Agreement provides the possibility of both advantages and disadvantages to the City with respect to cash flow, particularly if the City determines to match its FCA to changes in SPS's fuel adjustment, as it has generally done in the past. According to information filed with various regulatory agencies, the City believes that over 60% of the energy that it purchases from SPS is from coal generation. This fuel mix was a significant factor in the City's determination to approve the New Power Agreement by WTMPA. In the event that gas prices should decline over the term of the Agreement, the City believes that SPS has the flexibility to switch a larger portion of its generation to gas, including through the use of the City's generation units in accordance with the Unit Contingency Agreements.

With respect to the competitive posture of the City in light of the long-term commitment of the New Power Agreement, the City notes that under current market conditions, and taking into account the secondary benefits of the agreement, including future savings associated with reduced personnel and maintenance costs as a result of the shift from being an active electric generator to being a passive generator (for SPS under the terms of the Unit Contingency Agreements), the wholesale price of the purchased energy, together with the other financial benefits of the Unit Contingency Agreements and the possible receipt of revenues under the new WTMPA gas agreement described below, permits the City to compete favorably with SPS.

An additional benefit of the New Power Agreement is that it will permit the City to increase its efforts in developing LP&L's distribution business. In light of recent rate structure changes implemented by both the City and SPS that require new developments in the City to fund electric infrastructure through a development charge paid when the development is platted, new principals in developments are choosing to install only one electric distribution infrastructure. Since this new development charge was implemented in FY 2003, all major new developments in the City have selected LP&L as the electric distributor, which positions the City as a distributor of energy to those developments in the future, even though the retail provider of such energy could be a utility other that LP&L and other electric providers could choose to build their own distribution infrastructure to serve the developments.

Perhaps the greatest risk to LP&L from the New Power Agreement is that given the term of the agreement and the dynamic nature of electric competition, over time the wholesale price of the purchased energy will not permit the City to obtain the favorable margins that are currently being achieved by the City. While the City does not believe that the area served by LP&L will be opened in the short-term to retail deregulation, as is the case in other parts of the State that could occur during the term of the New Power Agreement. While there are significant uncertainties as to how such deregulation, if it occurs, would be administered, it is possible that new retail energy providers could enter the market during the term of the New Power Agreement. In addition, by tying its energy requirements solely to SPS, and though the other new agreements discussed in this section, the City has significantly increased its dependence on SPS as a counterparty to vital agreements relating to the operation and financial condition of LP&L. Counterparty risk is risk associated with the counterparty's financial condition, credit ratings, changes in business strategies and other quantitative and qualitative measures that could affect the ability of the counterparty to perform its obligations to the City. Both the long-term Unit Contingency Agreement and the New Power Agreement provides the City the right to demand certain credit assurances from its counterparty if it has reasonable grounds for insecurity regarding the performance of any contract obligation.

> Other New Energy Related Agreements . . . As noted above, in connection with the negotiation of the New Power Agreement, the City negotiated the Unit Contingency Agreements, which consist of two agreements that dedicate the City's generation capacity solely to SPS, which, subject to certain customary conditions, including reasonable notice and run times, has the right to call upon one or more of the generation units owned or controlled by LP&L, from time to time to meet energy requirements of SPS. Including the WTMPA Project, all of the capacity of which, in accordance with the WTMPA Settlements, is dedicated to LP&L, the City has dedicated generation capacity of 219 megawatts to SPS under the Unit Contingency Agreements. The most fuel efficient units within that capacity are the 39 MW capacity of Massengale Unit 8 and the 21 MW capacity of the Brandon Unit 1 ("Brandon Station"), which is located on the campus of Texas Tech (the "New Units"). The remaining capacity is in twelve older units (the "Older Units"). With respect to the New Units, SPS may dispatch those units during the term ending June 30, 2007; the term of the Unit Contingency Agreement for the Older Units is fifteen years, matching the term of the Power Purchase Agreement, with an expiration date of June 30, 2019. Aside from the differences in units covered, the term of the agreements and certain termination provisions in the Older Unit agreement, each Unit Contingency Agreement is substantially identical. The Unit Contingency Agreements include a demand charge, which must be paid irrespective of whether SPS chooses to take energy from the City's units, and an energy charge that is based upon the output of any of the City's units that is dispatched for SPS. While the amount of the energy charge will depend upon the energy taken by SPS from the City's generation units, if any, the Unit Contingency Agreements provide an annual minimum payment by SPS to the City of $6.3 million.

> Natural Gas Sale Agreement . . Subsequent to its execution of the New Power Agreement, WTMPA and other parties entered into a series of agreements (collectively, the "New WTMPA Gas Agreements") under which WTMPA may acquire natural gas and effectively exchange it for electric power to realize a cost savings. Under the New WTMPA Gas Agreements, WTMPA may purchase natural gas from Texas Municipal Gas Corporation ("TMGC") at below-market prices and sell the gas to SPS in return for a market-priced credit (reduced by nominal administrative and incentive fees) against payments due from WTMPA under the New Power Agreement. The net savings, if any, will be applied proportionately to reduce the power charges of WTMPA's Member Cities, including the City. TMGC is a Texas nonprofit public facility corporation created for the purpose of acquiring and producing natural gas reserves and selling its production to municipal entities such as WTMPA and LP&L. The City's standby gas purchase agreement, mentioned above in connection with the Unit Contingency Agreements, is also with TMGC.

Under the terms of the New WTMPA Gas Agreements, SPS is not obligated to purchase gas from WTMPA unless natural gas producers, dealers, or other suppliers execute contracts to sell gas to TMGC's upstream gas provider, those suppliers offer to sell such gas on terms that SPS considers at least as advantageous as those available from other producers and dealers, and the aggregate quantities sold do not exceed either SPS's Texas gas requirements or the quantities available to WTMPA from TMGC at a discount from the offered prices or the quantities needed to generate WTMPA's electric requirements. WTMPA's marketprice credit is based on the prices offered by the qualified suppliers, and its supply of gas is dependent on sales by the qualified suppliers at those prices. TMGC has secured contracts with five suppliers (ConocoPhillps, Coral Energy, NGTS, Concorde Energy, and Tenaska). There can be no assurance that sufficient qualified suppliers will contract to sell gas, or that they will offer to do so on sufficiently advantageous terms, to supply all or any portion of WTMPA's gas requirements under the New WTMPA Gas Agreements. In addition, the discount now offered by TMGC may be reduced as necessary to enable it to comply with financial covenants, although the discount has remained essentially constant for three years. For these and other reasons, there can be no assurance that WTMPA will be able to realize savings in any amount or for any term for the benefit of its members under the New WTMPA Gas Agreements. Nevertheless, the City believes that the New WTMPA Gas Agreements contain sufficient economic incentives to induce SPS to qualify sufficient suppliers and to accept gas under the agreements up to the permitted quantities, and that the TMGC discount will continue to hold. For FY 2008, LP&L did not budget any revenues from WTMPA gas activity.

> Wholesale Energy Agreement with Texas Tech. . . The decision in the Summer of 2004 to take greater amounts of energy from Xcel resulted in a dispute between the City and Texas Tech regarding a prior agreement with respect to the operation of Brandon Station, which is located on the Texas Tech campus. In response to mediation to resolve disputes under the prior agreement, the City and Texas Tech executed a new contract on April 28, 2005 (the "New Texas Tech Agreement"). In general terms, Texas Tech has agreed to continue to purchase energy from the City at a price that will provide the City with a small rate of return, and is paying for energy usage at the rates provided in the New Texas Tech Agreement. The City has agreed that steam produced at Brandon Station, if any, will be delivered to Texas Tech at no charge. The City has also agreed with Texas Tech that it may terminate the agreement upon reasonable notice to the City, in which event the City will wheel energy to Texas Tech in accordance with an energy delivery charge. The City is of the view that the New Texas Tech Agreement has resolved the dispute with its largest customer on terms that are mutually beneficial for the parties.

> Chief Executive Officer for LP&L . . . Gary Zheng was appointed Chief Executive Officer of LP&L in September 2005. Previously, he had served as the Superintendent of Electric Distributions at LP&L and subsequently, from March 2003 until his recent appointment to CEO, as the Chief Operating Officer of LP&L. He has more than 19 years of engineering and management experience in electrical utility business. Mr. Zheng, a registered Professional Engineer, is a graduate of the University of Southern California with a MS in Electrical Engineering, a MS in Computer Engineering and a PhD in Electrical Engineering.

FY 2008 BUDGET

General Fund . . . The City Council adopted the FY 2007-08 budget and five year forecast on September 13, 2007. The City's FY 2007-08 budget for the General Fund is balanced with $122.4 million in total revenues and expenses. The budget projects that sales tax revenues will produce 53.9% of total tax revenues (tax revenues represent 79.39% of the General Fund's total operating revenues), while ad valorem tax revenue is budgeted to produce 44.8% of total tax revenues.

In FY 2008 the City's total tax rate was set at $0.45505 per $100 taxable assessed valuation, down from $0.46199 in FY 2007. The City's tax roll increased $894.5 million, or 8.9%, from FY 2007 to FY 2008. The City Council, on June 12, 2003, passed a resolution affirming their support for truth-in-taxation. The goal of this resolution is to allow the citizens to be better informed about the real needs of City government and if the increased revenue from increased appraisal values is truly necessary. The resolution goes on to provide that each year the tax rate should be adopted based on the actual needs of government. This goal was affirmed in April 2004 in a resolution that stated the City Council has supported, as well as taken action, to provide tax relief to property owners within the City. In addition, the City Council recognized the need for the City to be autonomous in its ability to provide the public safety, health, and quality of life for its citizens. The FY 2007-08 Operating Budget was developed in consideration of the goals of the resolutions and, as a result, there was a $0.00694 decrease in the adopted tax rate.

Total transfers to the General Fund from enterprise and internal service funds are budgeted to increase by $1.5 million. Transfers out increased $3.2 million mainly due to the Cemetery and Civic Centers moving to enterprise funds, but need General Fund assistance for operating purposes. On the expenditure side, administrative services and public works budgets experienced decreases of three to six percent due to efficiency planning. Cultural and recreation services budgets decreased over 18% due to the movement of the Cemetery and Civic Centers to Enterprise Funds. Community services are four percent higher due to scheduled charge increases for data processing and information technology. Expenditures for public safety are $4.9 million greater than the amended FY 2006-07 budget, or a 6.5% increase. This increase is due to the City Council goal of increasing public safety officers in Fire and Police. Overall, General Fund operating expenditures are budgeted to increase by $3.5 million over the amended FY 2007 budget.

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Enterprise Funds . . . The following table (amounts in millions) illustrates the revenues, use or contribution of net appropriable assets, and appropriation as approved in the City's FY 2007-08 adopted operating budget and five year forecast for the Solid Waste, Wastewater, Water and Electric Funds:

	Adopted FY 2007-08 Revenue	Adopted FY 2007-08 Planned Use (Contribution) Net Assets	Adopted FY 2007-08 Appropriation	Change from Prior Year
Solid Waste	$ 15,781,779	764,575	16,546,354	-6.6%
Wastewater	22,088,059	1,549,231	23,637,290	0.4%
Water	42,611,577	6,412,285	49,023,862	8.2%
LP & L	135,436,074	-	126,597,820	-44.2%

The decreased budget in Solid Waste is a result of lower fuel costs, motor vehicle and heavy machinery maintenance costs, and master lease payments. Decreases in these areas are as follows (in millions): fuel costs, ($0.3); maintenance costs, ($0.1); master lease costs, ($1.7). No rate increase was needed in FY 2007-08.

The increased budget in Water is a result of increased debt service payments for debt issued during 2006-07 and for increased Canadian River Municipal Water Authority ("CRMWA") costs. Increases in these areas are as follows (in millions): debt service, $3.8; and CRMWA costs, $0.4. The large increase in debt service is mainly related to the acquisition of water rights over the past two years. No rate increase was needed in FY 2007-08.

See also "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - CITY'S RESPONSES TO RECENT FINANCIAL AND MANAGEMENT EVENTS – 2008 Proposed Amendment to LP&L Governance Ordinance."

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AD VALOREM TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the City is the responsibility of the Lubbock Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code (defined below) to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. The appraised value of a residence homestead for a tax year may not exceed the lesser of (1) the most recent market value of the residence homestead as determined by the appraisal entity or (2) 110 percent of the appraised value of the residence homestead for the preceding tax year. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to Title I of the Texas Tax Code (the "Property Tax Code"), for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; or (2) an exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000.

Effective January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district, may provide that the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older will not be increased above the amount of taxes imposed in the year such residence qualified for such limitation. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or older or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead within the taxing unit and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded. The City has established such a limitation on ad valorem taxes.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation. State law additionally provides for one motor vehicle owned by an individual and used in the course of the owner's occupation or profession and also for personal activities of the owner to be exempted from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. In addition, under Section 11.253 of the Texas Tax Code, "Goods-in-transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory.

The City may create one or more tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the zone in excess of the "frozen value" to pay or finance the costs of certain public improvements in the zone. Taxes levied by the City against the values of real property in the zone in excess of the "frozen value" are not available for general city use but are restricted to paying or financing "project costs" within the zone. See "TAX INCREMENT FINANCING ZONES" below.

The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "TAX ABATEMENT POLICIES" below.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the current year. The City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the "effective tax rate" calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $16,600; the disabled are also granted an exemption of $10,000.

The City has not granted any part of the additional exemption of up to 20% of the market value of residence homesteads; the minimum exemption that may be granted under this provision being $5,000.

The City has established the tax freeze on residence homesteads of disabled persons and persons 65 and over.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the Appraisal District collects taxes for the City.

The City does not permit split payments of taxes, and discounts for early payment of taxes are not allowed by the City, although permitted on a local-option basis by the Property Tax Code.

Since the 1999 tax year, the City has exempted freeport property from taxation.

The City collects an additional one-eighth cent sales tax for reduction of ad valorem taxes. The City held an election on November 4, 2003 to increase this tax by one quarter cent, for a total of three eighths of a cent. The rate increase became effective on October 1, 2004.

TAX ABATEMENT POLICIES

The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must be located in a reinvestment zone or enterprise zone (a commercial project must be in an enterprise zone) and must meet several criteria pertaining to job creation and property value enhancement. The City has two enterprise zones, the Lubbock 2000 North Enterprise Zone, approximately 18.6 square miles, and the Lubbock 2000 South Enterprise Zone, approximately 15.7 square miles. A third enterprise zone, the Lubbock International Airport Enterprise Zone, expired in September 2005. In 2003, the Legislature made major changes to the statute governing enterprise zones, including designating zones by block group based on poverty rate. The block groups that meet the criteria become enterprise zone eligible, but can only be used for tax abatement if the new zones are activated. The Lubbock 2000 North and South Enterprise Zones are grandfathered and will expire no later than their original expiration date. At present, there are 17 active tax abatement agreements, principally for companies located in the northeast and southeast sections of the City. In accordance with State law, the City has adopted policies for granting tax abatements, which provide guidelines for tax abatements for both industrial and commercial projects. The guidelines for industrial and commercial projects are similar, except that qualifying industrial projects may receive a ten year abatement, while qualifying commercial projects are limited to five year tax abatements. Although older abatements made by the City were given full (100%) tax abatement, since 1997 the City has negotiated abatements on a declining percentage basis, with a portion of the tax value being added to the City's tax roll each year during the life of the abatement. The

City's policies provide a variety of criteria that affect the terms of the abatement, including the projected life of the project, the type of business seeking the abatement, with certain businesses targeted for abatement, the amount of real or personal property to be added to the tax roll, the number of jobs to be created or retained, among other factors. The policies disallow abatements for certain categories of property, including real property, inventories, tools, vehicles, aircraft, and housing. Each abatement policy provides for a recapture of the abated taxes if the business is discontinued during the term of the agreement, except for discontinuances caused by natural disaster or other factors beyond the reasonable control of the applicant. For a description of the amount of property in the City that has been abated for City taxation purposes, see "TABLE 1 - VALUATIONS, EXEMPTIONS AND GENERAL OBLIGATION DEBT."

TAX INCREMENT FINANCING ZONES

Chapter 311, Texas Tax Code, provides that the City and other taxing entities may designate a continuous geographic area in its jurisdiction as a tax increment financing zone ("TIF") if the area constitutes an economic or social liability in its present condition and use. Other overlapping taxing units may agree to contribute all or a portion of their taxes collected against the "Incremental Value" in the TIF to pay for TIF projects. Any ad valorem taxes relating to growth of the tax base in a TIF above the frozen base may be used only to finance improvements within the TIF and are not available for the payment of other tax supported debt of the City and other participating taxing units. Together with other taxing units, the City participates in two TIFs, the Central Business District Reinvestment Zone (the "Downtown TIF") and the North Overton Tax Increment Financing Reinvestment Zone (the "North Overton TIF").

The Downtown TIF covers an approximately 0.71 square-mile area which includes part of the central business district and abuts the North Overton TIF. The base taxable values of the TIF are frozen at the level of taxable values for 2001, the year of creation, at $105,858,251. In FY 2007, the Downtown TIF had a taxable value of $161,582,450 before taking into account tax abatements and exemptions. After tax abatements and exemptions, the tax value in the Downtown TIF was $155,747,677. In addition to the City, the County, Lubbock County Hospital District and the High Plains Underground Water Conservation District (collectively, the "Taxing Units") participate in the Downtown TIF. Given the relative tax rates of the participants, it is anticipated that the City will be the largest contributor to the tax increment fund if there is growth from the frozen base. The City ordinance establishing the Downtown TIF provides that the Downtown TIF will terminate on December 31, 2021 or at an earlier time designated by subsequent ordinance of the City Council.

In addition to the Downtown TIF, the City enacted an ordinance in 2001 establishing the North Overton TIF. Each of the other Taxing Units in the Downtown TIF also participate in the North Overton TIF. The City ordinance establishing the North Overton TIF provides that the North Overton TIF will terminate on December 31, 2031 or at an earlier time designated by subsequent ordinance of the City Council. The North Overton TIF consists of approximately 325 acres near the Central Business District of the City. The frozen tax base for the North Overton TIF was established as of January 1, 2002 at $26,940,604. In FY 2007, the North Overton TIF had a taxable value of $192,302,370 before taking into account tax abatements and exemptions. After tax abatements and exemptions, the tax value in the North Overton TIF was $192,172,230.

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FINANCIAL INFORMATION

TABLE 1- VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2007 Market Valuation Established by Lubbock Central Appraisal District		$11,492,911,247
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions	$ 225,084,488	
Homestead Cap Adjustment	58,787,272	
Disabled Veterans	15,063,118	
Agricultural/Open-Space Land Use Reductions	80,099,818	
Pollution Exemptions	10,312,389	
House Bill 366	163,705	
Freeport Exemptions	86,375,634	
Tax Abatement Reductions (1)	35,908,583	
Tax Freeze Adjustment	195,219	
Market Value Reduction for Protested Properties	83,710,458	595,700,684
2007 Taxable Assessed Valuation		$10,897,210,563
City Funded Debt Payable from Ad Valorem Taxes:		
General Obligation Debt (as of 1-1-08) (2)	$ 524,055,000	
Plus: The Certificates	52,900,000	
Total Funded Debt Payable from Ad Valorem Taxes		$ 576,955,000
Less: Self Supporting Debt (as of 1-1-08) (3)		
Waterworks System General Obligation Debt	$ 129,198,872	
Sewer System General Obligation Debt (4)	110,170,700	
Solid Waste Disposal System General Obligation Debt	12,630,290	
Drainage Utility System General Obligation Debt	90,745,324	
Tax Increment Financing General Obligation Debt	22,409,789	
Electric Light and Power System General Obligation Debt	57,104,440	
Cemetery General Obligation Debt	682,149	
Gateway General Obligation Debt	41,849,527	
Hotel Occupancy Tax Debt	1,218,634	
Airport General Obligation Debt	6,652,912	472,662,637
General Purpose Funded Debt Payable from Ad Valorem Taxes		$ 104,292,363
Unaudited General Obligation Interest and Sinking Fund as of September 30, 2007		$ 2,830,583
Ratio Total Funded Debt to Taxable Assessed Valuation		5.29%
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		0.96%
2008 Estimated Population (5)		214,847
Per Capita Taxable Assessed Valuation		$50,721
Per Capita Total Funded Debt Payable from Ad Valorem Taxes		$2,685
Per Capita General Purpose Funded Debt Payable from Ad Valorem Taxes		$485

(1) See "AD VALOREM TAX INFORMATION – TAX ABATEMENT POLICIES."

(2) The statement of indebtedness does not include the City's outstanding Electric Light and Power System Revenue Bonds, payable solely from the net revenues of the City's Electric Light and Power System.

(3) As a matter of policy, the City provides debt service on general obligation debt issued to fund improvements to its Waterworks System, Sewer System, Solid Waste System, Drainage System, Tax Increment Finance Reinvestment Zone, Electric Light and Power System, Cemetery, Gateway Streets, Hotel Occupancy Tax projects, and Airport from surplus revenues of these Systems (see "TABLE 8A – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS," "TABLE 8B - INTEREST AND SINKING FUND BUDGET PROJECTION," "TABLE 9 - DIVISION OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS," and "TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT").

The City's Waterworks System General Obligation Debt has been issued to finance or refinance Waterworks System improvements, and is being paid, or is expected to be paid, from Waterworks System revenues. The City has no outstanding Waterworks System Revenue Bonds but has obligated revenues of the Waterworks System under water supply contracts.

The City's Sewer System General Obligation Debt has been issued to finance or refinance Sewer System improvements, and that is being paid, or is expected to be paid, from Sewer System revenues. The City has no outstanding Sewer System Revenue Bonds.

The City's Solid Waste Disposal System General Obligation Debt has been issued to finance or refinance Solid Waste System improvements, and is being paid, or is expected to be paid, from revenues derived from Solid Waste service fees. The City has no outstanding Solid Waste Disposal System Revenue Bonds.

The City's Drainage Utility System General Obligation Debt has been issued to finance or refinance Drainage System improvements, and is being paid, or that is expected to be paid, from revenues derived from Drainage Utility System fees. The City has no outstanding Drainage Utility System Revenue Bonds.

The City's Tax Increment Financing General Obligation Debt has been issued to finance or refinance construction of improvements in the North Overton TIF, and is being paid, or is expected to be paid, from revenues derived from the Pledged Tax Increment Revenues. The City has no outstanding Tax Increment Financing Revenue Bonds. In FY 2008, based upon development projections that the City believes to be reasonable, but which are dependent in part on future economic conditions and other factors that the City cannot control and as to which it can give no assurances, the City anticipates that tax increment revenues will be adequate to cover debt requirements on the existing Tax Increment Certificates of Obligation. In the interim, the City intends to make an interfund loan to cover the debt service, and if the projected development in the North Overton TIF proceeds as expected the City would repay such loan from revenues received in future years. The North Overton master plan projects additional debt to be issued by the City for infrastructure improvements in the TIF. If that occurs, there would likely be years in which the TIF would not produce revenues in amounts sufficient to cover all debt issued for it, at least until the TIF has reached full build-out status.

The City's Electric Light and Power System General Obligation Debt has been issued to finance or refinance Electric Light and Power System improvements, and is being paid, or that is expected to be paid, from revenues derived from the Electric Light and Power System. The City has $19,010,000 outstanding Electric Light and Power System Revenue Bonds payable from a pledge of system revenues.

The City's Cemetery General Obligation Debt has been issued to finance or refinance Cemetery improvements, and is being paid, or that is expected to be paid, from revenues derived from the Cemetery. The City has no outstanding Cemetery Revenue Bonds.

The City's Gateway General Obligation Debt has been issued to finance or refinance Gateway Streets improvements, and is being paid, or that is expected to be paid, from franchise fees. The City has no outstanding Gateway Fund Revenue Bonds.

The City's Hotel Occupancy Tax General Obligation Debt has been issued to finance tourism projects, and is being paid, or that is expected to be paid, from hotel occupancy taxes. The City has no outstanding Hotel Occupancy Tax Bonds.

The City's Airport General Obligation Debt has been issued to finance or refinance Airport improvements, and is being paid, or that is expected to be paid, from revenues derived from the Airport. The City has no outstanding Airport Revenue Bonds.

(4) Includes the Certificates.

(5) Source: City of Lubbock, Texas.

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TABLE 2- TAXABLE ASSESSED VALUATION BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2008		2007		2006	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 6,321,729,050	55.01%	$ 5,889,918,195	55.53%	$ 5,517,769,306	55.55%
Real, Residential, Multi-Family	931,507,661	8.11%	873,394,391	8.23%	795,689,400	8.01%
Real, Vacant Lots/Tracts	202,703,022	1.76%	186,939,508	1.76%	166,089,379	1.67%
Real, Acreage (Land Only)	103,474,361	0.90%	104,443,417	0.98%	80,067,791	0.81%
Real, Farm and Ranch Improvements	10,948,790	0.10%	10,601,986	0.10%	11,038,895	0.11%
Real, Commercial and Industrial	2,246,869,059	19.55%	1,968,271,689	18.56%	1,827,901,763	18.40%
Real, Oil, Gas and Other Mineral Reserves	26,864,150	0.23%	28,446,050	0.27%	17,526,510	0.18%
Real and Tangible Personal, Utilities	181,023,472	1.58%	179,562,657	1.69%	177,838,907	1.79%
Tangible Personal, Business	1,340,911,089	11.67%	1,245,600,988	11.74%	1,228,428,632	12.37%
Tangible Personal, Other	13,018,766	0.11%	13,940,265	0.13%	14,527,171	0.15%
Real Property, Inventory	41,291,828	0.36%	37,577,657	0.35%	26,685,491	0.27%
Special Inventory	72,685,000	0.63%	68,621,321	0.65%	67,329,545	0.68%
Other/Adjustments	(115,001)	0.00%	220,192	0.00%	1,499,616	0.02%
Total Appraised Value Before Exemptions	$ 11,492,911,247	100.00%	$ 10,607,538,316	100.00%	$ 9,932,392,406	100.00%
Less: Total Exemptions/Reductions	(595,700,684)		(604,812,679)		(585,778,455)	
Taxable Assessed Value	$ 10,897,210,563		$ 10,002,725,637		$ 9,346,613,951	

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2005		2004		2003	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 5,169,490,706	56.09%	$ 4,690,158,161	55.50%	$ 4,282,214,635	56.78%
Real, Residential, Multi-Family	615,453,250	6.68%	561,569,488	6.64%	455,993,262	6.05%
Real, Vacant Lots/Tracts	137,411,731	1.49%	108,625,954	1.29%	93,473,144	1.24%
Real, Acreage (Land Only)	64,532,486	0.70%	65,880,410	0.78%	59,644,977	0.79%
Real, Farm and Ranch Improvements	10,406,299	0.11%	10,835,088	0.13%	11,391,782	0.15%
Real, Commercial and Industrial	1,712,457,490	18.58%	1,638,846,765	19.39%	1,370,730,397	18.18%
Real, Oil, Gas and Other Mineral Reserves	12,167,754	0.13%	8,923,810	0.11%	7,909,460	0.10%
Real and Tangible Personal, Utilities	173,908,469	1.89%	185,761,346	2.20%	192,138,423	2.55%
Tangible Personal, Business	1,226,369,118	13.31%	1,090,862,579	12.91%	974,534,729	12.92%
Tangible Personal, Other	15,465,413	0.17%	16,287,022	0.19%	15,336,364	0.20%
Real Property, Inventory	9,863,035	0.11%	4,774,287	0.06%	11,087,603	0.15%
Special Inventory	68,232,264	0.74%	68,663,514	0.81%	67,339,159	0.89%
Other/Adjustments	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	$ 9,215,758,015	100.00%	$ 8,451,188,424	100.00%	$ 7,541,793,935	100.00%
Less: Total Exemptions/Reductions	(580,763,153)		(529,598,044)		(199,449,068)	
Taxable Assessed Value	$ 8,634,994,862		$ 7,921,590,380		$ 7,342,344,867	

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District to the City for purposes of establishing and levying the City's annual ad valorem tax rate and to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3A - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 30-Sep	Estimated City Population[a]	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation[c]	General Purpose Funded Tax Debt[b]	Ratio Tax Debt to Assessed Valuation[b]	Funded Debt Per Capita[c]	Tax Year
2003	204,737	$ 7,342,344,867	$ 35,862	$ 70,188,204	0.96%	$ 343	2002
2004	206,290	7,921,590,380	38,400	70.161,218	0.89%	340	2003
2005	209,120	8,634,994,862	41,292	80,210,269	0.93%	384	2004
2006	211,187	9,346,613,951	44,258	87,231,945	0.93%	413	2005
2007	212,365	10,002,725,637	47,102	92,487,363	0.92%	436	2006
2008	214,847	10,897,210,563	50,721	98,504,904	0.90%	458	2007

[a] Source: The City.
[b] Does not include self-supported debt.
[c] Rounded to nearest dollar.

TABLE 3B - DERIVATION OF GENERAL PURPOSE FUNDED TAX DEBT

The following table sets forth certain information with respect to the City's general purpose and self-supporting general obligation debt. The City is revising its capital improvement plan, but the City expects to issue additional self-supporting general obligation debt within the three to five year time frame. See "ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT."

Fiscal Year Ended 30-Sep	Funded Tax Debt Outstanding at End of Year	Less: Self-Supporting Funded Tax Debt	General Purpose Funded Tax Debt Outstanding at End of Year
2003	$ 295,935,000	$ 225,746,796	$ 70,188,204
2004	285,885,000	215,723,783	70,161,217
2005	388,595,000	308,384,731	80,210,269
2006	447,275,000	360,043,055	87,231,945
2007	512,250,000	419,762,637	92,487,363
2008 [a]	550,545,000	452,040,096	98,504,904

[a] Projected.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year End 09/30	Tax Rate Distribution			Tax Rate	Tax Levy	Percent Collected		Tax Year
	General Fund	Economic Development	Interest and Sinking Fund			Current	Total	
2003	$ 0.43204	$ 0.03000	$ 0.10796	$ 0.57000	$ 42,093,153	97.67%	99.21%	2002
2004	0.41504	0.03000	0.10066	0.54570	43,659,111	97.02%	98.64%	2003
2005	0.33474	0.03000	0.09496	0.45970	39,697,452	97.73%	100.28%	2004
2006	0.35626	0.03000	0.06094	0.44720	41,775,367	98.15%	99.71%	2005
2007	0.36074	0.03000	0.07125	0.46199	46,068,744	98.12%	99.02%	2006
2008	0.35380	0.03000	0.07125	0.45505	49,195,247	(In process of collection)		2007

TABLE 5 – TEN LARGEST TAXPAYERS

Name	2007 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Macerich Lubbock Ltd.	$ 120,319,460	1.10%
Wal-Mart Stores, Inc.	69,696,472	0.64%
Southwestern Bell Telephone	65,675,631	0.60%
United Supermarkets OFC	49,479,682	0.45%
PYCO Industries, Inc.	48,047,230	0.44%
Southwestern Public Services Co.	42,711,124	0.39%
Lubbock Property, LLC	33,316,729	0.31%
Atmos Energy West Texas Division	33,181,890	0.30%
TYCO Fire Products	31,136,879	0.29%
Fountains Club Lubbock Acquisitions, LP	28,036,483	0.26%
	$ 521,601,580	4.79%

TABLE 6 - TAX ADEQUACY

Average Annual Debt Service Requirements All General Obligation Debt (2008-2034):	$31,763,762 [a]
$0.2960 per $100 AV against the 2007 Taxable AV, at 98.5% collection, produces	$31,771,907
Maximum Annual Debt Service Requirements All General Obligation Debt (2009):	$53,977,902 [a]
$0.5030 per $100 AV against the 2007 Taxable AV, at 98.5% collection, produces	$53,990,775

[a] Includes the Certificates.

TABLE 7 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	Gross Debt (As of 1/1/08)	Estimated % Overlapping	Overlapping Debt
Frenship ISD	$ 138,102,346	79.41%	$ 109,667,073
Idalou ISD	275,000	6.93%	19,058
Lubbock County	85,720,000	83.32%	71,421,904
Lubbock County Hospital District	-	83.32%	-
Lubbock ISD	140,956,725	98.49%	138,828,278
Lubbock-Cooper ISD	46,264,571	57.50%	26,602,128
New Deal ISD	-	18.33%	-
Roosevelt ISD	9,624,998	4.20%	404,250
Estimated Overlapping Debt			$ 346,942,691
The City (as of 1/1/08)	$ 576,955,000 [a]	100.00%	576,955,000 [a]
Total Direct & Estimated Overlapping Debt			$ 923,897,691
As a % of 2007 Taxable Assessed Valuation			8.48%
Per Capita Total Direct & Estimated Overlapping Debt			$ 4,351

[a] Includes the Certificates.

TABLE 8A – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

FYE	Outstanding Debt [a]			The Certificates			Total
30-Sep	Principal	Interest	Total	Principal	Interest	Total	Debt Service
2008	$ 26,410,000	$ 24,119,166	$ 50,222,277		$ 1,365,488	$ 1,365,488	$ 51,587,765
2009	26,940,000	22,906,272	49,907,366	$ 1,765,000	2,305,536	4,070,536	53,977,902
2010	27,015,000	21,790,460	48,866,398	1,830,000	2,238,211	4,068,211	52,934,609
2011	27,800,000	20,594,166	48,454,901	1,895,000	2,173,024	4,068,024	52,522,924
2012	27,440,000	19,349,341	46,850,018	1,960,000	2,108,011	4,068,011	50,918,029
2013	28,310,000	18,082,207	46,452,831	2,025,000	2,043,255	4,068,255	50,521,086
2014	29,270,000	16,740,221	46,070,791	2,095,000	1,976,305	4,071,305	50,142,096
2015	27,410,000	15,439,593	42,910,326	2,165,000	1,904,374	4,069,374	46,979,700
2016	27,555,000	14,160,739	41,776,980	2,245,000	1,827,199	4,072,199	45,849,179
2017	27,900,000	12,801,001	40,762,905	2,325,000	1,745,771	4,070,771	44,833,676
2018	28,635,000	11,426,822	40,124,560	2,430,000	1,642,880	4,072,880	44,197,440
2019	27,915,000	10,017,312	37,993,060	2,550,000	1,518,380	4,068,380	42,061,440
2020	26,075,000	8,719,234	34,849,720	2,685,000	1,387,505	4,072,505	38,922,225
2021	24,795,000	7,483,700	32,328,491	2,820,000	1,249,880	4,069,880	36,398,371
2022	22,460,000	6,314,906	28,818,568	2,965,000	1,105,255	4,070,255	32,888,823
2023	21,900,000	5,217,948	27,154,886	3,115,000	953,255	4,068,255	31,223,141
2024	20,400,000	4,152,246	24,581,866	3,265,000	806,815	4,071,815	28,653,681
2025	19,730,000	3,165,837	22,917,703	3,420,000	652,750	4,072,750	26,990,453
2026	16,245,000	2,272,639	18,531,163	3,595,000	477,375	4,072,375	22,603,538
2027	10,530,000	1,603,211	12,137,794	3,780,000	293,000	4,073,000	16,210,794
2028	5,225,000	1,216,219	6,441,219	3,970,000	99,250	4,069,250	10,510,469
2029	5,475,000	967,143	6,442,143				6,442,143
2030	5,735,000	712,173	6,447,173				6,447,173
2031	6,000,000	445,949	6,445,949				6,445,949
2032	2,195,000	260,438	2,455,438				2,455,438
2033	2,290,000	159,525	2,449,525				2,449,525
2034	2,400,000	54,000	2,454,000				2,454,000
	$ 524,055,000	$ 250,172,464	$ 774,848,047	$ 52,900,000	$ 29,873,519	$ 82,773,519	$ 857,621,565

Average Annual Debt Service Requirements All General Obligation Debt (2008-2034):	$ 31,763,762
Maximum Annual Debt Service Requirements All General Obligation Debt (2009):	$ 53,977,902

[a] Does not include lease/purchase obligations.

TABLE 8B – INTEREST AND SINKING FUND BUDGET

Projected General Purpose General Obligation Debt Service Requirements, September 30 ,2008		$ 10,940,576
Fiscal Agent Fees		20,000
Interest and Sinking Fund, September 30, 2007	$ 2,830,583	
Interest and Sinking Fund Tax Levy @ 99%	7,420,094	
Estimated Interest Earnings	1,601,774	
Projected Balance, September 30, 2008		$ 891,875

TABLE 9 - DIVISION OF GENERAL OBLIGATION DEBT SERVICE

FYE 30-Sep	Waterworks System Debt Service	Sewer System Debt Service[1]	Solid Waste Disposal System Debt Service	Drainage Utility System Debt Service	Tax Increment Financing Debt Service	Electric Light & Power System Debt Service	Cemetery Debt Service	Gateway Debt Service	HOT Debt Service	Airport Debt Service	General Purpose Debt Service	Total G.O. Debt Service
2008	$ 14,614,035	$ 8,900,982	$ 1,228,255	$ 4,361,006	$ 1,831,739	$ 5,698,341	$ 55,094	$ 3,070,090	$ 96,458	$ 791,190	$ 10,940,576	$ 51,587,765
2009	14,541,094	11,369,762	1,094,635	4,365,828	1,837,314	5,628,468	55,218	3,067,669	97,329	617,726	11,302,860	53,977,902
2010	13,271,009	10,848,544	1,169,215	5,719,582	1,839,720	5,805,217	55,235	3,067,564	97,313	612,561	10,448,650	52,934,609
2011	13,176,382	10,687,368	1,150,165	5,717,470	1,835,738	5,740,597	55,224	3,064,963	97,274	607,502	10,390,239	52,522,924
2012	12,292,729	10,449,859	1,140,244	5,715,897	1,835,652	5,658,804	55,213	3,069,687	97,248	602,598	10,000,099	50,918,029
2013	12,242,208	10,264,664	1,129,837	5,717,364	1,834,492	5,590,584	55,234	3,067,074	97,323	596,767	9,925,539	50,521,086
2014	12,201,782	10,102,627	1,113,813	5,713,256	1,834,275	5,511,156	55,217	3,068,095	97,280	589,805	9,854,792	50,142,096
2015	12,075,142	8,222,671	1,097,959	5,715,706	1,833,730	5,435,264	55,227	3,066,066	97,328	456,285	8,924,323	46,979,700
2016	11,821,612	7,421,789	1,118,462	5,658,792	1,836,310	5,100,830	55,223	3,066,283	97,248	455,275	9,217,355	45,849,179
2017	11,684,799	7,381,509	1,095,872	6,629,104	1,839,470	4,912,514	55,206	3,064,013	97,248	457,940	7,616,000	44,833,676
2018	11,464,423	7,116,324	1,082,944	6,641,035	1,833,674	4,844,685	55,204	3,067,461	97,317	456,045	7,538,328	44,197,440
2019	11,112,885	7,078,727	888,905	6,634,660	1,836,233	3,305,644	55,217	3,062,836	97,290	454,025	7,535,020	42,061,440
2020	8,669,363	6,359,909	882,657	6,646,131	1,839,224	3,305,002	55,222	3,065,099	97,242	455,823	7,546,554	38,922,225
2021	6,771,768	6,357,274	875,458	6,647,298	1,835,044	3,303,203	55,210	3,067,528	97,327	456,969	6,931,294	36,398,371
2022	4,090,485	6,357,063	741,301	6,662,832	1,834,299	3,307,189	55,238	3,065,458	97,339	457,856	6,219,763	32,888,823
2023	3,795,822	6,028,865	744,266	5,891,155	1,835,149	3,157,113	55,204	3,068,156	97,258	457,849	6,092,303	31,223,141
2024	3,794,348	6,028,108	741,883	5,839,240	1,833,911	2,015,874	55,202	3,066,372	97,289	457,317	4,724,138	28,653,681
2025	3,059,676	5,981,867	470,625	5,842,331	1,549,994	2,020,922	55,207	3,063,575	97,308	457,137	4,391,812	26,990,453
2026	2,773,699	5,404,294	470,673	5,846,906	834,745	1,539,663	55,212	1,924,841	97,305	232,352	3,423,848	22,603,538
2027	1,454,616	4,234,207	107,121	5,200,602	327,976	1,051,140	15,689	1,704,150	97,270	32,797	1,985,226	16,210,794
2028	-	4,069,250	-	4,738,319	-	-	-	1,702,900	-	-	-	10,510,469
2029	-	-	-	4,738,638	-	-	-	1,703,505	-	-	-	6,442,143
2030	-	-	-	4,740,963	-	-	-	1,706,210	-	-	-	6,447,173
2031	-	-	-	4,740,044	-	-	-	1,705,905	-	-	-	6,445,949
2032	-	-	-	2,455,438	-	-	-	-	-	-	-	2,455,438
2033	-	-	-	2,449,525	-	-	-	-	-	-	-	2,449,525
2034	-	-	-	2,454,000	-	-	-	-	-	-	-	2,454,000
	$ 184,907,875	$ 160,665,663	$ 18,144,292	$ 143,483,121	$ 33,918,690	$ 82,932,210	$ 1,064,695	$ 65,645,499	$ 1,944,991	$ 9,705,821	$ 155,008,720	$ 857,621,565

[1] Includes the Certificates.

TABLE 10 - SELF-SUPPORTED DEBT

The following details the revenues available and debt allocations for the self-supported general obligation debt of the City. See also Table 9. In addition to the funds detailed below, the City Council of the City approved ordinances designating debt issued for the Cemetery (a unit of the City's General Fund) to be supported by sales of crypts and niches at the City Cemetery.

THE WATERWORKS FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	18,277,614
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	18,277,614
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		14,614,035
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Waterworks Fund general obligation debt to a segregated account in the Waterworks Fund.

THE SEWER FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	8,373,248
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	8,373,248
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		9,255,947
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Sewer Fund general obligation debt to a segregated account in the Sewer Fund. The City expects current year's Sewer Fund revenues will be sufficient to cover the debt service requirements of the Sewer Fund general obligation debt.

THE SOLID WASTE FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	3,913,968
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	3,913,968
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		1,228,255
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Solid Waste Fund general obligation debt to a segregated account in the Solid Waste Fund.

THE DRAINAGE FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	6,476,263
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	6,476,263
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		4,361,006
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Drainage Fund general obligation debt to a segregated account in the Drainage Fund.

THE ELECTRIC LIGHT AND POWER FUND [a]

Net Electric Light and Power System Revenue Available, Fiscal Year Ended 9-30-06	$	28,689,792
Less: Requirements for Revenue Bonds, Fiscal Year Ending 9-30-08		3,429,060
Balance Available for Other Purposes	$	25,260,732
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		5,698,341
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Electric Light and Power Fund

THE GATEWAY FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	5,526,200
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	5,526,200
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		3,070,090
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Gateway Fund general obligation debt to a segregated account in the Gateway Fund.

THE AIRPORT FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	2,877,208
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	2,877,208
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		791,190
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Airport Fund general obligation debt to a segregated account in the Airport Fund.

THE TAX INCREMENT FINANCING FUND [a]

Net System Revenue Available, Fiscal Year Ended 9-30-06	$	940,013
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-08		-
Balance Available for Other Purposes	$	940,013
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-08		1,831,739
Percentage of Fund General Obligation Debt Self-Supporting		100.00%

[a] Each Fiscal Year the City transfers an amount equal to debt service requirements on the Tax Increment Financing Fund general obligation debt to a segregated account in the Tax Increment Financing Fund. The remainder of revenue needed to support Tax Increment Financing Fund general obligation debt is transferred from the City's Solid Waste Fund.

TABLE 11 – AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Issued To Date	Unissued
Sewer System	05/21/77	$ 3,303,000	$ 2,175,000	$ 1,128,000
Waterworks System	10/17/87	2,810,000	200,000	2,610,000
Street Improvements	05/01/93	10,170,000	10,166,000	4,000
Street Improvements	05/15/04	9,210,000	5,269,000	3,941,000
Civic Center/Auditorium Renovation and Improvements	05/15/04	6,450,000	-	6,450,000
Park Improvements	05/15/04	6,395,000	6,395,000	-
Police/Municipal Court Facilities	05/15/04	3,350,000	-	3,350,000
Library Improvements	05/15/04	2,145,000	-	2,145,000
Fire Stations	05/15/04	1,405,000	1,405,000	-
Animal Shelter Renovations & Improvements	05/15/04	1,045,000	160,000	885,000
		$ 46,283,000	$ 25,770,000	$ 20,513,000

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT... The City Council adopted a resolution during the 1984-85 budget process establishing capital maintenance funds for capital projects. A capital improvement plan is made for planning purposes and may identify projects that will be deferred or omitted entirely in future years. In addition, as conditions change, new projects may be added that are not currently identified. Under current City policy, for a project to be funded as a capital project it must have a cost of $25,000 or more and a life of seven or more years. For FY 2007-2008, the City Council approved $194.4 million in total expenditures for capital projects for all general purpose projects, as well as projects for the electric fund, water fund, sewer fund, solid waste fund, stormwater fund and airport fund (up from $77 million in FY 2006-2007). The Capital Projects Fund budget for FY 2007-2008 also included an additional $562.6 million in future improvements for all City departments over the five succeeding fiscal years. The improvements included in the City's capital improvement plan are generally funded from a blend of bond proceeds, reserves or current year revenue sources.

As shown in Table 11, the City has $16,771,000 of authorized but unissued bonds from the May 15, 2004 bond election. When the election was held, the City anticipated that the bonds would be issued over the 2004 through 2008 time frame. The City typically issues voted bonds for general purpose City projects, such as streets, parks, libraries, civic centers and public safety improvements. However, the City has incurred substantial unvoted tax supported debt to fund portions of the capital budget of the Electric Fund, Water Fund, Sewer Fund, Solid Waste Fund, Storm Water Fund, Tax Increment Fund, Gateway Fund and Airport Fund. As described elsewhere in this Official Statement, such enterprise fund indebtedness is generally anticipated to be self-supporting from enterprise fund revenues.

The City anticipates the issuance of $119,400,000 in additional general obligation debt within the next twelve months.

TABLE 12 – OTHER OBLIGATIONS

FYE 30-Sep	Governmental Capital Lease Minimum Payment	Business-Type Capital Lease Minimum Payment	Total Capital Lease Minimum Payment
2008	$ 1,694,843	$ 1,946,263	$ 3,641,106
2009	1,673,144	1,842,705	3,515,849
2010	1,522,290	1,748,474	3,270,764
2011	725,904	1,086,012	1,811,916
2012-2016	1,116,246	381,832	1,498,078
Interest	(896,711)	(894,074)	(1,790,785)
	$ 5,835,716	$ 6,111,212	$ 11,946,928

On January 8, 2004, the City entered into a note agreement with the Department of Housing and Urban Development ("HUD") for loan guarantee assistance under Section 108 of title 1 of the Housing and Community Development Act of 1974, as amended, in the amount of $1,000,000. The Note was issued to aid in the establishment of a Housing Rehabilitation Program in order to provide rehab options for low-to moderate income households on a citywide basis, pay professional services rendered in relation to such project, and the financing thereof. Under the terms of the Note, the City will make annual principal payments on August 1, of each year beginning in 2005 through 2012; interest payments are due semi-annually. The Note is a liability of the City's Community Development Block Grant Program and debt service will be paid from this grant.

FYE	Contract Revenue Bonds		
30-Sep	Principal	Interest	Total
2008	$ 125,000	$ 28,300	$ 153,300
2009	125,000	23,300	148,300
2010	125,000	17,900	142,900
2011	125,000	12,188	137,188
2012	125,000	6,200	131,200
	$ 625,000	$ 87,888	$ 712,888

PENSION FUND . . . TEXAS MUNICIPAL RETIREMENT SYSTEM [(a)(b)] . . . All permanent, full-time City employees who are not firefighters are covered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agent, multiple-employer, public employee retirement system which is covered by a State statute and is administered by six trustees appointed by the Governor of Texas. TMRS operates independently of its member cities.

The City joined TMRS in 1950 to supplement Social Security. All City employees except firefighters are covered by Social Security. Options offered under TMRS, and adopted by the City, include current, prior and antecedent service credits, five year vesting, updated service credit, occupational disability benefits and survivor benefits for the spouse of a vested employee. An employee who retires receives an annuity based on the amount of the employee's contributions over-matched two for one by the City. Since October 11, 1997, the employee contribution rate has been 7% of gross salary. The City's contribution rate is calculated each year using actuarial techniques applied to experience. Enabling statutes prohibit any member city from adopting options which impose liabilities that cannot be amortized over 25 years within a specified statutory rate.

On December 31, 2006, the actuarial value of assets held by TMRS (not including those of the Supplemental Disability Fund, which is "pooled"), for the City were $199,865,768. Unfunded actuarial accrued liabilities on December 31, 2006 were $71,502,988, which is being amortized over a 25-year period beginning January, 1997.

FIREMEN'S RELIEF AND RETIREMENT FUND [(a)]. . . City firefighters are members of the locally administered Lubbock Firemen's Relief and Retirement Fund (the "Fund"), operating under an act passed in 1937 by the State Legislature and adopted by City firefighters, by vote of the department, in 1941. Firefighters are not covered by Social Security.

The Fund is governed by seven trustees, consisting of three firefighters, two outside trustees (appointed by the other trustees), the Mayor or the representative thereof and the chief financial officer or the representative thereof. Execution of the act is monitored by the Firemen's Pension Commissioner, who is appointed by the Governor.

Benefits of retired firemen are determined on a "formula" or a "final salary" plan. Actuarial reviews are performed every two years, and the fund is audited annually. Firefighters contribute a percentage of full salary into the fund. Based on the plan effective November 1, 2003, the Fund's funding policy requires contributions equal to 12.43% of pay by the firefighters. The City contributes on a basis of the percentage of salary which is an annually edjusted ration that bears the same relationship to the firefighter's contribution rate that the City's rate paid into the TMRS and FICA bears to the rate other employees pay into the TMRS and FICA. The December 31, 2006 actuarial valuation assumes the City's contributions will average 19.75% of payroll in the future.

As of December 31, 2006, the unfunded pension benefit obligation was $26,297,944 which is amortized with the excess of the assumed total contribution rate over the normal cost rate. The number of years needed to amortize the unfunded pension obligation is determined using an open, level percentage of payroll method, assuming that the payroll will increase 4% per year. The December 31, 2004 actuarial valuation, which used plan provisions effective November 1, 2003, needed 20.6 years to amortize the unfunded pension obligation. The December 31, 2006 actuarial valuation was based on the plan provisions effective December 1, 2005 and needed 35 years to amortize the unfunded pension obligation.

OTHER POST-EMPLOYMENT BENEFITS . . . The City currently provides certain post-employment benefits to its employees, as described in Note III. K (Notes to the Basic Financial Statements) set forth in Appendix A. The City intends to comply with the requirements of GASB No. 43 and 45, with respect to the reporting of post-employment benefits, in accordance with the timelines set forth in GASB No. 43 and 45. The City has retained the services of Gabriel, Roeder, Smith & Company to prepare the calculations required under GASB No. 43 and 45.

[(a)] For historical information concerning the retirement plans, see "APPENDIX A, EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2006 – Note III, Subsection E - Retirement Plans".

[(b)] Source: Texas Municipal Retirement System, *Comprehensive Annual Financial Report for Year Ended December 31, 2006.*

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TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30 [a]				
	2006	2005	2004	2003	2002
REVENUES					
Program Revenues					
Charges for Services	$ 9,632	$ 10,583	$ 12,713	$ 13,888	$ 9,369
Grants and Contributions	11,048	13,296	9,643	12,137	7,007
General Revenues					
Property Taxes	42,771	39,748	44,497	42,303	40,408
Sales Taxes	45,577	41,803	30,555	29,092	28,903
Other Taxes	4,447	4,242	3,793	3,712	3,681
Franchise Taxes	13,348	11,154	9,654	6,613	6,998
Grants/Contributions not restricted	-	-	-	-	(25)
Other	11,292	5,742	4,274	3,834	6,227
Total Revenues	$ 138,115	$ 126,568	$ 115,129	$ 111,579	$ 102,568
EXPENDITURES					
Administrative Services	$ 9,910	$ 8,220	$ 7,946	$ 7,158	$ 7,293
Community Services	6,112	6,146	6,776	6,335	8,643
Cultural and Recreation	18,915	17,745	17,102	16,796	16,297
Economic Development	10,283	9,739	4,610	4,535	4,399
Fire	26,711	23,517	22,074	20,450	19,432
Health	5,014	5,040	4,585	4,343	4,173
Police	42,063	38,452	36,543	33,986	31,862
Other Public Safety	5,240	4,977	4,211	3,602	3,459
Streets and Traffic	11,850	12,466	10,570	16,371	9,913
Non-departmental	5,206	6,253	2,924	5,642	5,015
Interest on Long-Term Debt	4,326	3,195	4,877	3,373	3,493
Total Expenditures	$ 145,630	$ 135,750	$ 122,218	$ 122,591	$ 113,979
Changes in net assets before special items & transfers	$ (7,515)	$ (9,182)	$ (7,089)	$ (11,012)	$ (11,411)
Special items	-	-	-	-	(687)
Transfers	9,607	15,469	9,745	2,554	15,668
Changes in net assets	$ 2,092	$ 6,287	$ 2,656	$ (8,458)	$ 3,570
Net Assets - beginning of year, as restated	$ 110,629	$ 104,341	$ 101,684	$ 110,142	$ 106,572
Net assets - end of year	$ 112,721	$ 110,628	$ 104,340	$ 101,684	$ 110,142

[a] Audited. Units are in 000s.

Note: Data shown in Table 13 reflects general governmental activities reported in accordance with GASB Statement No. 34. The financial statements include a management discussion and analysis of the operating results of such fiscal year, including restatements to beginning fund balances and net assets.

TABLE 13A – GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Year Ended September 30				
	2006	2005	2004	2003	2002
REVENUES					
Ad Valorem Taxes	$ 33,193,738	$ 29,414,773	$ 33,233,274	$ 32,194,087	$ 29,885,252
Sales Taxes	41,778,534	38,319,501	30,554,632	29,092,032	28,902,649
Franchise Taxes	8,008,973	6,693,209	9,654,447	6,612,822	6,998,085
Miscellaneous Taxes	1,027,352	982,327	939,456	848,816	820,507
Licenses and Permits	2,250,635	1,953,666	1,982,281	1,875,118	1,475,451
Intergovernmental	408,997	480,648	428,459	348,787	351,878
Charges for Services	4,781,043	4,070,642	4,467,733	4,945,591	4,472,094
Fees and Fines	3,981,978	4,015,402	3,675,856	3,672,509	3,069,362
Miscellaneous	1,465,215	1,506,315	1,442,677	1,532,346	1,058,237
Interest	921,742	349,236	334,730	285,756	433,393
Operating Transfers [(a)]	-	16,565,397	10,723,891	10,345,945	15,023,466
Total Revenues and Transfers	$ 97,818,207	$ 104,351,116	$ 97,437,436	$ 91,753,809	$ 92,490,374
EXPENDITURES					
General Government	$ -	$ 6,159,536	$ 5,633,469	$ 5,717,151	$ 5,596,868
Financial Services	-	2,139,492	2,333,469	1,969,413	1,958,051
Cultural and Recreation	13,986,576	-	-	-	-
Economic & Business Development	1,146,267	-	-	-	-
Non-departmental	1,882,255	445,251	214,562	175,499	1,497,485
Admin/Community Services	9,356,059	18,330,508	18,156,455	17,837,076	17,997,152
Police	37,463,740	33,919,626	32,400,371	30,321,182	28,905,651
Fire	24,638,814	21,943,267	20,613,077	19,511,797	18,632,109
Health	3,738,790	-	-	-	-
Other Public Safety	4,287,806	-	-	-	-
Planning and Transportation	-	8,120,727	7,180,843	6,610,394	6,510,394
Street Lighting	7,439,045	2,214,291	2,185,286	2,078,277	2,168,620
Human Resources	-	740,826	754,225	780,529	895,311
Debt Service Principal	1,009,368	-	-	-	-
Debt Service Interest and Other Charges	144,858	-	-	-	-
Capital Outlay	7,184,866	5,277,100	475,585	378,059	480,749
Operating Transfers	-	3,912,645	4,212,915	13,555,338	5,951,669
Total Expenditures	$ 112,278,444	$ 103,203,269	$ 94,160,257	$ 98,934,715	$ 90,594,059
Excess (Deficiency) of Revenues and Transfers over Expenditures	$ (14,460,237)	$ 1,147,847	$ 3,277,179	$ (7,180,906)	$ 1,896,315
Capital Lease Issued	5,119,980	3,534,048	-	-	-
Transfer In	13,325,046	-	-	-	-
Transfer Out	(1,436,498)	-	-	-	-
Fund Balance at Beginning of Year	17,376,420	12,694,525	9,417,346	16,598,252 [(c)]	16,716,042
Fund Balance at End of Year	$ 19,924,711	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 18,612,357
Less: Reserves and Designations [(b)]	-	-	-	-	(1,255,041)
Undesignated Fund Balance [(d)]	$ 19,924,711	$ 17,376,420	$ 12,694,525	$ 9,417,346	$ 17,357,316

[(a)] For fiscal year 2005/06, the water, solid waste and waste water funds transferred an amount sufficient to cover the pro rata share of the City's general and administrative expenses and an amount representing a payment in lieu of ad valorem taxes. The water, waste water and solid waste funds transferred an amount representing a franchise payment equal to 6% of gross receipts. The Electric System was not required to make transfers to the General Fund for any of the foregoing purposes during the fiscal year.

[(b)] The City's financial policies target a General Fund undesignated balance of at least 20% of General Fund revenues. The undesignated fund balance is at 99% of the target established by the City's financial policies.

[(c)] The "Fund Balance at Beginning of Year" was restated.

[(d)] The City administration believes that the unaudited General Fund balance for the period ending September 30, 2007 was approximately $19,136,979.

TABLE 14 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates or other debt of the City. In addition, in January, 1995, the voters of the City approved the imposition of an additional sales and use tax of one-eighth of a cent as authorized by Chapter 323 Texas Tax Code, as amended. Collection for the additional tax commenced in October, 1995 with the proceeds from the one-eighth cent sales tax designated for the use and benefit of the City to replace property tax revenues lost as a result of the adoption of the tax. At an election held in the City on November 4, 2003, voters approved an additional one-quarter cent sales and use tax, with the proceeds to be dedicated to the reduction of ad valorem taxation, and an additional one-eighth cent sales and use tax under Section 4A of the Texas Development Corporation Act (Article 5190.6, Texas Revised Civil Statutes), to be used for economic development in the City. The City began to receive proceeds of these taxes in October 2004. Collections and enforcements of the City's sales tax are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, to the City monthly, after deduction of a 2% service fee. Historical collections of the City's local Sales and Use Tax are shown below:

FYE 30-Sep	Total Collected [a]	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita [b]
2002	$ 28,902,648	73.45%	$ 0.4183	$ 143.08
2003	29,092,032	68.80%	0.3962	142.09
2004	30,554,632	69.98%	0.3857	148.11
2005	41,803,092	105.09%	0.4825	199.90
2006	45,576,582	109.10%	0.4556	214.61
2007	47,780,448	114.37%	0.4385	224.99

[a] Excludes bingo tax receipts and mixed beverage tax.

[b] Based on population estimates of the City.

Effective as of October 1, 2006, the sales tax breakdown for the City is as follows:

City:	
City Sales & Use Tax	$ 1.000
City Sales & Use Tax for Property Tax Relief	0.375
City Sales & Use Tax for Economic Development	0.125
County Sales & Use Tax	0.500
State Sales & Use Tax	6.250
Total	$ 8.250

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the City conform to generally accepted accounting principles of the Governmental Accounting Standards Board and program standards adopted by the Government Finance Officer's Association of the United States and Canada ("GFOA"). The GFOA has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for each of the fiscal years ended September 30, 1984 through September 30, 2002 and September 30, 2004 through September 30, 2005. The City will submit the City's 2006 report to GFOA to determine its eligibility for another certificate.

Comprehensive Annual Financial Report (CAFR). . .Beginning with the year ended September 30, 2002, the City's CAFR has been presented under the Governmental Accounting Standard Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Note Disclosures*. For additional information regarding accounting policies that are applicable to the City, see Note I. "Summary of Significant Accounting Policies" in the financial statements of the City attached as Appendix A.

General Fund Balance . . . The City's objective is to maintain an unreserved/undesignated fund balance at a minimum of an amount equal to two months budgeted operating expenditures to meet unanticipated contingencies and fluctuations in revenue. The City's General Fund currently has an unreserved/undesignated fund balance that is at 99% of the target established by the City's financial policies.

Water, Wastewater, Storm Water, Solid Waste and Airport Enterprise Fund Balances . . . It is the policy of the City to maintain appropriable net assets in the Water and Wastewater funds in an amount equal to 25% of operating revenues for unforeseen contingencies. The City's goal of appropriable net assets in the Solid Waste, Airport, and Storm Water funds is an amount equal to 15% of regular operating revenues. With the exception of the Electric Enterprise Fund (as further described below), the City currently exceeds its policy on appropriable net assets for its various enterprise funds. See "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - SEPTEMBER 30, 2003 FINANCIAL RESULTS." According to audited numbers for FY 2006, the target net assets by policy and current appropriable net assets for the Water, Wastewater, Storm Water and Airport enterprise funds are as follows:

Enterprise Fund	Target Net Assets by Policy	Appropriable Net Assets
Water	$10.5 million	$19.2 million
Wastewater	$5.5 million	$13.5 million
Storm Water	$1.0 million	$12.1 million
Solid Waste	$2.3 million	$4.9 million
Airport	$1.0 million	$3.0 million

Electric Enterprise Fund Balance . . . It is the policy of LP&L to maintain appropriable net assets set by the City Charter. The LP&L Governance Ordinance was amended in December of 2006 to include, among other things, changes to the requirements regarding the reserve funds LP&L maintains. As amended, the LP&L Governance Ordinance requires the Electric Utility Board to (i) maintain sufficient operating cash to satisfy all current accounts payable and (ii) maintain a general reserve fund that is equal to the greater of four months gross retail electric revenue (GRR) as determined by taking the average monthly GRR from the previous fiscal year or $50 million dollars. This general reserve fund shall be used for operational purposes, rate stabilization and for meeting the electric utility demand of any rapid or unforeseen increase in residential and/or commercial development. According to audited numbers for FY 2006, the total target net assets by ordinance and current appropriable net assets for LP&L are as follows:

Enterprise Fund	Target Net Assets by Policy	Appropriable Net Assets*
LP & L	$50.0 million	$25.3 million

* Based on Electric Utilities Board discretion.

Enterprise Fund Revenues . . . It is the policy of the City that each of the Electric, Water, Solid Waste and Sewer funds be operated in a manner that results in self sufficiency, without the need for additional monetary transfers from other funds (although the Electric System received transfers from the General Fund during FY 2003). Such self sufficiency is to be obtainad through the rates, fees and charges of each of these enterprise funds. For purposes of determining self sufficiency, cost recovery for each enterprise fund includes direct operating and maintenance expense, as well as indirect cost recovery, in-lieu of transfers to the General Fund for property and franchise tax payments, capital expenditures and debt service payments, where appropriate. Rate increases may be considered in future budgets as costs may warrant, including specifically the costs related to fuel charges that may affect LP&L and the cost of providing service.

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

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

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

2) Public hearings are conducted to obtain taxpayer comments.

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

4) The City Manager is authorized to transfer budgeted amounts between accounts below the department level. Any transfer of funds between departments or higher level are presented to the City Council for approval by ordinance before the funds are transferred or expended. Expenditures may not legally exceed budgeted appropriations at the fund level.

5) Formal budgetary integration is employed as a management control device during the year for the Convention and Tourism, Criminal Investigation, and Capital Projects Funds. Budgets are adopted on an annual basis. Formal budgetary integration is not employed for Debt Service funds because effective budgetary control is alternatively achieved through general obligation bond indenture and other contract provisions.

6) The Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles.

7) Appropriations for the General Fund lapse at year-end. Unencumbered balances for the Capital Projects Funds continue as authority for subsequent period expenditures.

8) Budgetary comparison is presented for the General Fund in the combined financial statement section of the Comprehensive Annual Financial Report. The City has received the Distinguished Budget Presentation Award from the GFOA for the following budget years beginning October 1, 1983-88 and 1990-06.

Insurance and Risk Management . . . The City is self-insured for public entity liability and health benefits coverage. Risk management purchases a $10,000,000 excess insurance policy for liability claims in excess of $500,000, per occurrence. Airport liability insurance and workers' compensation is insured under guaranteed cost policies. The Health Benefits are covered by a self insured program with a $18,845,756 cap and a $175,000 individual cap. The City maintains insurance policies with large deductibles for fire and extended property coverage and boiler and machinery coverage.

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

At September 30, 2006 the total Net Assets of these insurance funds were as follows:

Self-insurance – health ($198,884)*

Self-insurance – risk management $3,397,295

* Unaudited net assets in the self insurance health fund as of September 30, 2007 are $3,837,330. The positive fund balance is a result of savings realized from a change in third party administrators and network beginning January 1, 2007.

The City obtains an actuarial study of its risk management fund (the "Risk Fund") every year. In FY 2005, an actuarial study was conducted that considered the types of insurance protection obtained by the City, the loss exposure and loss history, and claims being paid or reserved that are not covered by insurance. The 2005 actuarial review recommended that the liabilities of the Risk Fund be increased to $6,479,000 from $6,437,000 to the minimum expected confidence level of the Government Accounting Standard Board Statement Number 10 ("GASB 10"), which requires maintenance of risk management assets at a level representing at least a 50% confidence level that all liabilities, if presented for payment immediately, could be paid. The Risk Fund has net assets restricted for insurance claims of $1,688,000 over the recommended funding level. Given the risk net assets balance, the City exceeds the minimum GASB 10 requirement.

INVESTMENTS

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

LEGAL INVESTMENTS

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit meeting the requirements of the PFIA that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Governmental bodies in the State such as the City are authorized to implement securities lending programs if: (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

INVESTMENT POLICIES

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

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

ADDITIONAL PROVISIONS

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves Estimated Fair Book Value Market Value and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 15 - CURRENT INVESTMENTS

As of September 30, 2007, the City's investable funds were invested in the following categories:

Type	Par Value	Book Value: Value	Book Value: % of Total Book Value	Estimated Market Value [a]: Value	Estimated Market Value [a]: % of Total Market Value
United States Agency Obligations	$ 118,219,000	$ 117,673,754	40.15%	$ 118,045,822	40.22%
Money Market Mutual Funds [b]	44,014,150	44,014,150	15.02%	44,014,150	15.00%
Local Government Investment Pools [c]	131,428,024	131,428,024	44.84%	131,428,024	44.78%
	$ 293,661,174	$ 293,115,928	100.00%	$ 293,487,996	100.00%

[a] Market prices are obtained from Advent's interface with FT Interactive Data. No funds are invested in mortgage backed securities. The City holds all investments to maturity which minimizes the risk of market price volatility.

[b] Money Market Funds are held at Wells Fargo Bank, Texas N.A.

[c] Local government investment pools consist of entities whose investment objectives are preservation and safety of principal, liquidity and yield. The pools seek to maintain a $1.00 value per share as required by the Texas Public Funds Investment Act.

TAX MATTERS

TAX EXEMPTION

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service. The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Certificates could become taxable from the date of delivery of the Certificates, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Certificates, is included in a corporation's "adjusted current earnings," ownership of the Certificates could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of all or a portion of the Certificates may exceed the stated redemption price payable at maturity of such Certificates. Such Certificates (the "Premium Certificates") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Certificate in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Certificate in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Certificate by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Certificate that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Certificate) is determined using the yield to maturity on the Premium Certificate based on the initial offering price of such Certificate.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Certificates that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Certificates should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Certificate and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Certificates.

OTHER INFORMATION

RATINGS

Upon the issuance of the Policy by Financial Security, the Certificates shall be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and "AAA" by Fitch Ratings ("Fitch"). The City's underlying ratings on its presently outstanding generel obligation debt are "Aa3" by Moody's, "AA" by S&P and "AA" by Fitch. The City also has issues outstanding which are rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch through insurance by various commercial insurance companies.

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or alleither or both of such rating companies, if in the judgment of any or alleither or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

Financial Guaranty Industry – Recent Events

Moody's, S&P and Fitch (collectively referred to herein as the "Rating Agencies") have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to subprime mortgage risk as an area of stress for the financial guaranty iudustry. In various releases, the Ratings Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors.

In a November 5, 2007 press release, Fitch stated that there was a "minimal probability" that Financial Security may experience erosion of its capital cushion under Fitch's updated stress analysis and that "due to minimal SF CDO exposure and [a] strong initial capital cushion, Fitch anticipates no capital or rating issues resulting from its updated capital review of Financial Security." On December 14, 2007, Moody's affirmed the "Aaa" rating of Financial Security with a stable outlook. On January 17, 2008, S&P affirmed the "AAA" rating of Financial Security with a stable outlook.

LITIGATION

The City is involved in various legal proceedings related to alleged personal and property damages, breach of contract and civil rights cases, some of which involve claims against the City that exceed $500,000. State law limits municipal liability for personal injury at $250,000/$500,000 and property damage at $100,000 per claim. The following represents the significant litigation against the City at this time.

The City's insurance coverage, if available, contains either a $250,000 self-insured retention or a $500,000 self-insured retention depending on the date of the occurrence.

The City has been sued by a contractor who was not awarded the bid on a portion of the stormwater drainage project. The contractor has alleged violations of the state bid statute and a violation of Section 1983. The plaintiffs took a nonsuit in state court and re-filed the case in federal court. The federal court dismissed the contractor's Section 1983 claims, and the contractor filed a Notice of Appeal. The Fifth Circuit court of appeals reversed the District Court and the District Court has reinstated the federal and state claims. The case is set for trial in May 2008. The City Attorney believes there is insurance coverage for the Section 1983 claim, although there is a dispute with the carrier regarding coverage.

The City, its police chief, and two police officers have been sued for violation of a citizen's first amendment rights when the plaintiff's film from his camera was confiscated by the police while the individual was photographing a children's basketball game. The matter has been dismissed on a plea to the jurisdiction and the plaintiff has appealed the court's decision. The Court of Appeals reversed the trial court's decision and remanded the case back to the trial court. Plaintiff is not seeking monetary damages except for attorney's fees. The City Attorney believes there is insurance for any potential damages.

The City and a police officer have been sued by an individual on behalf of himself and his children rising out of the death of the plaintiff's teenage daughter and injuries to his son from an automobile accident with the police officer. The plaintiff alleges that the officer was operating the vehicle in a negligent manner and was speeding at the time of the automobile collision. The defendants have asserted that the driver of the vehicle carrying the plaintiff's children was negligent in failing to yield the right-of-way to the police officer. The City filed a motion for summary judgment which was granted based on the fact the plaintiff did not file a claim with the City. The Court of Appeals reversed this decision and remanded the case back for trial. The City has appealed the case to the Texas Supreme Court but the Court refused to hear the case. The case is now back in the trial court. The City Attorney believes there is insurance covering the claims.

The City and a former police officer have been sued by a plaintiff as a result of allegations of inappropriate sexual conduct after a police stop by the police officer. The officer filed a motion to dismiss under the Tort Claims Act citing provisions holding that the plaintiff cannot sue both the entity and the individual officer under the act, and the officer was dismissed from the case. The City filed a motion for summary judgment, which was granted and the plaintiff appealed the decision. The Appellate Court affirmed the judgment for the City but remanded the case against the police officer. The City Attorney is of the opinion that insurance is available for the City. The City and the insurance company have denied coverage to the officer.

Plaintiffs have sued the City and a police officer and Taser International as a result of an incident where a police officer tased a citizen while making an arrest. The citizen subsequently died. The City filed a plea to the jurisdiction which was denied and the City appealed the trial courts denial of the plea. The Appellate Court also ruled in favor of the Plaintiff. The City has appealed this decision to the Texas Supreme Court. A federal cause of action under Section 1983 has been filed alleging federal civil rights violations involving the same facts. Trial is set in the federal case in May 2008. The City Attorney is of the opinion that insurance is available for the claims.

The City and a police officer have been sued by an individual who was tased during a traffic stop. The plaintiff has alleged violation of his civil rights, as well as, violations under the Tort Claims Act. The City Attorney is of the opinion that insurance is available and that there are no significant injuries to the plaintiff.

The city has been sued by ERAF Corporation alleging the city has wrongfully denied them a permit to operate a sexually oriented business. Plaintiff has asked the court to dismiss the case with prejudice.

The City has been sued by Northridge Homeowners Association and Templeton Mortgage Corporation seeking a declaration of rights as to various property interests at Lake Alan Henry. At this time, Plaintiffs are only seeking attorney's fees as compensation, though this could end up in the six figure range.

A former employee sued the City in October 2007 for wrongful termination. While the case is still in the early stages of development, the City, at this time, does not believe there is a strong likelihood of recovery. The City believes there is insurance coverage in this matter.

The City intends to vigorously defend itself on all claims, although no assurance can be given that the City will prevail in all cases. However, the City Attorney and City management are of the view that its available sources for payment of any such claims, which include insurance policies and City reserves for self insured claims, are adequate to pay any presently foreseeable damages (see "FINANCIAL POLICIES – Insurance and Risk Management").

On the date of delivery of the Certificates to the Underwriters, the City will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no significant litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Certificates or which would affect the provisions for their payment or security or in any manner question the validity of the Certificates.

INVESTIGATIONS RELATING TO CITY'S HEALTH INSURANCE ADMINISTRATOR

In 2006, the City hired an outside independent auditing company, Benefit Plan Partners, a California company, (the "Auditor") to conduct an audit of its contract (the "Administration Contract") with its then current health insurance administrator, American Administrative Group, Inc. ("AAG"). The Administration Contract provided for AAG's administration of all City employee claims on the City's self-insured health insurance. The Auditor found numerous possible overcharges and errors by AAG during the term of the Administration Contract, including overcharges possibly arising from unauthorized commissions taken by AAG, and possible payments to AAG by pharmacies as rebates. The outside Auditor estimated the aforementioned errors and overcharges to be approximately $2,000,000.

The Administration Contract terminated by its own terms in December 2006 and AAG has ceased to administer any claims for the City. The City has hired another third party administrator to administer the run-out claims which accrued prior to December 2006. The City also selected Blue Cross Blue Shield to be the City's new health insurance administrator beginning January 2007.

In March 2007, the City filed an application with the State district court to compel AAG to preserve and provide documentation relating to the Administration Contract and claims submitted by City employees during the term of the Administration Contract. It is the intent of the City to utilize such documentation to complete the audit by Benefit Plan Partners of its contract with AAG to determine whether any further overcharges have occurred.

The City is aware of federal authorities investigating matters relating to AAG and the Administration Contract, including investigations conducted by the Federal Bureau of Investigation. No subpoenas at this time have been directed at or issued to the City in regards to the investigations involving AAG or the Administration Contract.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8A through 15 and in Appendix A. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") approved by the staff of the United States Securities and Exchange Commission ("SEC") and to any state information depository ("SID") that is designated and approved by the State of Texas and by the SEC staff.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information and operating data which is customarily prepared by the City by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Certificates.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions; (7) modifications to rights of holders of the Certificates; (8) early redemption of the Certificates; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. (Neither the Certificates nor Ordinance make any provision for debt service reserves or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information From NRMSIRS and SID

The City has agreed to provide the foregoing information only to NRMSIRs, the MSRB and the SID, as described above. The information will be available to holders of Certificates only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

The City became obligated to file annual reports and financial statements with the SID and each NRMSIR in an offering that took place in 1997. All of the City's general obligation debt reports and financial statements were timely filed with both the SID and each NRMSIR; however, due to an administrative oversight, the City filed its fiscal year end 1999, 2000, and 2001 electric and power revenue debt reports late to the SID and each NRMSIR. The financial information has since been filed, as well as a notice of late filing. The City has implemented procedures to ensure timely filing of all future financial information. Under previous continuing disclosure agreements made in connection with LP&L revenue bonds, the City committed to make prompt filings with the SID and either each NRMSIR or the MSRB upon the occurrence of any "non-payment related defaults." The City's FY 2003 audited financial statements were not available until mid-September 2004. Therefore, when the City made its annual disclosure filing with the SID and NRMSIRs in March 2004, it filed unaudited financial statements in accordance with its undertaking. Several references in that filing, including in the unaudited MD&A, in notes to those statements and in the statistical tables, reported that for FY 2003 LP&L had failed to meet its rate covenant (see "DISCUSSION OF RECENT FINANCIAL AND MANAGEMENT EVENTS - SEPTEMBER 30, 2003 FINANCIAL RESULTS - The Electric Fund"). Because there was an uncertainty as to an amount by which the rate covenant would fail to be met, which was not finally determined until the audited financials were released in September 2004 (although the City had a reasonable belief prior to that time that the rate covenant had not been met), the City waited until September 2004 to make its event filing of non-compliance with its LP&L rate covenant.

FINANCIAL ADVISOR

RBC Capital Markets is employed as Financial Advisor to the City in connection with the issuance of the Certificates. RBC Capital Markets is the name under which RBC Dain Rauscher Inc., a broker-dealer, conducts investment banking business. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. RBC Capital Markets, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

UNDERWRITING

The Underwriters have agreed to purchase the Certificates, subject to certain conditions, and has agreed to pay a purchase price reflecting the par amount of the Certificates, plus an original issue premium of $2,851,566.50, less an Underwriters' discount of $318,456.44, plus accrued interest.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Underwriters.

/s/ *David A. Miller*
Mayor
City of Lubbock, Texas

ATTEST:

/s/ *Rebecca Garza*
City Secretary
City of Lubbock, Texas

APPENDIX A

EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2006

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Office of the City Manager

P.O. Box 2000 • 1625 13th Street • Lubbock, TX 79457
(806) 775-3002 • Fax: (806) 775-2051

January 3, 2007

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

It is with much pride that we submit the Comprehensive Annual Financial Report (CAFR) for the City of Lubbock, Texas for the fiscal year ended September 30, 2006. The purpose of the CAFR is to provide the City Council, citizens, and other interested parties with accurate and meaningful information concerning the financial condition and performance of the City. In addition, as part of the CAFR review process; independent auditors have verified that the City has presented its financial position fairly in all material respects.

The CAFR is presented with management's representation of the City's finances, and as such, management assumes full responsibility for the completeness and reliability of all the information presented. To ensure a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by BKD, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the latest fiscal year are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

- Fair presentation of the financial statements,
- Internal Controls involving the administration of federal awards, and
- Compliance with legal requirements.

These reports are available in the City's separately issued Single Audit Report.

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

THE CITY AND ITS ORGANIZATION

Population and Location

The City is located in the northwestern part of the state commonly known as the South Plains of Texas. The City currently occupies a land area of 119.9 square miles and serves a population of 212,365 (2007 Planning Department estimated population). Lubbock is the 11th largest Metropolitan Statistical Area (MSA) in the State of Texas and the 12th largest city. The Lubbock MSA includes Lubbock and Crosby Counties. (Source of ranking: 2006 estimates from Demographics Now, a product of SRC)

Form of Government and City Services

The City was incorporated in 1909. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1917. Policy-making and legislative authority are vested in a city council consisting of the mayor and six other members. Some of the City Council's responsibilities include adopting ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney, and City Secretary. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three council members elected every two years. The mayor is elected to serve a two-year term. Six of the council members are elected by district. The mayor is elected at large.

The City provides a full range of services including public safety, the construction and maintenance of highways, streets, and other infrastructure, solid waste services, and recreational activities and cultural events. The City also provides public utility services for electricity, water, wastewater, and storm water.

Public safety includes police protection and fire protection. Police protection is provided through the Police Department, which includes, with the adoption of the FY 2006-07 Operating, 422 sworn police officers. The Fire Department operates 15 fire stations and has 311 sworn fire fighters.

Electric service in Lubbock is provided by Lubbock Power and Light (LP&L), Xcel Energy, and South Plains Electric Cooperative. LP&L is the municipal-owned electric company and has 68,836 meters in Lubbock with an average daily consumption of 4,259,994 kWh. LP&L has 14 substations, 1,011 miles of distribution lines, and 85 miles of transmission lines. Natural gas service is provided by Atmos Energy.

Currently, Lubbock obtains 75% to 85% of its drinking water supply from Canadian River Municipal Water Authority (CRMWA). CRMWA combines surface water from Lake Meredith and ground water from Roberts County to meet the water demands of Lubbock and the other 10 member cities of CRMWA. Lubbock secures the remaining 15% to 25% of its water from its groundwater rights in Bailey and Lamb counties. The City provides water service to 78,000 meters as well as the City of Shallowater, City of Ransom Canyon, Buffalo Springs Lake, and Lubbock Reese Redevelopment Authority. The capacity of the City water transmission system is 81 million gallons per day with an average utilization of 39 million gallons per day. The City has 1,400 miles of distribution lines and 146 active water wells with 83,265 acres of water rights. CRMWA allocates more than 11 billion gallons of water to the City annually. Lake Alan Henry, built by the City in 1993, is considered a third water supply for future use. In order for the City to utilize water from Lake Alan Henry, future construction is required for pump stations, a pipeline to carry the water to Lubbock, and a new treatment plant. The preliminary engineering for these improvements is now under contract and should be completed by early 2008.

For the past several years, the City has been planning for future water needs. In March 2003, the City contracted with WaterTexas, Inc. to evaluate and make recommendations on how the City can optimize existing and potential water supplies on a short-, mid-, and long-term basis. In a report titled *City of Lubbock Strategic Water Plan*, WaterTexas reported that Lubbock has adequate water supply and will continue to do so provided that it takes steps to address its maximum day capacity limitations; addresses its ability to respond readily to drought conditions at Lake Meredith; and strategically develops additional supplies giving due consideration to demand, cost, opportunity, and competing budgetary needs. To strategically develop additional water supplies, the City Council established the Lubbock Water Advisory Commission in July 2003, with the primary objective of developing a 100-year water supply plan. They have since achieved that object and continue to play an intricate role in the City's long-term water planning efforts. The City has also worked closely with the Region O Planning Group in the preparation of the State Water Plan that reflects Lubbock's water supply needs and alternatives.

CRMWA has secured an additional 260,000 acres of groundwater rights in the Northern Panhandle. Groundwater rights now total over 300,000 acres, with an estimated 15 million acre feet of water within those rights. Conservative projections using current secured water rights indicate CRMWA will be able to provide groundwater supplies through existing infrastructure through 2097.

Wastewater collection and treatment is provided within the city limits to residential, commercial, and industrial customers. The collection system consists of 960 miles of sanitary sewer as of January 1, 2006. The wastewater treatment plant has a capacity of 31.5 million gallons per day (permitted capacity) and an average utilization of approximately 23 million gallons per day. The peak utilization of the wastewater treatment plant is 27 million gallons per day. The City has a contract for final design to upgrade the wastewater treatment plant for discharge quality effluent.

The City of Lubbock's drainage is primarily conveyed through the City's street system that discharges into more than 115 playa lakes. The subsurface drainage, via storm sewer pipes with curb inlets, conveys water to two small intermittent streams (Blackwater Draw and Yellowhouse Draw) which both converge at the upper reaches of the North Fork of the Double Mountain Fork of the Brazos River. The City's municipal separate storm sewer system (MS4) is made up of 1,089 linear miles of paved and unpaved streets, 544 linear miles of paved and unpaved alleys, 1,188 storm sewer inlets, 70 miles of subsurface storm sewer pipe, three detention basins, 115 playa lakes, and one pump station. Maintenance of all of the storm sewers and street cleaning was funded from the Storm Water Fund during FY 2005-06.

During FY 2005-06 the primary focus of the storm water fund was the construction of the South Lubbock Drainage Project – Phase I Main Trunk Line. This project remains approximately one year ahead of schedule and will connect six playa lakes during Phase I of the overall project. Construction for the widening of 98th Street from Slide Road to Iola Avenue began during FY 2005-06 and included the remainder of the South Lubbock Drainage Project trunk line and a regional storm sewer designed to drain two detention basins at 98th Street and Frankford Ave. The construction of the drainage channel north of Andrews Park Lake was completed during FY 2005-06. Work continued on a FEMA Restudy of two of the playa lake systems and a new study was undertaken to master plan the northwest quadrant of the city and to look at other options for flood risk reduction at Maxey Park Lake. The other focus was on the submission of the City's application for the Texas Pollution Discharge Elimination System (TPDES) MS4 permit for the City's storm water quality activities. Compliance with the City's MS4 permit is currently with the Environmental Protection Agency and consists of 11 different programs that continued during the fiscal year.

The City provides garbage collection and disposal services to 63,638 residential customers and 2,937 commercial customers. One of the City's two landfill sites is designated as Lubbock Landfill and is a transfer station only. The second site is Lubbock's premier landfill and is designated as the West Texas Regional Disposal Facility. The West Texas Regional Disposal Facility opened in 1999 and is currently the largest landfill in the State of Texas. With 1,260 acres, it is expected to serve the region for the next 100 years.

Citibus is the public transportation provider for the City of Lubbock and is professionally managed by McDonald Transit Associates, Inc. Citibus provides a Fixed Route Service, CitiAccess (paratransit system), Evening Service, and Special Services. The CitiAccess service is a curb-to-curb service for disabled members of the community. The Citibus Evening Service is designed to meet the needs of both CitiAccess and fixed route passengers who are transit dependent, and who would have no other means of transportation in the evenings if the Evening Service was not provided. A majority of Evening Service passengers work at night and use the service for transportation to and from their jobs. In addition, Citibus offers route service for Texas Tech University.

The City has a housing and community development program implemented and administered through funding from the Federal Community Development Block Grant Program, HOME Investment Partnership Program, and Emergency Shelter Grant Program. Through these sources of funding, the City completed work on over 250 houses, assisted over 24,104 individuals, and created 3 jobs through an economic development loan program.

The City also receives funding from the Texas Department of Housing and Community Affairs. These funds allow the city to offer additional programs to the citizens of Lubbock. Through these programs, 216 households received assistance in weatherizing their home and/or making their home more energy efficient, 1,200 households received utility assistance, 75 graduated from the self-sufficiency program, and 12,000 residents received referral assistance through the Information and Referral Hotline.

Community enrichment and cultural services are also major programs of the City. The City owns and operates four libraries with over 391,718 volumes. The City also owns and maintains 77 parks and 57 playgrounds. Extensive recreational facilities include 4 swimming pools, 54 tennis courts, 30 baseball and softball fields, 5 community centers and 5 senior centers. To further enhance quality of life and to provide support to the tourism industry, the City also operates the Civic Center (convention center), Lubbock Coliseum, Lubbock Auditorium for the performing arts, the Buddy Holly Center, and the Silent Wings Museum.

The City is responsible for the construction and maintenance of 1,015 miles of paved streets. The new Gateway Street Fund by the City Council in 2004, allocating 40% of the franchise fee revenue and telecom line charges to gateway corridor street projects. The FY 2005-06 budget for the Gateway Street Fund includes the widening of Milwaukee Avenue from 34th to 98th Street, construction of a T-2 thoroughfare street on Erskine from Frankford to Salem, construction of a T-2 thoroughfare street on Slide Road from Loop 289 to Erskine, and widening Loop 289 from South of the 4th Street interchange to south of the Clovis Road interchange, constructing a grade separation of Slide Road and Loop 289, widening of Slide Road from 4th Street to Loop 289, improvements at the 4th Street and Loop 289 interchange, and the construction of the Quaker/Erskine/Loop 289 interchange. These projects support substantial commercial and residential development on the west side of Lubbock.

Other major road construction in Lubbock includes construction on 98th Street from Slide Road to Frankford Avenue and construction of the Marsha Sharp Freeway by the Texas Department of Transportation (TXDOT). This freeway will run east from West Loop 289 to link up with Interstate 27. The first phase of the project is completed and included widening Loop 289 from four to six lanes from 34th Street to Slide Road and rebuilding the frontage road system under the main lanes – three lanes on each side. It also included building the 50th Street overpass and extending 50th Street to Frankford Avenue. TXDOT awarded the bid for the second phase of the Marsha Sharp Freeway that began construction in May 2005. The Marsha Sharp Freeway will benefit Lubbock by providing a western connection to West Loop 289 ensuring a more efficient flow of traffic throughout Lubbock. It will also reduce the congestion on north/south and east/west major arterials and provide faster access to all points in Lubbock, specifically Texas Tech University, the central business district, education centers, and medical facilities. The entire project is expected to cost $360 million and be completed sometime after 2015.

One of the key components of Lubbock's transportation system is the Lubbock Preston Smith International Airport located 7 miles north of Lubbock's central business district on 3,000 acres of land adjacent to Interstate 27. The airport is operated as a department of the City and includes a 220,000 square foot passenger terminal building. The airport has two commercial service runways; one 11,500 feet in length and one 8,000 feet in length. The airport's third general aviation runway is 2,869 feet in length. Air traffic control services include a 24-hour Federal Aviation Administration control tower and a full range of instrument approaches. The airport is currently served by three major passenger airlines and two major cargo airlines having over 80 commercial flights per day.

The City of Lubbock annexed two areas during FY 2005-06. One of the areas annexed included 95.1 acres located north of Erskine and west of North Milwaukee that is under development as Shadow Hills Estates. The other area annexed was 66.1 acres south of 98th Street and west of Avenue P that is now under development as the Stonebridge Community.

The City is financially accountable for a legally separate civic services corporation and an economic development corporation, both of which are reported separately within the City's financial statements as discretely presented component units. Additional information on these legally separate entities can be found in the notes to the financial statements.

Annual Budget Process

The annual budget serves as the foundation for the City's financial planning and control. All City departments are required to submit requests for appropriation to the City Manager in June of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the City Council for review before August 31. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department directors are held accountable for managing their departments on total appropriation basis. Transfers of appropriations between funds and departments requires the approval of the City Council.

Budget-to-actual comparisons are provided in this report for the General Fund as part of the basic financial statements.

ECONOMIC CONDITION AND OUTLOOK

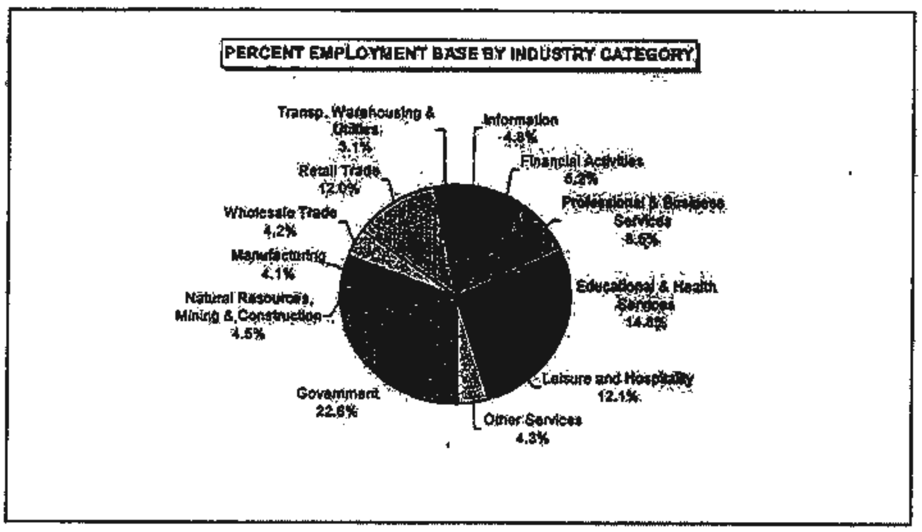
The information presented in the financial statements is perhaps best understood when it is considered within the context of the Lubbock's local economy. The following information is provided to highlight a broad range of economic forces that support the City's operations.

Local Economy

Lubbock has a stable economy with historically slow and steady growth, which has continued through September 2006. Lubbock's agriculturally based economy has diversified over the past 20 years, which minimizes the effects of business cycles experienced by individual sectors.

The South Plains is one of the most productive agricultural areas in the United States. In 2006, almost 12% of the nation's cotton crop and 43% of the state's cotton crop were produced by farmers in the Southern High Plains District. Production in the Southern High Plains District is estimated to total 2.5 million bales for 2006, down 41% from last years production due to lack of rain during the peak growing season.

Lubbock has strong manufacturing, wholesale and retail trade, services, and government sectors. The manufacturers are a diverse group of employers who support approximately 5,200 workers. A central location and access to transportation have contributed to Lubbock's development as a regional warehousing and distribution center. Lubbock also serves as the major retail trade center and health-care provider for a region of more than a half million people. A breakdown of the percent of employment base by industry category has been provided below, which gives a "snapshot" of the industry base of Lubbock.



Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
January 3, 2007

Two major components of the local economy are education and health care services. Lubbock is home to three universities and one community college; Texas Tech University, Lubbock Christian University, Wayland Baptist University – Lubbock Center and South Plains College. Total enrollment for all higher education institutions in Lubbock for Fall 2006 is 42,241. This is a slight decrease from the enrollment for Fall of 2005. The availability of the schools in Lubbock is an added advantage for our industries as they provide a ready source of labor for their successful operation.

The healthcare and social services sector is also a vital component of the Lubbock economy. This sector employs more than 18,000 people, whose payroll of more than $628 million and related contributions provide a substantial impact to the Lubbock area.
(Source: 2004 County Business Patterns)

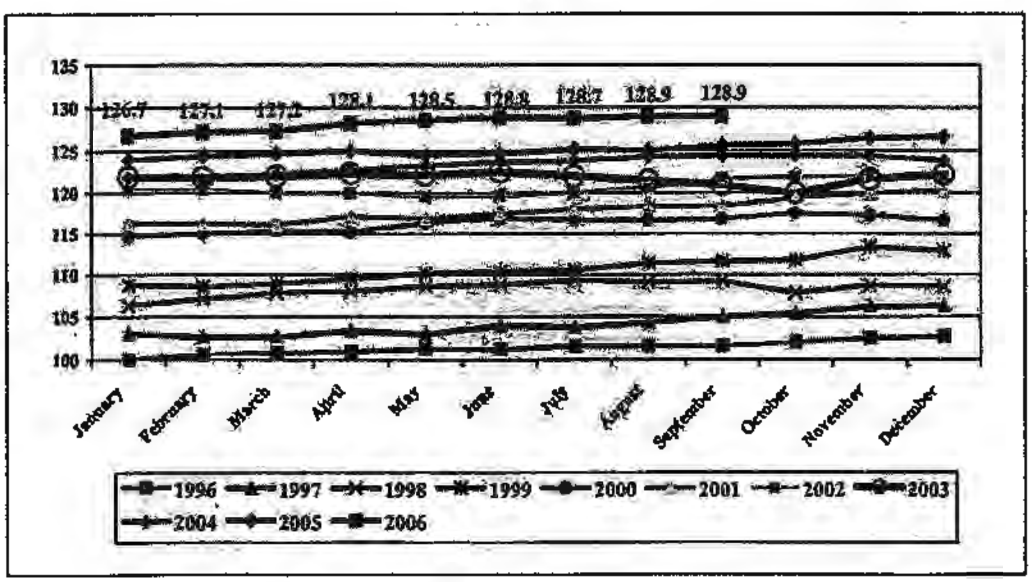
Other current and trend information has been provided below, which gives a picture of the overall city economy.

Lubbock Economic Index.

The Lubbock Economic Index is designed to represent the general condition of the Lubbock economy by tracking local economic growth rates. It is based at 100.0 in January 1996. The economic index for September 2006 was 128.9, which is 2.7% improved over the index for September 2005.

The Lubbock Economic Index remains at a record level through September 2006, suggesting that the overall Lubbock economy continues to perform at a high aggregate level.
(Source: Lubbock Economic Index September 2006)

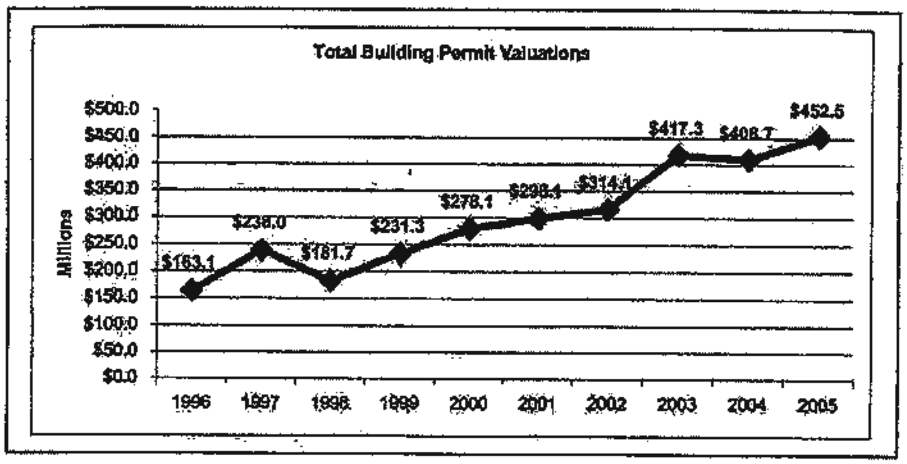
Lubbock Economic Index
January 1996 to September 2006



Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
January 3, 2007

Building Permit Valuations.

Construction continues to make a strong contribution to the Lubbock economy even though the value of all building permits issued so far in 2006 is down by 5.8% from last year's total through September. The $333.2 million in building permits issued through the first nine months of 2006 is slightly down from the record setting levels that have been seen in the city over the last few years.
(Source: Economic and Demographic Overview: Building Valuations – 10-Year Trend / Original Source of Data: Building Inspection Statistical Report)



Total new residential permits decreased by 14.3% through September 2006 when compared to the same period in 2005. The $154.4 million in residential building permits issued for the first 9 months of 2006 is slightly down from the record setting levels of 2003 through 2005. Average home sale price year-to-date through September 2006 has increased by 4.7% from September 2005 to September 2006.
(Source: Economic and Demographic Overview: Building Valuations – 10-Year Trend / Original Source of Data: Building Inspection Statistical Report and The Real Estate Center at Texas A & M University, Lubbock Residential Housing Activity Report)

Sales Tax Collections

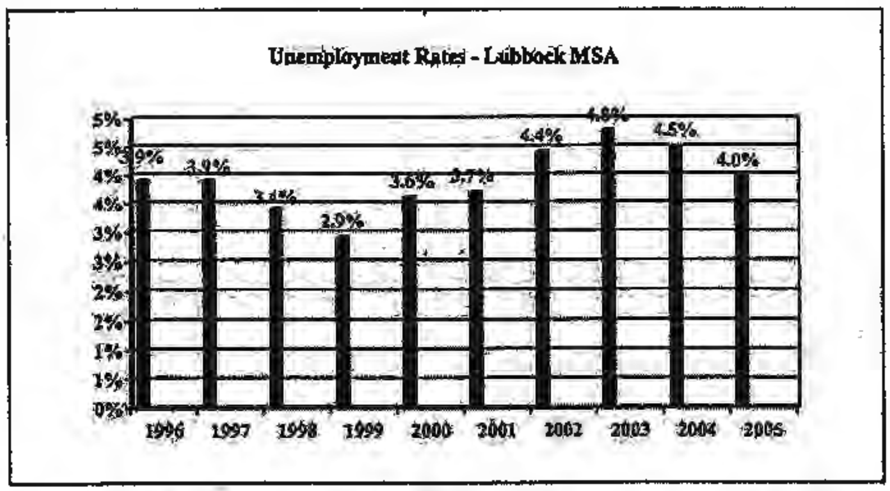
Sales tax collections for September 2006 were 2.82% improved over the September 2005 sales tax collected. Year-to-date sales tax collections through September 2006 were 7.97% improved over the same period in 2005. (Counted in the month the sales tax was collected, not the month it was paid. Does not include sales tax collected by the City of Lubbock and not reported to Comptroller of Public Accounts)
(Source: Economic and Demographic Overview; Monthly Sales Tax Collections – Calendar Year – City of Lubbock. / Original Source of Data: State Comptroller of Public Accounts – Allocation Historical Summary)

Tourism/Visitor Related Indicators

Lodging tax receipts increased from $2.4 million in September 2005 to $2.5 million in September 2006. This is a year-to-date increase through September 2006 of 3.2%. Airline boardings at Lubbock Preston Smith International Airport also increased in 2006 by 3.1% over the same period last year.
(Source: Lubbock Economic Index)

Employment

The total non-agricultural employment estimate for September 2006 was 127,600. This was .5% improved over September of last year. There were 600 more people employed in September 2006 than in the same period of 2005. The unemployment rate for the Lubbock MSA in September 2006 was 3.8%, 4th lowest in the State of Texas. Historically Lubbock has a low rate of unemployment that is generally 1% - 2% below the national rate and about 1% below the rate for Texas.
(Source: Lubbock Economic and Demographic Overview / Original Source of data: Texas Workforce Commission)



Note: The methodology for calculating the unemployment rate was changed in 2005 and the last five years were recalculated based on the new method. The Lubbock MSA also changed in 2005 to include both Lubbock and Crosby Counties.

Economic Development

Economic development is a priority for the City of Lubbock. In 1995, the City Council created Market Lubbock, Inc., a non-profit corporation, to oversee economic development for the City. Market Lubbock, Inc. is funded with three cents of the property tax allocation. In October 2004, the Lubbock Economic Development Alliance (LEDA), an economic development sales tax corporation, assumed the responsibility for economic development in Lubbock. LEDA program strategies include business retention, business recruitment, workforce development, foreign trade zone, and the bioscience initiative. LEDA is funded by a 1/8 cent economic development sales tax. Total estimated revenues for LEDA for FY 2006-07 are $3,905,080. During the last year, through their business retention, expansion, and attraction programs, LEDA assisted 13 companies in the creation of 295 new jobs with an estimated annual payroll of $9.2 million and capital investment of $2.3 million.

The City's Business Development Department works closely with LEDA to provide the support needed to assist in their economic development projects. Business Development is responsible for tracking and maintaining economic and demographic information for the City, assisting with city-related business issues, the enterprise zone and tax abatement programs, the two Tax Increment Financing Reinvestment Zones, and all Public Improvement Districts. Business Development also works with retail and commercial projects that do not fit the criteria required by the state for economic development sales tax corporations.

Development Initiatives

Overton Park

Overton Park is a 300+-acre revitalization project that is underway in the heart of Lubbock and has been called the largest privately funded revitalization project in the United States. Overton Park is the complete revitalization of a blighted area called North Overton.

Overton Park has developed much faster than anticipated. It is projected that the build-out of this public/private project will occur over a seven-year period. According to the latest Project and Finance Plan for the North Overton Tax Increment Financing Reinvestment Zone (TIRZ), there are planned expenditures of approximately $41.7 million for public infrastructure improvements, which will result in future development/redevelopment that will increase the taxable value by approximately $530 million over the Zone's 30-year life. The 2006 appraised value of the North Overton TIRZ was $185.4 million, which is a $158.5 million increase over the 2002 base year value.

To-date, three student-oriented apartment complexes have been completed along with The Centre, a $26 million, 618,000 square foot project that includes the construction of a multi-story apartment complex built over an upscale retail shopping center and more than 226,000 square feet of parking. Also completed are City Bank, Starbucks, and the new 200,000 square foot Wal-Mart near 4th Street and Avenue Q. A retail center adjacent to the new Wal-Mart is nearing completion and will house several different retail businesses. Construction was completed on the first condominiums in Overton Park during 2006 and construction of the first single-family houses will begin in the next few months. Construction will begin on a new hotel/conference center project in early 2007. A new retail center adjacent to the hotel/conference center will begin construction in February 2007. The project, as a whole, is running about three years ahead of schedule with much of the construction now expected to be completed by the end of 2008.

North & East Lubbock Community Development Corporation

While Lubbock grew during the last 50 years, North and East Lubbock experienced an out-migration of people. From 1960 to 2000, the area's population decreased by 47%. In response to the deterioration of North and East Lubbock, the City of Lubbock created the North & East Lubbock Community Development Corporation (CDC) to oversee and promote development in the area and committed to providing funding to the CDC for four years. The North and East Lubbock CDC has experienced significant progress in their projects during the past year. King's Dominion is a new single-family housing project with five home buyers who have closed and moved into their new homes, and five more houses are under construction. The CDC has also placed three clients into scattered site development, one client's home is presently under construction, and an additional three clients have been approved for mortgages within the target area. The North and East Lubbock CDC has originated $1,079,643 in mortgages for King's Dominion and an additional $702,187 for scattered site developments this year.

The CDC also awarded Somethin' Fresh Cleaners, a North and East Lubbock business, a $40,000 micro-enterprise loan and has received a grant from the US Department of Health and Human Services, Office of Community Services to go towards the development of the Parkway Place Shopping Center.

Central Business District Tax Increment Reinvestment Zone

The City of Lubbock Central Business District (CBD) has been developed over the years typically with office, retail, and governmental agency uses. Like many cities in the last ten to twenty years, retail has moved to shopping areas and other areas outside the CBD and office development has stagnated. In an effort to reverse that trend and to stimulate further development downtown, the City established a CBD Tax Increment Finance Reinvestment Zone (TIRZ) on December 3, 2001. The Board of the CBD TIRZ created a project plan that includes projects that will assist redevelopment in the CBD. Under the revised Project Plan and Finance Plan, it is expected that the CBD TIRZ planned expenditure of almost $10.4 million for public infrastructure improvements will result in future development and redevelopment in the CBD TIRZ which will increase the taxable value by approximately $122.9 million over the zone's 20-year life. The 2006 appraised value of the Central Business District TIRZ was $137.8 million which is an increase of $31.9 million over the 2001 base year value.

Central Lubbock Stabilization and Revitalization Master Plan

The Central Lubbock Stabilization and Revitalization Master Plan is a comprehensive guide for future growth and prosperity for the Central Lubbock Area. The plan was developed with the assistance of Gould Evans Affiliates through a public process bringing together local residents, local employers, city staff, and major stakeholders. This plan is intended to provide a framework for future development in Central Lubbock and to be a "living document" evolving to address any unforeseen future concerns or strategies. As a result of the plan, the 34th Street Business Association, made up of business owners on 34th Street, was formed in 2005.

Other Residential/Commercial Development

Growth in commercial and residential construction has been occurring at a phenomenal rate over the past few years. During the past year, construction on several new residential developments started in Lubbock. The Willow Bend Project, is being constructed on the North side of Lubbock with an expected investment of $177.3 million. North Point is being constructed along Quaker Avenue and is projected to have investment in new development of $200.9 million. Vintage Township is another residential/commercial development underway and is, a new concept in community development that will have an estimated $350 million investment in new development. The construction of Milwaukee Avenue is a public/private partnership between the City of Lubbock and developers who own property along the corridor that is expected to generate a total investment in new commercial/residential development of approximately $844 million in the next five to ten years. Canyon West has already started development of its outdoor mall on Milwaukee Avenue with the construction and opening of a new Target store. Other commercial projects already planned or underway in Canyon West are Main Event and Cracker Barrel.

Other projects underway or almost completed in Lubbock include a new Market Street on 98th Street, a new Wal-Mart in Southwest Lubbock, Grace Clinic, and Quaker Avenue Medical Center.

Downtown Redevelopment Commission

The City Council created the Downtown Redevelopment Commission (Commission) in May 2005 to develop an action plan for the redevelopment of the downtown area. The Commission is composed of eleven members that are citizens of Lubbock and stakeholders in the downtown area. After collecting information on the issues in the downtown area as well as ongoing activities, the Commission drafted a fund-raising action plan for the development of a downtown master plan. Over the last year, the Commission has raised $324,000 for the master plan from private sources and the Central Business District Tax Increment Financing Reinvestment Zone. The Commission hired EDAW to draft the downtown master plan and they began work on the plan in July 2006. EDAW completed the Assessment Phase and have begun the Visioning Phase of the project. The Commission is expecting the Downtown Redevelopment Plan to be completed by the second quarter of 2007.

Lubbock Entertainment and Arts Facilities Task Force

The Mayor created the Lubbock Entertainment and Arts Facilities (LEAF) Task Force in September 2006 to look at Lubbock's current and future needs for public facilities. The task force is made up of 15 Lubbock citizens whose responsibilities include a review of existing public facilities to determine if they meet current and future needs as well as establishing whether there is a need for upgrades to the existing facilities or construction of new facilities. LEAF will complete its work in early January 2077 and submit a recommended plan of action to the City Council.

FINANCIAL INFORMATION

Long-term financial planning

The City uses 35 - year rate models for long-range planning in the General Fund and all enterprise funds. These models are based on current projects and policies and are driven by the idea that the rate should be annually adjusted to reflect the service needs of the citizens. Because of this philosophy, the rates in the models are annually trimmed to leave as little excess as possible, after allowing for financially sound net-asset reserves, as established by City Council Policy. The models, in association with the City's "5-year Forecast", provide anticipated trends given current policies. These forward looking models provide a basis for budget discussion and policy decision-making.

During fiscal year 2003, the City formed the Citizens Advisory Committee to survey City-wide infrastructure needs and priorities. The committee developed a six-year program for future capital needs for which general obligation bonds have been or will be issued. The bond issuance was approved by the citizens of Lubbock in a bond election held in May 2004.

Cash management policies and practices

Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, U.S. Agencies, money market mutual funds, and state investment pools. The maturities of the investments range from 1 day to 3-1/2 years, with an average maturity of approximately 10-1/2 months. The average yield on investments was 4.35% for the City's operating funds and 4.70% for the City's bond funds. Investment income is offset by decreases in the fair value of investments. Decreases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk management

During 2006, the City continued its use of third party workers' compensation coverage. The current coverage provides for coverage to begin with the initial dollar of claims. The City is primarily self-insured for medical and dental coverage. Stop loss coverage of $250,000 per insured per year is currently maintained with a third-party insurer to mitigate risk associated with medical coverage. Additional information on the City's risk management activities can be found in the notes to the financial statements.

Pension benefits

The City sponsors a multiple-employer hybrid defined benefit pension plan for its employees other than firefighters. Each year, an independent actuary engaged by the plan calculates the amount of the annual contribution that the City must make to the plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City's conservative funding policy, the City has succeeded as of

December 31, 2005, in funding 74.6% of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 25 years as part of the annual required contribution calculated by the actuary.

The City also provides benefits for its firefighters. These benefits are provided through a single-employer defined benefit pension plan, the Lubbock Firemen's Relief and Retirement Fund (LFRRF), which is administered by the Board of Trustees of the LFRRF. The City contributes an amount that is determined by formula and is anticipated to average 19.9 percent of firefighter's pay annually.

The City does provide 25% to 60% of post retirement health and dental care benefits for retirees or their dependents.

Additional information on the City's pension arrangements and post employment benefits can be found in the notes to the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lubbock for its comprehensive annual financial report for the fiscal year ended September 30, 2005. The City reapplied for this prestigious award last year after a one-year lapse. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

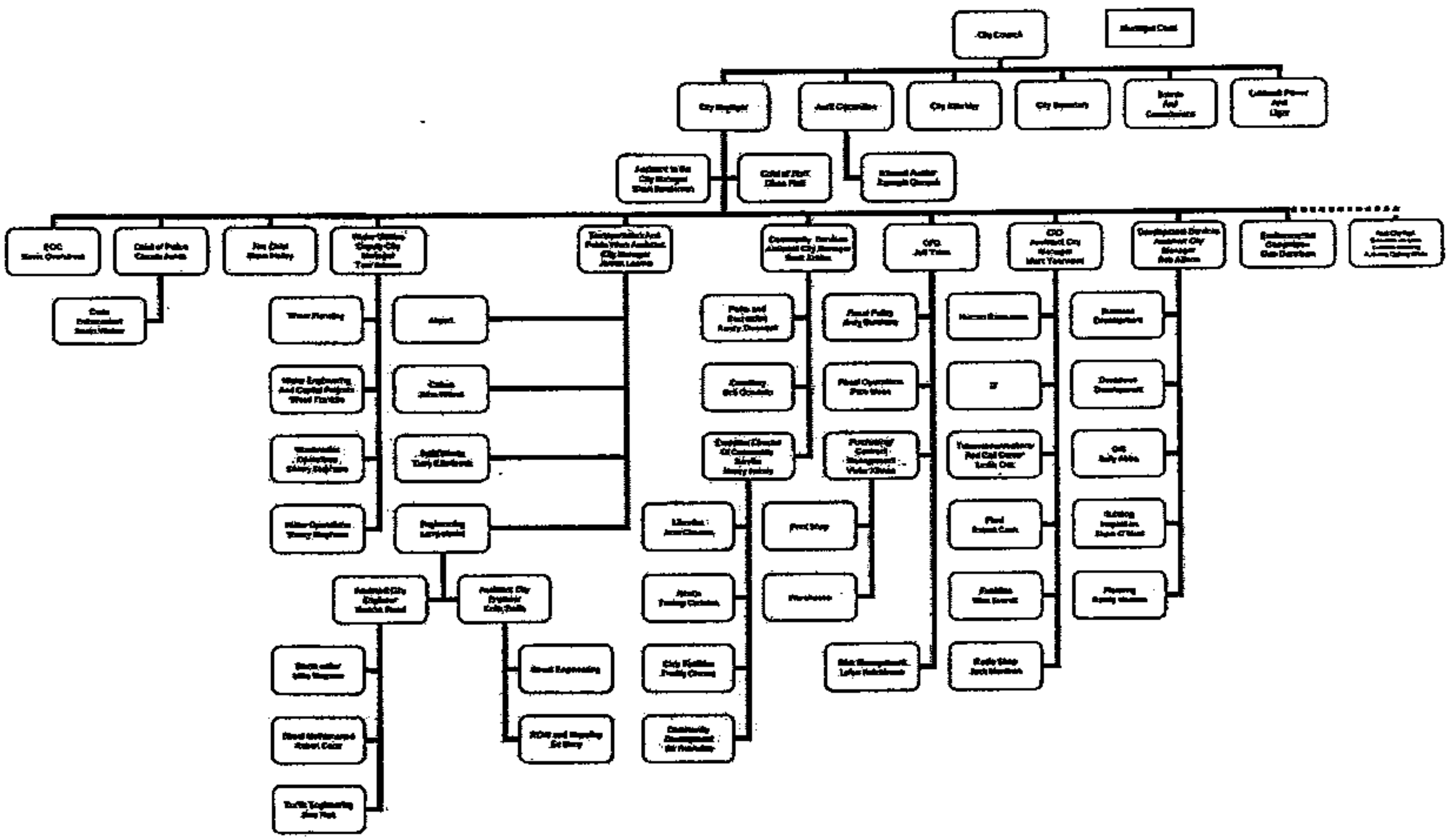
A Certificate of Achievement is valid for a period of one-year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. Exceptional and tireless effort was invested by the Accounting Department. We would particularly like to thank Pamela Moon, Director of Accounting, and the Senior Accountants, and Accountants for their countless hours of work on this financial report. We would like to express our appreciation to all members of the departments who assisted with and contributed to the preparation of this report. Credit is also given to City Council and the Audit Committee for their interest and support in planning and conducting the operations of the City of Lubbock in a responsible and progressive manner.

Respectfully submitted,

Lee Ann Dumbauld	Jeffrey A. Yates
City Manager	Chief Financial Officer

City of Lubbock, Texas
Organization Chart
September 30, 2006



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lubbock
Texas

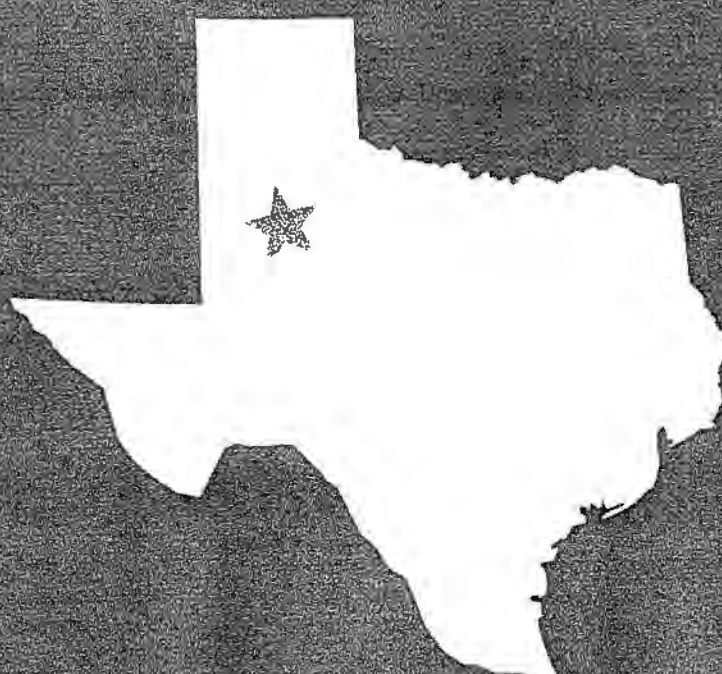
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CAFR



"Serve with humility, lead with passion, commit to excellence."

BKD LLP

Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor and City Council
City of Lubbock, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lubbock, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Civic Lubbock, Inc., Market Lubbock Economic Development Corporation d/b/a Market Lubbock and Lubbock Economic Development Alliance, which comprise the aggregate discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units Civic Lubbock, Inc.; Market Lubbock Economic Development Corporation d/b/a Market Lubbock; Lubbock Economic Development Alliance and the major fund West Texas Municipal Power Agency, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lubbock, Texas, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying information in the introductory and statistical sections as listed in the table of contents has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD, LLP

December 22, 2006, except for Note V,
as to which the date is January 10, 2007

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2006

As management of the City of Lubbock, Texas (City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006.

We encourage readers of these financial statements to consider the information included in the transmittal letter and in the other sections of the Comprehensive Annual Financial Report (CAFR) e.g., combining statements and the statistical section in conjunction with this discussion and analysis.

Financial Highlights

These financial highlights summarize the City's financial position and operations as presented in more detail in the Basic Financial Statements (BFS), as listed in the accompanying Table of Contents.

- The assets of the City exceeded its liabilities at September 30, 2006 by $583.5 million (net assets). Of this amount, $97.8 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by $38.0 million as a result of operations during the fiscal year.
- The ending unreserved fund balance for the General Fund was $19.8 million or approximately 20.2% of total General Fund revenues; an increase of $2.5 million over the prior year amount.
- All of the City's governmental funds reported combined ending fund balances of $96.8 million. Of this total amount, $39.8 million is available for spending at the City's discretion.
- All of the City's business-type activities reported combined ending net assets of $470.8 million. Of this total amount, $71.7 million is available for spending at the City's discretion.
- The City's proprietary funds net assets increased by $35.6 million from $429.7 million to $465.3 million.
- During FY 2006, the City issued $79.7 million in debt for various capital projects and issued $18.8 million in debt to refund $18.0 million in outstanding debt. The City also participated in the issuance of $18.6 million of contract revenue bonds with the Canadian River Municipal Water Authority.

Overview of the Financial Statements

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

Government-Wide Financial Statements. The GWFS, shown on pages 37-39 of this report, contain the *statement of net assets* and the *statement of activities*, described below:

The *statement of net assets* presents information on all of the City's assets and liabilities (including capital assets and short- and long-term liabilities), with the difference between the two reported as *net assets* using the accrual basis. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents a comparison between direct expenses and program revenues for each of the City's functions or programs (referred to as "activities"). Direct expenses are those that are specifically associated with an activity and are therefore clearly identifiable with that activity. Program revenues include charges paid by the recipient of the goods or services offered by the program, in addition to grants and contributions that are restricted to meeting the operational or capital requirements of a particular activity. Revenues that are not directly related to a specific activity are presented as general revenues. The comparison of direct expenses with revenues from activities identifies the extent to which each activity is self-financing, or alternatively, draws from any City generated general revenues. The governmental activities (activities that are principally supported by taxes and intergovernmental revenues) of the City include administrative services, community services, cultural and recreation, economic and business development, fire, health, police, other public safety, streets and traffic, and non-departmental. The business-type activities (activities intended to recover all of their costs through user fees and charges) of the City include Electric (LP&L), Water, Wastewater, Solid Waste, Storm Water, Transit, and Airport. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs (accrual basis), regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as uncollected taxes and earned but unused vacation leave.

Component Units. The GWFS include not only the City itself (the "primary government"), but also three legally separate entities (the "component units): Market Lubbock Economic Development Corporation, d/b/a Market Lubbock, Inc., Lubbock Economic Development Alliance, and Civic Lubbock, Inc., for which the City is financially accountable. These entities provide economic development services and arts and cultural activities for the City. Financial information for these component units is reported separately in the GWFS in order to differentiate them from the City's financial information. None of these component units are considered major component units.

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

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

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

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

The City maintains 31 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund only. The General Fund is considered to be a major fund. Data from the other governmental funds are combined into a single aggregated presentation. The City adopts a budget annually for the General Fund and all other funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. It is presented in the FFS following the statement of revenues, expenditures, and changes in fund balances. The governmental FFS can be found on pages 40-43 of this report.

Proprietary FFS. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the GWFS. Enterprise FFS provide the same type of information as the GWFS, only in more detail. The City uses enterprise funds to account for its Electric (LP&L), Water, Wastewater, West Texas Municipal Power Agency (WTMPA), Storm Water, Transit, Solid Waste, and Airport activities, of which the first five activities are considered to be major funds by the City and are presented separately. The latter three activities are considered nonmajor funds by the City and are combined into a single aggregated presentation.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, management information systems, risk management, print shop, and central warehouse activities among others. The services provided by the internal service funds benefit both governmental and business-type activities, and accordingly, they have been included within governmental activities and business-type activities, as appropriate, in the GWFS. All internal service funds are combined into a single aggregated presentation in the proprietary FFS. Reconciliations are provided for both the proprietary fund statement of net assets and the proprietary fund statement of revenues, expenses, and changes in fund net assets to facilitate the comparison between enterprise funds and business-type activities. The proprietary FFS can be found on pages 46-57 of this report.

Fiduciary FFS. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the GWFS because the resources of those funds are not available to support the City's own programs. The City had one agency fund, which was closed in FY 2006.

Notes to Basic Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the GWFS and FFS. The notes can be found on pages 59-94 of this report.

Required Supplementary Information Other Than MD&A. The City has presented required supplementary information relating to its progress in funding its obligation to provide pension benefits to its employees in the Notes to the BFS.

Government-Wide Financial Analysis

As noted earlier, net assets serve as a useful indicator of the City's financial position. For the City, assets exceeded liabilities by $583.5 million (*net assets*) at the close of the fiscal year. This compared to assets exceeding liabilities by $545.5 million (*net assets*) at the end of the prior fiscal year. As a result of operations, total net assets increased by $38.0 million during the period.

City of Lubbock Net Assets
September 30
(In 000's)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 124,446	116,021	203,858	170,945	328,304	286,966
Capital assets	160,550	138,614	700,154	637,444	860,704	776,058
Total assets	284,996	254,635	904,012	808,389	1,189,008	1,063,024
Current liabilities	35,197	16,837	54,322	25,505	89,519	42,342
Noncurrent liabilities	137,078	127,169	378,896	348,036	515,974	475,205
Total liabilities	172,275	144,006	433,218	373,541	605,493	517,547
Net assets:						
Invested in capital assets, net of related debt	76,483	82,330	380,149	363,227	456,632	445,557
Restricted	10,149	8,770	18,915	26,276	29,064	35,046
Unrestricted	26,089	19,529	71,730	45,345	97,819	64,874
Total net assets	$ 112,721	110,629	470,794	434,848	583,515	545,477

By far the largest portion of the City's net assets, 78.3%, reflect its investment in capital assets, e.g., land, buildings, infrastructure, machinery, and equipment, less any related debt used to acquire those assets that is still outstanding at the close of the fiscal year. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 5.0%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of $98.7 million may be used to meet the City's ongoing obligations to citizens and creditors.

The City also reports positive balances in all three categories of net assets for the City as a whole, as well as for its separate governmental activities and business-type activities.

The City's governmental activities experienced an increase in net assets of $2.1 million, while net assets increased by $6.3 million during the prior fiscal year. The increase in FY 2006 is primarily due to higher than expected sales tax collections due to better than anticipated retail sales and an increase in franchise taxes from power companies due to increased fuel and electric prices.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2006

The City's business-type activities experienced an increase in net assets of $35.9 million during the current fiscal year as compared to a decrease of $7.6 million during the prior fiscal year. The increase in net assets was budgeted to meet City Council and LP&L Board goals of minimum unrestricted net asset balances.

City of Lubbock Changes in Net Assets
For the Year Ended September 30
(In 000's)

	Governmental Activities		Business-Type Activities		Totals	
Revenues:	2006	2005	2006	2005	2006	2005
Program Revenues:						
Charges for services	$ 9,632	10,583	313,782	272,902	323,414	283,485
Operating grants and contributions	10,203	13,296	8,352	8,156	18,555	21,452
Capital grants and contributions	845	-	17,625	5,206	18,470	5,206
General Revenues:						
Property taxes	42,771	39,748	-	-	42,771	39,748
Sales taxes	45,577	41,803	-	-	45,577	41,803
Other taxes	4,447	4,242	-	-	4,447	4,242
Franchise fees	13,348	11,154	-	-	13,348	11,154
Investment earnings	4,394	1,633	6,140	3,758	10,534	5,391
Other	6,898	4,110	4,277	1,388	11,175	5,498
Total revenues	138,115	126,569	350,176	291,410	488,291	417,979
Expenses:						
Administrative services	9,910	8,220	-	-	9,910	8,220
Community services	6,112	6,145	-	-	6,112	6,145
Cultural and recreation	18,915	17,745	-	-	18,915	17,745
Economic development	10,283	9,739	-	-	10,283	9,739
Fire	26,711	23,517	-	-	26,711	23,517
Health	5,014	5,040	-	-	5,014	5,040
Police	42,063	38,452	-	-	42,063	38,452
Other public safety	5,240	4,977	-	-	5,240	4,977
Streets and traffic	11,850	12,467	-	-	11,850	12,467
Non-departmental	5,206	6,253	-	-	5,206	6,253
Interest on long-term debt	4,326	3,195	-	-	4,326	3,195
Electric	-	-	213,027	192,902	213,027	192,902
Water	-	-	32,830	28,738	32,830	28,738
Sewer	-	-	21,274	17,804	21,274	17,804
Solid Waste	-	-	14,971	14,695	14,971	14,695
Stormwater	-	-	5,175	5,586	5,175	5,586
Transit	-	-	9,349	9,003	9,349	9,003
Airport	-	-	7,997	8,151	7,997	8,151
Total Expenses	145,630	135,750	304,623	276,879	450,253	412,629
Change in net assets before special items and transfers	(7,515)	(9,181)	45,553	14,531	38,038	5,350
Special items	-	-	-	(6,637)	-	(6,637)
Transfers	9,607	15,469	(9,607)	(15,469)	-	-
Change in net assets	2,092	6,288	35,946	(7,575)	38,038	(1,287)
Net assets - beginning of year	110,629	104,341	434,848	442,423	545,477	546,764
Net assets - end of year	$ 112,721	110,629	470,794	434,848	583,515	545,477

Changes in Net Assets. Details of the above summarized information can be found on pages 38-39 of this report.

Governmental activities. Governmental activities increased the City's net assets by $2.1 million. Key elements of the increase include:

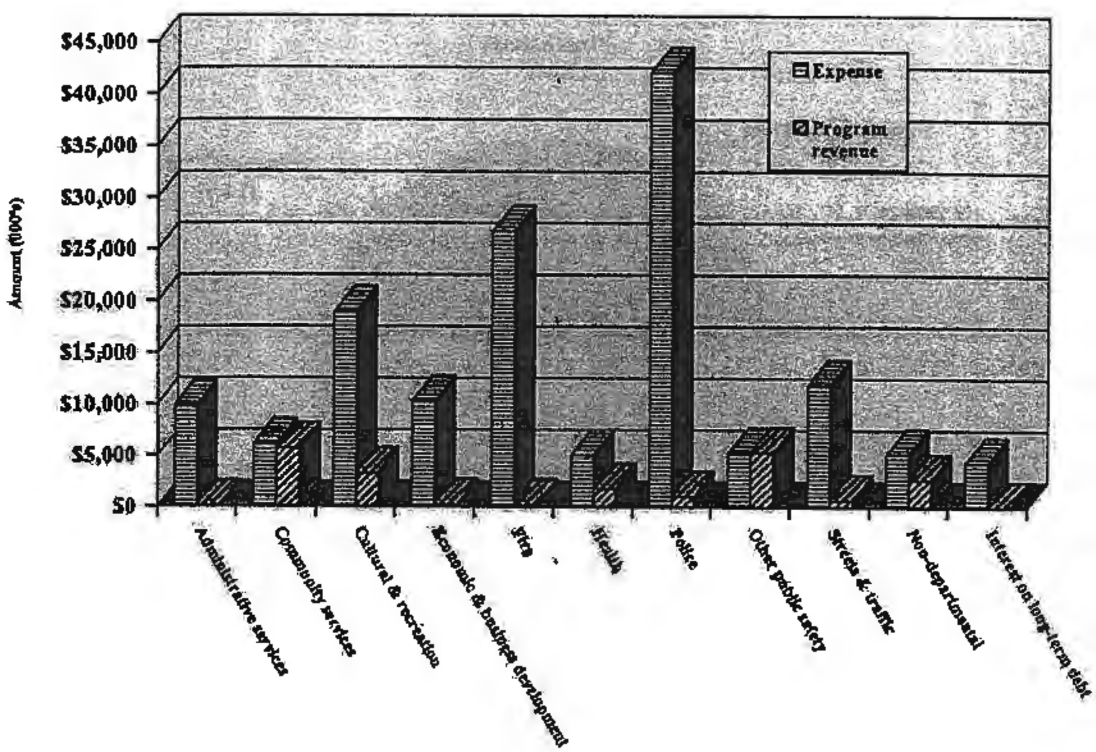
- Transfers to/from business-type activities during the fiscal year increased governmental activities net assets by $9.6 million. During the prior fiscal year these transfers increased governmental activities net assets by approximately $15.5 million. This is a net decrease of $5.9 million in resources to governmental activities. Transfers from the business-type activities included payments in lieu of taxes, franchise fees, and indirect costs of operations for centralized services such as payroll and purchasing.

- Total expenses increased by $9.9 million from the prior year primarily due to increased spending in public safety functions. City Council has continued to be committed to public safety and has allocated more resources to public safety than other areas in the government. Fire expenses increased $3.2 million and police expenses increased $3.6 million in FY 2006. Administrative expenses increased $1.7 million due to moving facilities management from an internal service fund to the General Fund. These expenses were previously spread to many different functions. Interest on long-term debt increased $1.1 million due to new debt issuances. These were offset by a $1.0 million decrease in non-departmental functions, which was mainly due to Federal Emergency Management Administration (FEMA) expenses incurred in FY 2005 while hosting evacuees from Louisiana and southeast Texas during Hurricanes Katrina and Rita.

- Revenues increased by approximately $11.5 million. Grants and contributions decreased by $2.2 million, partially due to decrease in FEMA and other emergency management funds. The property tax rate was reduced to $.44720 per $100 assessed value in FY 2006, down from the $.45970 per $100 assessed value rate in FY 2005; however, property tax revenues increased $3.1 million due to increased assessments. Sales tax revenue increased $3.8 million in FY 2006 due to an improved economy. Franchise taxes increased $2.2 million, primarily due to increased costs on gas and electric bills to consumers and an increase in the franchise rate from 2.0% to 5.0% percent on one electric company. Investment income increased $2.8 million due to increases in interest rates and improved cash balances. Other revenues increased $2.8 million due to developer contributions in the Gateway Capital Project Fund.

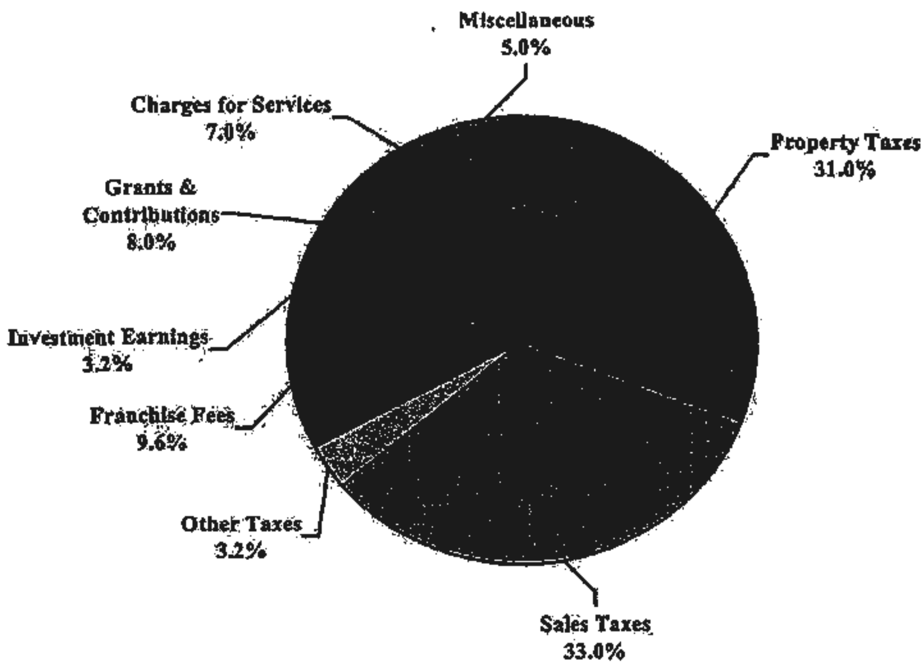
This graph depicts the expenses and program revenues generated through the City's various governmental activities.

Expenses and Program Revenues - Governmental Activities



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

Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net assets by $35.9 million as a result of operations. Key elements of the increase include:

- Charges for services for business-type activities were $313.8 million in FY 2006, an increase of $40.9 million. Expenses for business-type activities were $304.6 million in FY 2006, an increase of $27.7 million.

- Electric operations accounted for $33.8 million of the increase in charges for services. Electric operations include both Lubbock Power and Light (LP&L) and West Texas Municipal Power Agency (WTMPA). Because of the interfund activity between LP&L and WTMPA, approximately one third of the combined electric revenue was eliminated for the entity wide statements. Operating revenues consist principally of the retail sales of electricity to residential, commercial, and government customers, and off-system sales to wholesale power customers. LP&L charges a base rate for electric service plus a fuel cost adjustment rate for electric service. While the base rate has remained consistent between years, there have been many fuel cost adjustments during FY 2006 which have cumulatively increased the rates charged to customers. Also, WTMPA gas sales to third parties increased from $65.2 million in FY 2005 to $76.2 million in FY 2006, again due to fuel cost adjustments. Electric operation expenses increased $20.1 million, from $192.9 million in FY 2005 to $213.0 million in FY 2006. The increase in expenses is primarily due to the nation's increased fuel and energy costs in FY 2006, which affected both LP&L and WTMPA cost of power.

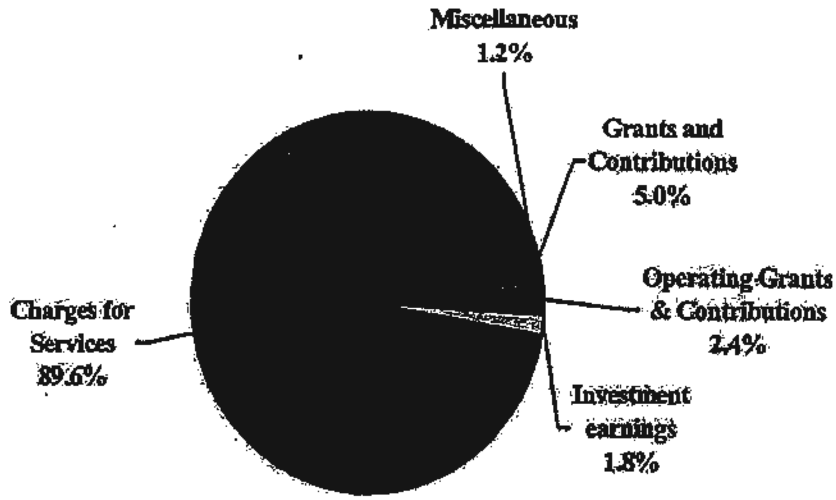
- Revenues were also up slightly in most of the City's other enterprise funds, with the Water and Wastewater Funds accounting for the largest increase. .Water usage, which effects both Water and Wastewater Funds, increased due to drought conditions. Water rates also increased 3% in FY 2006. Construction activity was also higher in FY 2006 and contractors contributed $6.6 million in Water and Wastewater assets, $2.4 more than prior year.

- Operating grants, capital grants, and contributions continue to be a significant revenue source for business-type activities during the current fiscal year, producing nearly $26.0 million in revenue. This is a $12.6 million increase over prior year support of $13.4 million. The Airport Fund incurred the largest increase due to receiving federal grants of $12.0 million for aviation apron and taxiway improvements. In the prior year the Airport received $2.2 million in federal grants. The Water and Wastewater Funds also received additional developer contributions.

- Expenses in Water and Wastewater Funds increased in total by $7.6 million over the prior fiscal year. In FY 2006 the Wastewater Fund paid $2.4 million for a Water Resource Master Plan. These funds also incurred almost $2 million additional utility costs to run their plants due to the higher fuel and electrical costs. The Wastewater and Water Funds also had an additional $1.5 million in depreciation expense, which is directly attributed to the recent capital activities that are now placed in service and depreciated.

The following graph reflects the revenue sources generated by the business-type activities. As noted earlier, these activities include LP&L, Water, Wastewater, Solid Waste, Transit, WTMPA, Airport, and Storm Water Drainage.

Revenues by Source – Business-type Activities



Financial Analysis of the City's Funds

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance serves as a useful measure of the City's resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of $96.8 million, compared to $85.2 million at the end of the prior fiscal year. This increase is primarily the result of debt issuance for park capital projects, which resulted in an increase of fund balance of $9.5 million. Also affecting this increase was the result of operations of the General Fund where fund balance increased by $2.5 million. Of the ending governmental fund balance, $39.8 million or 41.1% percent, constituted unreserved fund balance which is available for spending at the City's discretion. This compared to $25.9 million or 30.4% at the end of the prior fiscal year. The remainder of the fund balance is reserved to indicate it has already been committed to pay debt service, use in construction of approved capital projects, or is restricted for other purposes.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance in the General Fund was approximately $19.8 million compared to $17.3 million in the previous fiscal year, representing an increase of approximately $2.5 million. Total fund balance (reserved and unreserved) was $19.9 million at the end of the fiscal year compared to $17.4 million at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund revenues. Unreserved fund balance represented 20.2% of total General Fund revenues, which is an improvement over 19.7% of total General Fund revenues in the prior year. Total fund balance was 20.4% of total General Fund revenues compared to 19.8% in the prior year.

Proprietary funds. The City's proprietary funds provide essentially the same type of information found in the GWFS, but in more detail.

Unrestricted net assets of the major proprietary funds at the end of September 30 are shown next with amounts presented in 000s:

		2006	2005
Electric Fund	$	32,141	14,151
Water Fund		10,878	6,818
Wastewater Fund		9,593	5,964
WTMPA		1,307	1,314
Stormwater		10,022	7,420
	$	63,941	35,667

The LP&L Fund increased unrestricted net assets by $18.0 million compared to an increase of $7.1 million during the prior year. This is mainly due to the results of operations and the decision by City Council not to charge for payments in lieu of taxes and franchise fees until adequate cash reserves are established. Increase in net assets was $16.4 million in FY 2006 and $3.0 million in FY 2004-05.

The Water Fund reflected a current year increase in unrestricted net assets of nearly $4.1 million compared to a decrease of $7.3 million during the prior year. In the current year, revenues were higher than expected due to increased water usage, while in prior year the Water Fund had a loss due to termination of an interest rate swap agreement.

The Wastewater Fund reflected a current year increase in unrestricted net assets of approximately $3.6 million compared to a $.4 million decrease during the prior year. In current year, revenues were higher than expected due to the discharge of a higher volume of water consumption.

The WTMPA Fund had a slight decrease in unrestricted net assets. The prior fiscal year's change was a decrease in unrestricted nets assets of $.4 million, primarily as a result of operations.

The Storm Water Fund experienced an increase in unrestricted net assets of $2.6 million during the fiscal year compared to a $6.1 million increase in the prior fiscal year. The increase is due to the result of operations.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately $7.5 million in increases to expenditures and transfers out. The main reason for the increase was budgeting for purchase of machinery and equipment through the issuance of capital leases.

Revenues in the General Fund exceeded budget by $4.3 million primarily due to higher than expected sales tax collections and franchise fees. The General Fund ended the fiscal year with expenditures and transfers out of $459,394 more than budgeted. The primary reason for this overage was related to higher than anticipated energy and fuel costs across all departments. The City Manager has implemented the following additional controls to ensure more stringent budget control:

- Biweekly Budget Forecasting and Manager Review
- Position Control Management System and Requisition Review
- Biweekly Overtime Reporting and Management Review
- General Ledger Reconciliation Policy
- Centralized Facilities Management, and Utilities Budgeting
- Improved Monthly Management Reporting to City Council
- Changes in the Home Storage of Fleet Vehicles

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities at September 30, 2006 amounted to $860.7 million, net of accumulated depreciation. This was an $84.6 million increase over the prior fiscal year's balance of $776.1 million, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, equipment, construction in progress, and infrastructure.

Major capital asset events during the fiscal year included the following:

- Many large street projects progressed due to dedicated funding from the local franchise tax, which earmarks 2% of the 5% franchise fees to fund Gateway Street Projects. The largest Gateway Street Project continued with the construction of a T-2 thoroughfare street with $12.6 million expended in the fiscal year on Milwaukee Avenue from 34th Street to 98th Street.

- Large amounts of existing infrastructure and reconstruction of roadways has been accomplished within the North Overton Tax Increment Financing (TIF) Reinvestment Zone. The funding for these projects comes from taxes generated from the increment of property valuation growth within the TIF. The funds used to finance the projects are generated within the zone, and do not impact taxes or fees to citizens outside the TIF.

- The Water Fund acquired $19.1 million in water rights from the Canadian Municipal Water Rights Authority and continued work on numerous water line change outs and extensions.

- Approximately 38,000 square yards of new paving was constructed at the Lubbock Preston Smith International Airport to help serve air carrier aircraft. This project also involved removal and installation of new taxiway lighting and drainage improvements. Expenditures on this project totaled $9.7 million during the fiscal year. Expenditures to date on the project total $10.5 million.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2006

- The City continues work on a flood relief project linking South Lubbock's chain of playa lakes with an underground drainage system, spending $12.8 million during the fiscal year. Expenditures to date on the project total $26.1 million.

At the end of the fiscal year, the City has construction commitments of $159.7 million.

City of Lubbock Capital Assets
(Net of Accumulated Depreciation)
September 30
(in 000's)

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	$ 8,971	8,951	31,949	31,949	40,920	40,900
Buildings	29,870	28,146	64,092	65,951	93,962	94,097
Improvements other than buildings	50,443	43,895	389,474	347,393	439,917	391,288
Machinery and equipment	20,615	19,829	77,993	63,719	98,608	83,548
Construction in progress	50,650	37,793	136,646	128,432	187,296	166,225
Total	$ 160,549	138,614	700,154	637,444	860,703	776,058

Additional information about the City's capital assets can be found on pages 72-75 of this report.

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

City of Lubbock Outstanding Debt
General Obligation and Revenue Bonds
September 30
(in 000's)

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation bonds	$ 124,457	102,720	323,568	286,750	448,025	389,470
Revenue bonds	-	-	58,079	42,800	58,079	42,800
Total	$ 124,457	102,720	381,647	329,550	506,104	432,270

There is no direct debt limitation in the City Charter or under State law. The City operates under a Home Rule Charter that limits the maximum tax rate for all City purposes to $2.50 per $100 of assessed valuation. The Attorney General of the State of Texas permits an allocation of $1.50 of the $2.50 maximum tax rate for general obligation bonds debt service. The current interest and sinking fund tax rate per $100 of assessed valuation is $0.06094, which is significantly below the maximum allowable tax rate.

As of September 30, 2006, the City's total outstanding debt has increased by $73.8 million or 17.1% over the prior fiscal year. The increase in outstanding debt is attributed to the issuance of $98.3 million in debt, offset by the payment of scheduled debt service totaling $25.3 million, and the issuance of $18.8 million of debt to defease debt of $18.0 million.

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

- $2.7 million of General Obligation Bonds, Series 2006 were issued to fund the current capital improvements plan. This issuance was the third installment of the $30.0 million capital improvement debt issuance approved by voters in 2004.

- $77.0 million of Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2006 were issued to finance projects in Water, Wastewater, Solid Waste, Storm Water, Airport, Tax Increment Financing , Lubbock Power & Light, and Gateway Streets; as well as Parks, Streets and Municipal Building projects throughout the City.

- $18.6 million in bonds were issued by the Canadian River Municipal Water Authority (CRMWA) for Lubbock's share of the $49.1 million CRMWA Contract Revenue Bonds, Series 2006 (Conjunctive Use Groundwater Supply Project) for the purchase of water rights. The City of Lubbock is contractually obligated to pay the debt service on these bonds over a 20 year period.

- $18.8 million of General Obligation Refunding Bonds, Series 2006 were issued to defease $18.0 million in outstanding bonds in order to achieve interest savings.

All bonds issued during the fiscal year were insured to provide a lower cost of interest expense for the City's taxpayers. It is the City's policy to evaluate each bond issue to determine whether it is economically feasible to purchase bond insurance.

On November 22, 2005, the City of Lubbock received a rating outlook upgrade from "stable" to "positive" from Moody's Investors Service. The City currently maintains an "AA-" rating from Standard & Poor's and Fitch Ratings, Inc. and an "A1" rating from Moody's Investors Service for general obligation debt. All three rating agencies have placed the City on a positive outlook, which indicates the possibility of a rating upgrade in the near term. On December 21, 2005, LP&L received a rating upgrade from "BBB-" to "BBB" from Standard & Poor's. The LP&L revenue bonds are currently rated "BBB" by Standard & Poor's, "BBB+" by Fitch Ratings, Inc., and "A3" by Moody's Investors Service.

Additional information about the City's long-term debt can be found on pages 81-86 of this report.

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

- At the end of the City's fiscal year, the unemployment rate for the Lubbock area was 3.8%. This is the same rate as September 2005. This compares favorably to the state's unemployment rate of 4.7 % and the national rate of 4.4 % for September 2006.

- Retail sales figures are only available through the third quarter of FY 2006. Total retail sales reflected a 7.3% increase for that period over the same period in 2005.

- The number of building permits for new construction decreased from 2,222 during FY 2005 to 2,052 in FY 2006, or about a 7.7% decrease. This compares to a 20.5% decrease during the prior period. Building permit values for new construction decreased from $388.4 million in FY 2005 to $376.2 million in FY 2006, or about a 3.1% decrease. The number of new construction permits and new construction valuations hit an all-time high in FY 2004. The current numbers are still much improved over years prior to FY 2004.

- Total occupancy in local hotels and motels improved and the local occupancy tax totaled nearly $3.4 million, a 4.6% increase over last fiscal year.

- City Council again decided to support the operations of LP&L by forgoing transfers for payments in lieu of taxes and franchise fees for the upcoming fiscal year. The City Council intends to continue this support until such time as LP&L has adequate monetary reserves as set by City ordinance.

All of these factors were considered in preparing the City of Lubbock's budget for FY 2007.

- During FY 2007 the City adopted a $.00444 increase in the General Fund property tax rate. The General Fund increase will bring an additional $1.7 million increase in revenue from both property value growth and the adjusted tax rate. The additional revenues will help cover medical insurance inflation costs, a $1,200 cost of living adjustment for all employees, increased fuel costs, and 29 public safety positions added mid-year of FY 2006 that will have the full effect of cost in FY 2007.

- During FY 2007 the City adopted a $.01035 increase in the Debt Service Fund real estate tax rate. In the last several years, City Council has adopted a number of capital improvement projects to address changing community needs. The bonds for these projects were sold in 2006 and related debt service begins in FY 2007, necessitating an increase in the interest and sinking fund tax rate.

- In FY 2005 the City adopted a master lease program to replace public safety vehicles and other equipment that had been neglected. The cumulative effect of master leasing the last two years will increase debt service payments on master lease obligations in FY 2007.

- The City has prepared a 5 year projection of utility rates for Water, Storm Water, Wastewater, and Solid Waste Funds. The Water Fund will experience an increase in rates as the City aggressively seeks to obtain water rights, plans on adding infrastructure to transport water to the City, and maintains existing infrastructure. The Water Fund rates will increase 11% in FY 2007 and are expected to rise over the remaining 4 years to fund debt service on water capital projects. The Storm Water Fund will incur debt as the City focuses on infrastructure through the South Lubbock Drainage project and ongoing maintenance. Storm water rates are adequate for the future debt and are not expected to increase until FY 2010. The Wastewater Fund and Solid Waste Fund are also expecting slight fee increases over the next 5 years due to operational cost increases and increased debt service.

- At the March 23, 2006 City Council meeting, the City Council approved the "Policy on General Fund Unrestricted Fund Balance and Appropriable Net Assets for All Other Funds". The policy targets an unrestricted fund balance in an amount equal to at least 20% of regular general fund operating revenues. The policy targets appropriable net assets in the Water and Wastewater funds in an amount equal to 25% of regular operating revenues, appropriable net assets in the Solid Waste, Airport and Storm Water funds in an amount equal to 15% of regular operating revenues, and appropriable net assets in the Internal Service funds in an amount equal to 8% of regular operating revenues. Funds that have budgeted utilization of net assets that exceed the appropriate target policy include: $3.0 million in Water Fund, $1.5 million in Wastewater Fund, $2.2 million in Solid Waste Fund, and $2.2 million in Storm Water Fund. The City has not planned any use of General Fund fund balance in FY 2007. The LP&L Board has set their unrestricted net assets goal to be $50 million, or 4 months of operating expenditures, whichever is greater. In FY 2007, LP&L has budgeted to increase unrestricted net assets by $19.3 million.

- LP&L FY 2007 base rates will be consistent with FY 2006 rates, but the fuel cost adjustment rates will vary based on supplier cost. One of the main suppliers of fuel to LP&L has applied for a 15% increase in rates, and if approved, could increase fuel costs up to 15% in early 2007. This may cause electric rates to increase in FY 2007.

Requests for Information

This financial report is designed to provide a general overview of the City of Lubbock's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Chief Financial Officer, City of Lubbock, P.O. Box 2000, Lubbock, Texas, 79457.

City of Lubbock, Texas
Statement of Net Assets
September 30, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 21,577,439	$ 37,135,183	$ 58,712,622	$ 5,950,665
Investments	19,013,367	33,373,806	52,387,173	225,144
Receivables (net of allowance for uncollectibles)	11,719,391	27,620,285	39,339,676	1,052,895
Internal balance	2,009,936	(2,009,936)	-	-
Due from other governments	3,487,278	-	3,487,278	-
Due from others	2,369,856	1,863,690	4,233,546	-
Inventories	212,052	3,116,055	3,328,107	82,758
Investment in property	208,103	-	208,103	-
Prepaid expenses	920,722	-	920,722	53,490
Restricted assets:				
Cash and cash equivalents	4,002,576	18,915,606	22,918,182	176,852
Investments	52,987,526	80,658,868	133,646,394	-
Receivables	124,694	106,010	230,704	7,000,000
Mortgage receivables	5,813,330	-	5,813,330	-
Capital assets (net of accumulated depreciation):				
Non-depreciable	59,621,807	168,594,938	228,216,745	1,404,299
Depreciable	100,927,834	531,559,552	632,487,386	829,241
Deferred charges	-	3,077,777	3,077,777	-
Total assets	284,995,911	904,011,834	1,189,007,745	16,775,344
LIABILITIES				
Accounts payable	5,666,721	16,869,683	22,536,404	1,018,218
Accrued expenses	6,953,799	3,155,693	10,109,492	162,308
Accrued interest payable	959,422	4,261,554	5,220,976	-
Customer deposits		2,990,665	2,990,665	-
Unearned revenue	5,176,605	-	5,176,605	7,133,046
Noncurrent liabilities due within one year:				
Compensated absences	6,133,264	2,571,795	8,705,059	-
Accrued insurance claims	2,512,041	2,444,632	4,956,673	-
Contracts and leases payable	1,426,999	1,974,403	3,401,402	1,412,685
Bonds payable	6,367,599	20,053,550	26,421,149	-
Noncurrent liabilities due in more than one year:				
Compensated absences	10,126,773	2,794,001	12,920,774	-
Landfill closure and postclosure care	-	3,299,131	3,299,131	-
Accrued insurance claims	249,115	2,816,344	3,065,459	-
Contracts and leases payable	6,103,560	6,414,565	12,518,125	1,241,971
Bonds payable	120,598,987	363,571,365	484,170,352	-
Total liabilities	172,274,885	433,217,381	605,492,266	10,968,228
NET ASSETS				
Invested in capital assets, net of related debt	76,483,334	380,149,135	456,632,469	2,164,396
Restricted for:				
Passenger facility charges	-	3,630,625	3,630,625	-
Debt service	4,002,576	15,284,981	19,287,557	-
Grant programs	6,145,719	-	6,145,719	-
Primary government agreement	-	-	-	100,000
Unrestricted	26,089,397	71,729,712	97,819,109	3,542,720
Total net assets	$ 112,721,026	$ 470,794,453	$ 583,515,479	$ 5,807,116

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Statement of Activities
For the Year Ended September 30, 2006

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Administrative services	$ 9,910,392	$ 54,356	$ -	$ -
Community services	6,112,193	-	5,677,173	-
Cultural and recreation	18,915,265	2,590,241	668,258	-
Economic and business development	10,283,007	188,856	-	-
Fire	26,711,389	13,165	36,632	86,614
Health	5,013,691	722,113	1,028,999	-
Police	42,063,023	209,251	386,165	397,054
Other public safety	5,239,386	4,984,968	17,452	321,962
Streets and traffic	11,849,496	494,312	104,885	39,300
Non-departmental	5,206,309	374,629	2,283,899	-
Interest on long-term debt	4,326,128	-	-	-
Total governmental activities	145,630,279	9,631,891	10,203,463	844,930
Business-type activities:				
Electric	213,026,628	226,373,638	-	-
Water	32,830,002	37,330,953	59,296	2,754,551
Wastewater	21,273,796	21,087,364	-	3,808,242
Solid Waste	14,971,421	13,948,861	-	21,633
Stormwater	5,174,635	6,348,461	31,740	-
Transit	9,349,206	3,268,441	7,294,964	-
Airport	7,996,692	5,424,016	965,605	11,040,385
Total business-type activities	304,622,380	313,781,734	8,351,605	17,624,811
Total primary government	$ 450,252,659	$ 323,413,625	$ 18,555,068	$ 18,469,741
Component units:				
Civic Lubbock, Inc.	$ 1,772,007	$ 1,703,598	$ 249,220	$ -
Market Lubbock, Inc.	6,350,716	96,728	6,082,671	-
Lubbock Economic Development Alliance	2,638,367	-	6,435,160	-
Total component units	$ 10,761,090	$ 1,800,326	$ 12,767,051	$ -

General revenues:
Property taxes
Sales taxes
Occupancy taxes
Other Taxes
Franchise Taxes
Investment Earnings
Miscellaneous
Transfers, net
Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Net assets - ending

See accompanying Notes to Basic Financial Statements

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (9,856,036)	$ -	$ (9,856,036)	$ -
(435,020)		(435,020)	
(15,656,766)	-	(15,656,766)	-
(10,094,151)	-	(10,094,151)	-
(26,574,978)	-	(26,574,978)	-
(3,262,579)	-	(3,262,579)	-
(41,070,553)	-	(41,070,553)	-
84,996	-	84,996	-
(11,210,999)	-	(11,210,999)	-
(2,547,781)	-	(2,547,781)	-
(4,326,128)	-	(4,326,128)	-
(124,949,995)	-	(124,949,995)	-
-	13,347,010	13,347,010	-
-	7,314,798	7,314,798	-
-	3,621,810	3,621,810	-
-	(1,000,927)	(1,000,927)	-
-	1,205,566	1,205,566	-
-	1,214,199	1,214,199	-
-	9,433,314	9,433,314	-
-	35,135,770	35,135,770	-
(124,949,995)	35,135,770	(89,814,225)	-
-	-	-	180,811
-	-	-	(171,317)
-	-	-	3,796,793
-	-	-	3,806,287
42,770,826	-	42,770,826	-
45,576,582	-	45,576,582	-
3,410,920	-	3,410,920	-
1,036,283	-	1,036,283	-
13,348,364	-	13,348,364	-
4,393,782	6,140,436	10,534,218	14,735
6,898,288	4,277,297	11,175,585	-
9,607,211	(9,607,211)	-	-
127,042,256	810,522	127,852,778	14,735
2,092,261	35,946,292	38,038,553	3,821,022
110,628,765	434,848,161	545,476,926	1,986,094
$ 112,721,026	$ 470,794,453	$ 583,515,479	$ 5,807,116

City of Lubbock, Texas
Balance Sheet
Governmental Funds
September 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 8,456,754	$ 11,897,583	$ 20,354,337
Investments	7,605,360	10,344,578	17,949,938
Taxes receivable (net)	8,642,511	517,184	9,159,695
Accounts receivable (net)	1,825,656	341,907	2,167,563
Interest receivable	336,741	49,608	386,349
Due from other funds	2,415,681	631,346	3,047,027
Due from other governments	-	3,487,278	3,487,278
Due from others	797,380	1,375,633	2,173,013
Investment in property	-	208,103	208,103
Inventory	168,964	-	168,964
Restricted cash	-	4,002,576	4,002,576
Restricted investments	-	50,430,838	50,430,838
Mortgage receivables	-	5,813,330	5,813,330
Total assets	$ 30,249,047	$ 89,099,964	$ 119,349,011
LIABILITIES			
Accounts payable	$ 3,285,899	$ 2,199,533	$ 5,485,432
Due to other funds	-	2,621,995	2,621,995
Accrued liabilities	4,303,221	1,713,024	6,016,245
Accrued interest payable	-	206,557	206,557
Deferred revenues	2,735,216	5,454,344	8,189,560
Total liabilities	10,324,336	12,195,453	22,519,789
FUND BALANCES			
Reserved for:			
Prepaid items/inventory	168,964	-	168,964
Debt service	-	3,081,539	3,081,539
Capital projects	-	52,331,096	52,331,096
Special revenue - grants	-	1,392,508	1,392,508
Perpetual care	-	89,220	89,220
Unreserved, reported in			
General fund	19,755,747	-	19,755,747
Special revenue funds	-	20,010,148	20,010,148
Total fund balance	19,924,711	76,904,511	96,829,222
Total liabilities and fund balances	$ 30,249,047	$ 89,099,964	$ 119,349,011

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
September 30, 2006

Total fund balance - governmental funds	$	96,829,222
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		160,549,641
Internal service funds (ISF's) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of the assets and liabilities of the ISF's primarily serving governmental funds are included in governmental activities in the statement of net assets as follows:		
Net assets		3,100,464
Net book value of capital assets		(906,088)
Compensated absences		61,808
Amounts due from business-type ISFs for amounts undercharged		1,584,904
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities are as follows:		
General obligation bonds		(124,457,280)
Capital leases payable		(7,530,559)
Compensated absences		(16,260,037)
Accrued interest on general obligation bonds		(752,865)
Arbitrage payable		(151,716)
Environmental remediation		(922,555)
Bond premiums are recognized as an other financing source in the fund statements but the premiums are amortized over the life of the bonds in the government-wide statements.		(2,357,592)
Actual City contributions to the fire fighter's pension trust fund is greater than the actuarially determined required contribution. This will reduce future funding requirements and is not recognized as an asset at the fund level but is a prepaid expense in the Statement of Net Assets.		920,722
Revenue earned but unavailable in the funds is deferred.		3,012,957
Net assets of governmental activities	$	112,721,026

See accompanying Notes to Basic Financial Statements.

City of Lubbock, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 75,999,624	$ 16,865,905	$ 92,865,529
Franchise taxes	8,008,973	5,339,391	13,348,364
Fees and fines	3,981,978	-	3,981,978
Licenses and permits	2,250,635	-	2,250,635
Intergovernmental	408,997	10,639,396	11,048,393
Charges for services	4,781,043	1,307,162	6,088,205
Interest	921,742	2,953,198	3,874,940
Miscellaneous	1,465,215	5,501,042	6,966,257
Total revenues	97,818,207	42,606,094	140,424,301
EXPENDITURES			
Current:			
Administrative services	9,356,059	-	9,356,059
Community services	-	5,932,820	5,932,820
Cultural and recreation	13,986,576	1,409,701	15,396,277
Economic and business development	1,146,267	8,973,916	10,120,183
Fire	24,638,814	-	24,638,814
Health	3,738,790	908,623	4,647,413
Police	37,463,740	913,251	38,376,991
Other public safety	4,287,806	360,056	4,647,862
Streets and traffic	7,439,045	527,745	7,966,790
Non-departmental	1,882,255	2,376,525	4,258,780
Debt service:			
Principal	1,009,368	6,324,040	7,333,408
Interest and other charges	144,858	3,996,563	4,141,421
Capital outlay	7,184,866	28,460,783	35,645,649
Total expenditures	112,278,444	60,184,023	172,462,467
Excess (deficiency) of revenues over (under) expenditures	(14,460,237)	(17,577,929)	(32,038,166)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	-	27,526,113	27,526,113
Bond premium (discount)	-	620,860	620,860
Capital leases	5,119,980	-	5,119,980
Transfers in	13,325,046	5,352,042	18,677,088
Transfers out	(1,436,498)	(6,840,909)	(8,277,407)
Net other financing sources (uses)	17,008,528	26,658,106	43,666,634
Net change in fund balances	2,548,291	9,080,177	11,628,468
Fund balances - beginning of year	17,376,420	67,824,334	85,200,754
Fund balances - end of year	$ 19,924,711	$ 76,904,511	$ 96,829,222

See accompaning Notes to Basic Financial Statements

City of Lubbock, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds To the Statement of Activities
For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds	$	11,628,468
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $35,645,649 exceeded depreciation of $13,291,425 in the current period.		22,354,224
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds of $27,526,113 exceeded repayments and debt defeasence of $5,789,102.		(21,737,011)
Capital lease transactions provide current financial resources to governmental funds and repayment of principal is an expenditure. This is the amount by which proceeds of $5,119,980 exceeded repayments of $1,544,306.		(3,575,674)
Bond premiums are recognized as an other financing source in the governmental funds, but are considered deferred assets on the Statement of Net Assets. Premiums are amortized over the life of the bonds. This is the amount by which bond premium issued of $620,860 exceeded amortization of $129,252.		(491,608)
Estimated long-term liabilities are recognized as expenses in the Statement of Activities as earned, but are recognized when current financial resources are used in the governmental funds.		
Arbitrage payable		(151,716)
Compensated absences		(124,692)
Environmental remediation		(922,555)
Property taxes levied and court fines and fees earned, but not available, are deferred in the governmental funds, but are recognized when earned (net of estimated uncollectibles) in the Statement of Activities. This amount is the net change in deferred property taxes and court fines and fees for the year.		(2,799,845)
Actual City contributions to the fire fighter's pension trust fund are greater than the actuarially determined Net Pension Obligation (NPO). This amount is recognized as an expenditure at the fund level but is accrued when overpaid and reduces expenses on the Statement of Activities.		11,610
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		(1,724,658)
Accrued interest is recognized as expenses in the Statement of Activities as incurred, but is recognized when current financial resources are used in the governmental funds. This amount is the net change in the accrued interest this year.		(162,255)
The net effect of various miscellaneous transactions involving capital assets (e.g., sales and trade-ins) is to decrease net assets.		(252,027)
Change in net assets of governmental activities	$	2,092,261

See accompanying Notes to Basic Financial Statements.

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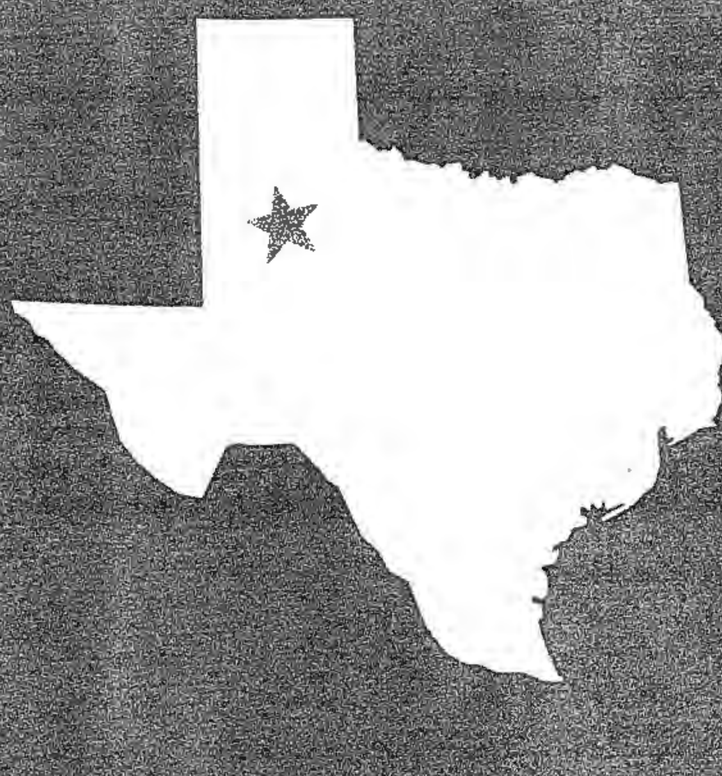

"Serve with humility, lead with passion, commit to excellence."

City of Lubbock, Texas
Budget Comparison Statement
General Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes	$ 73,888,110	$ 73,888,110	$ 75,999,624	$ 2,111,514
Franchise taxes	6,886,000	6,916,000	8,008,973	1,092,973
Fees and fines	3,782,866	3,868,099	3,981,978	113,879
Licenses and permits	2,170,512	2,351,155	2,250,635	(100,520)
Intergovernmental	406,638	406,638	408,997	2,359
Charges for services	4,530,123	4,347,518	4,781,043	433,525
Interest	660,073	660,073	921,742	261,669
Miscellaneous	1,066,411	1,081,411	1,465,215	383,804
Total revenues	93,390,733	93,519,004	97,818,207	4,299,203
EXPENDITURES				
Current:				
Administrative services	8,877,967	9,036,722	9,356,059	(319,337)
Cultural and recreation	13,393,317	13,393,317	13,986,576	(593,259)
Economic and business development	1,180,867	1,173,897	1,146,267	27,630
Fire	24,466,277	24,623,844	24,638,814	(14,970)
Health	3,634,443	3,649,443	3,738,790	(89,347)
Police	38,802,898	38,802,898	37,463,740	1,339,158
Other public safety	4,367,615	4,413,756	4,287,806	125,950
Streets and traffic	8,281,641	6,981,641	7,439,045	(457,404)
Non-departmental	1,422,064	672,294	1,882,255	(1,209,961)
Debt service:				
Principal	-	1,044,682	1,009,368	35,314
Interest and other charges	-	150,606	144,858	5,748
Capital outlay	486,290	8,028,860	7,184,866	843,994
Total expenditures	104,913,379	111,971,960	112,278,444	(306,484)
Excess (deficiency) of revenues over (under) expenditures	(11,522,646)	(18,452,956)	(14,460,237)	3,992,719
OTHER FINANCING SOURCES (USES)				
Capital leases	-	6,210,000	5,119,980	(1,090,020)
Transfers in	12,371,843	12,548,843	13,325,046	776,203
Transfers out	(849,200)	(1,283,588)	(1,436,498)	(152,910)
Net other financing sources (uses)	11,522,643	17,475,255	17,008,528	(466,727)
Net change in fund balances	(3)	(977,701)	2,548,291	3,525,992
Fund balances - beginning of year	17,376,420	17,376,420	17,376,420	-
Fund balances - end of year	$ 17,376,417	$ 16,398,719	$ 19,924,711	$ 3,525,992

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Enterprise Funds			
	Electric	Water	Wastewater	WTMPA
ASSETS				
Current assets:				
Cash and cash equivalents	$ 14,436,691	$ 6,167,041	$ 4,990,325	$ 1,296,219
Investments	14,329,105	5,362,050	4,338,932	366,253
Accounts receivable	15,545,253	4,292,453	2,257,674	1,800,814
Interest receivable	53,919	25,851	17,612	-
Due from others	-	70,919	145,322	-
Due from other funds	-	-	-	6,173,451
Inventories	246,533	273,979	-	-
Total current assets	44,611,501	16,192,293	11,749,865	9,636,737
Noncurrent assets:				
Restricted cash and cash equivalents	4,455,759	6,136,977	2,937,014	-
Restricted investments	3,669,238	21,029,028	16,435,385	-
Restricted interest receivable	-	3,611	-	-
Restricted accounts receivable	-	23,640	24,090	-
Deferred charges	3,077,777	-	-	-
Total noncurrent assets	11,202,774	27,193,256	19,396,489	-
Capital assets:				
Land	756,714	12,724,350	12,578,775	-
Construction in progress	8,814,299	32,078,599	8,377,603	-
Buildings	8,054,811	21,640,589	24,013,170	-
Improvements other than buildings	180,986,045	261,578,561	114,818,170	-
Machinery and equipment	53,267,250	31,342,138	17,684,958	25,200
Less accumulated depreciation	(109,872,651)	(90,024,387)	(63,919,720)	(25,200)
Total capital assets	142,006,468	269,339,850	113,552,956	-
Total noncurrent and capital assets	153,209,242	296,533,106	132,949,445	-
Total assets	$ 197,820,743	$ 312,725,399	$ 144,699,310	$ 9,636,737

See accompanying Notes to Basic Financial Statements

Enterprise Funds			
Stormwater	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 6,013,928	$ 3,342,335	$ 36,246,539	$ 2,111,746
5,228,922	2,975,896	32,601,158	1,836,077
689,268	2,917,543	27,503,005	-
4,529	9,665	111,576	11,488
-	1,647,449	1,863,690	196,843
-	1,540,853	7,714,304	-
-	663,001	1,183,513	1,975,630
11,936,647	13,096,742	107,223,785	6,131,784
1,358,770	4,027,086	18,915,606	-
21,504,033	9,370,844	72,008,528	11,207,028
15,169	18,676	37,456	30,350
-	-	47,730	115,168
-	-	3,077,777	-
22,877,972	13,416,606	94,087,097	11,352,546
283,337	5,605,535	31,948,711	65,343
65,636,771	21,083,879	135,991,151	655,076
64,580	42,129,035	95,902,185	1,608,618
8,353,591	98,576,429	664,312,796	649,868
2,832,458	54,977,238	160,129,242	7,737,422
(9,252,045)	(117,037,649)	(390,131,652)	(7,808,182)
67,918,692	105,334,467	698,152,433	2,908,145
90,796,664	118,751,073	792,239,530	14,260,691
$ 102,733,311	$ 131,847,815	$ 899,463,315	$ 20,392,475

City of Lubbock, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Enterprise Funds			
	Electric	Water	Wastewater	WTMPA
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,035,206	$ 2,635,560	$ 1,066,886	$ 8,329,910
Accrued liabilities	1,535,678	165,716	129,143	-
Accrued interest payable	1,405,988	1,501,852	473,697	-
Due to other funds	6,173,451	-	-	-
Customer deposits	2,924,883	58,710	-	-
Compensated absences	1,076,262	542,602	269,716	-
Accrued insurance claims	-	-	-	-
Leases payable	321,414	248,255	509,081	-
Bonds payable	5,623,977	7,503,179	4,460,688	-
Total current liabilities	20,096,859	12,655,874	6,909,211	8,329,910
Noncurrent liabilities:				
Compensated absences	1,385,951	421,359	209,448	-
Accrued insurance claims	-	-	-	-
Landfill closure and post closure care	-	-	-	-
Leases payable	1,274,449	1,020,101	1,187,000	-
Bonds payable	65,369,133	148,948,252	54,315,110	-
Rebatable arbitrage	11,338	15,669	31,806	-
Total noncurrent liabilities	68,040,871	150,405,381	55,743,364	-
Total liabilities	88,137,730	163,061,255	62,652,575	8,329,910
NET ASSETS				
Invested in capital assets, net of related debt	73,086,733	132,649,091	69,516,462	-
Restricted for:				
Passenger facility charges	-	-	-	-
Debt service	4,455,759	6,136,977	2,937,014	-
Unrestricted	32,140,521	10,878,076	9,593,259	1,306,827
Total net assets	$ 109,683,013	$ 149,664,144	$ 82,046,735	$ 1,306,827

See accompanying Notes to Basic Financial Statements

	Enterprise Funds		
Stormwater	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 1,146,437	$ 1,919,467	$ 16,133,466	$ 917,506
27,237	1,195,171	3,052,945	117,747
666,542	213,475	4,261,554	-
-	1,927,000	8,100,451	38,885
-	7,072	2,990,665	-
50,483	431,693	2,370,756	228,056
-	-	-	4,956,673
21,145	706,244	1,806,139	168,264
1,540,083	925,623	20,053,550	-
3,451,927	7,325,745	58,769,526	6,427,131
39,202	479,155	2,535,115	293,677
-	-	-	3,065,459
-	3,299,131	3,299,131	-
81,020	2,467,085	6,029,655	384,910
76,804,339	18,063,340	363,500,174	-
-	12,378	71,191	-
76,924,561	24,321,089	375,435,266	3,744,046
80,376,488	31,646,834	434,204,792	10,171,177
10,976,138	92,543,019	378,771,443	2,354,971
-	3,630,625	3,630,625	-
1,358,770	396,461	15,284,981	-
10,021,915	3,630,876	67,571,474	7,866,327
$ 22,356,823	$ 100,200,981	$ 465,258,523	$ 10,221,298

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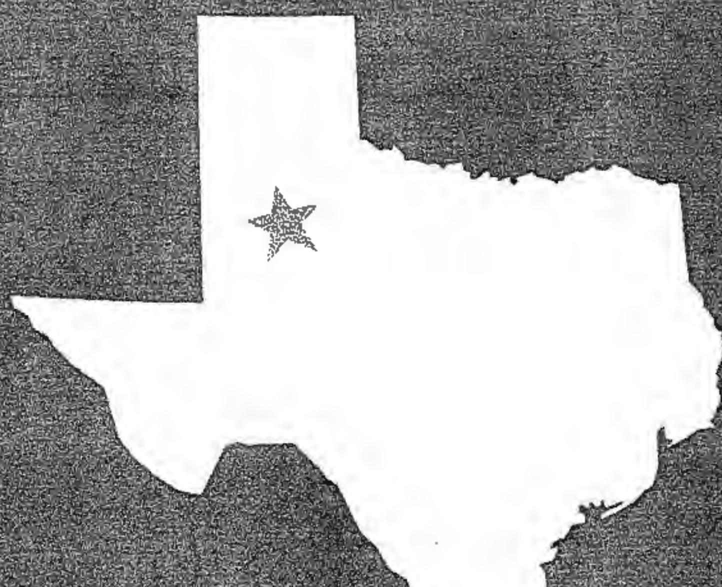

"Serve with humility, lead with passion, commit to excellence."

City of Lubbock, Texas
Reconciliation of the Statement of Net Assets - Proprietary Funds
To the Statement of Net Assets
September 30, 2006

Total net assets - proprietary funds	$ 465,258,523
Amounts reported for business-type activities in the Statement of Net Assets are different because:	
Internal service funds (ISFs) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of assets and liabilities of the ISFs primarily serving enterprise funds are included in business-type activities in the Statement of Net Assets as follows:	
Net assets of business-type ISFs	7,120,834
Amounts due to governmental ISFs for amounts overcharged	(1,584,904)
Net assets of business-type activities	$ 470,794,453

See accompanying Notes to Basic Financial Statements.

City of Lubbock, Texas
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2006

	Enterprise Funds			
	Electric	Water	Wastewater	WTMPA
OPERATING REVENUES				
Charges for services (net)	$ 212,074,481	$ 37,330,953	$ 21,087,364	$ 183,322,521
Miscellaneous	-	-	-	-
Total operating revenues	212,074,481	37,330,953	21,087,364	183,322,521
OPERATING EXPENSES				
Personal services	10,718,282	5,910,861	3,816,414	-
Insurance	-	-	-	-
Supplies	884,891	1,210,729	972,075	-
Materials	-	-	-	-
Maintenance	1,907,683	2,458,357	1,176,302	-
Purchase of fuel and power	167,854,029	-	-	183,149,178
Collection expense	-	1,482,000	926,172	-
Other services and charges	4,072,409	9,658,448	6,887,394	503,655
Depreciation and amortization	8,972,917	7,118,132	5,462,027	-
Total operating expenses	194,410,211	27,838,527	19,240,384	183,652,833
Operating income (loss)	17,664,270	9,492,426	1,846,980	(330,312)
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	1,063,573	1,321,864	844,020	16,565
Passenger facility charges/Federal grants	-	59,296	-	-
Disposition of assets	(463,749)	(110,320)	92,221	-
Miscellaneous	2,042,509	407,216	128,000	-
Pass-through grant payments	-	-	-	-
Interest expense	(3,301,209)	(4,775,332)	(2,064,305)	-
Net nonoperating revenues (expenses)	(658,876)	(3,097,276)	(1,000,064)	16,565
Income (loss) before contributions and transfers	17,005,394	6,395,150	846,916	(313,747)
Capital contributions	-	2,754,551	3,808,242	-
Transfers in	637,075	663,221	620,238	306,756
Transfers out	(1,211,566)	(4,874,264)	(2,623,397)	-
Change in net assets	16,430,903	4,938,658	2,651,999	(6,991)
Total net assets - beginning	93,252,110	144,725,486	79,394,736	1,313,818
Total net assets - ending	$ 109,683,013	$ 149,664,144	$ 82,046,735	$ 1,306,827

See accompanying Notes to Basic Financial Statements.

Enterprise Funds			
Stormwater	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ 6,348,461	$ 22,641,318	$ 482,805,098	$ 39,460,284
-	112,610	112,610	-
6,348,461	22,753,928	482,917,708	39,460,284
868,480	11,782,232	33,096,269	4,199,269
-	-	-	22,296,187
80,572	2,803,942	5,952,209	94,876
-	-	-	9,907,836
5,680	3,331,021	8,879,049	2,180,157
-	-	351,003,207	-
504,732	512,832	3,425,736	-
212,115	4,911,389	26,245,410	2,569,274
384,514	8,497,448	30,435,038	322,088
2,056,093	31,838,864	459,036,912	41,569,687
4,292,368	(9,084,936)	23,880,796	(2,109,403)
1,618,842	893,718	5,758,582	901,559
-	8,697,882	8,757,178	31,740
-	16,774	(465,074)	69,239
180,359	973,645	3,731,729	427,892
-	(437,313)	(437,313)	-
(3,096,082)	(432,527)	(13,669,455)	(863)
(1,296,881)	9,712,179	3,675,647	1,429,567
2,995,487	627,243	27,556,443	(679,836)
-	11,062,018	17,624,811	119,897
-	849,200	3,076,490	32,915
(907,310)	(3,100,079)	(12,716,616)	(792,470)
2,088,177	9,438,382	35,541,128	(1,319,494)
20,268,646	90,762,599	429,717,395	11,540,792
$ 22,356,823	$ 100,200,981	$ 465,258,523	$ 10,221,298

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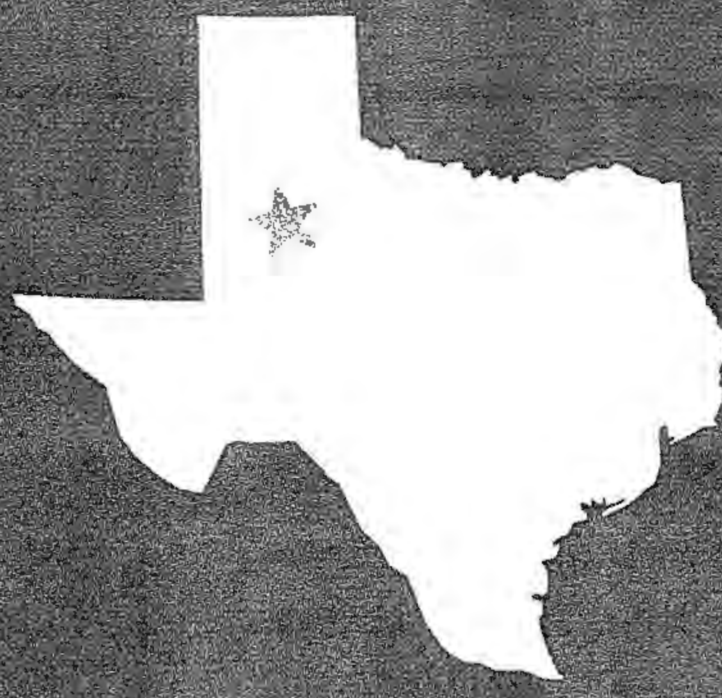

"Serve with humility, lead with passion, commit to excellence."

City of Lubbock, Texas
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds
To the Statement of Activities
For the Year Ended September 30, 2006

Net change in fund net assets - total enterprise funds	$ 35,541,128
Amounts reported for business-type activities in the statement of activities are different because:	
Internal service funds (ISFs) are used by management to charge the costs of certain activities such as fleet services, central warehousing activities, management information activities, etc. to individual funds. The net revenue (expense) of certain ISFs is reported with business-type activities.	405,164
Change in net assets of business-type activities	$ 35,946,292

See accompanying Notes to Basic Financial Statements.

City Of Lubbock, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2006

	Electric	Water	Wastewater	West Texas Municipal Power Agency (WTMPA)
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 211,732,604	$ 37,152,261	$ 21,154,689	$ 187,743,764
Payments to suppliers	(184,633,458)	(13,074,362)	(9,198,476)	(188,068,136)
Payments to employees	(10,718,282)	(5,910,861)	(3,816,414)	-
Other receipts (payments)	1,578,760	356,192	136,463	-
Net cash provided (used) by operating activities	17,959,624	18,523,230	8,276,262	(324,372)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in from other funds	637,075	663,221	620,238	306,756
Transfers out to other funds	(1,211,566)	(4,874,264)	(2,623,397)	-
Short-term interfund borrowings	6,173,451	-	(145,322)	-
Operating grants	-	-	-	-
Payments received/(made) on advances (to)/from other funds	-	-	-	-
Net cash provided (used) by noncapital and related financing activities	5,598,960	(4,211,043)	(2,148,481)	306,756
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(11,965,276)	(29,900,154)	(6,312,263)	-
Sale of capital assets	131,729	118,078	152,222	-
Receipts (payments) on leases	(34,338)	1,268,356	1,278,169	-
Principal paid on bonds and other debt	(5,289,070)	(5,911,003)	(3,932,162)	-
Bond issuance cost paid	(36,963)	(286,741)	(85,600)	-
Interest paid on revenue bonds	(3,131,934)	(1,533,126)	-	-
Interest paid on bonds and other debt	-	(2,727,081)	(1,839,429)	-
Issuance of revenue, G.O. bonds, and capital leases	7,732,563	34,418,322	14,985,740	-
Passenger facility charges/capital grants	-	-	-	-
Rebatable arbitrage	-	15,669	31,806	-
Contributed capital	-	329,685	1,199,940	-
Net cash provided (used) for capital and related financing activities	(12,593,289)	(4,207,995)	5,478,423	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	7,678,162	21,210,534	14,471,454	-
Purchase of investments	(17,998,344)	(33,308,076)	(26,219,184)	(366,253)
Interest earnings on cash and investments	1,028,921	1,311,182	921,370	16,565
Net cash provided by (used for) investing activities	(9,291,261)	(10,786,360)	(10,826,360)	(349,688)
Net increase (decrease) in cash and cash equivalents	1,674,034	(682,168)	779,844	(367,304)
Cash and cash equivalents - beginning of year	17,218,416	12,986,186	7,147,495	1,663,523
Cash and cash equivalents - end of year	$ 18,892,450	$ 12,304,018	$ 7,927,339	$ 1,296,219
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 17,664,270	$ 9,492,426	$ 1,846,980	$ (330,312)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	8,972,917	7,118,132	5,462,027	-
Other income (expense)	1,578,760	356,192	136,463	-
Change in current assets and liabilities:				
Accounts receivable	(341,877)	(178,692)	67,325	(704,746)
Inventory	8,977	(58,173)	-	-
Due from other governments	-	(28,475)	-	-
Accounts payable	(11,074,043)	1,752,655	702,046	(4,415,303)
Due from others	-	-	-	5,125,989
Other accrued expenses	242,913	(7,190)	20,373	-
Customer deposits	656,110	29,355	-	-
Increase in compensated absences	251,597	47,000	41,048	-
Net cash provided (used) by operating activities	$ 17,959,624	$ 18,523,230	$ 8,276,262	$ (324,372)
Supplemental cash flow information:				
Noncash capital contributions and other charges	$ -	$ 1,909,919	$ 2,337,901	$ -

See accompanying Notes to Basic Financial Statements.

	Enterprise Funds			
Stormwater	Other Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ 6,315,727	$ 21,686,091	$ 485,785,136	$ 39,453,127
(288,843)	(10,097,933)	(405,361,208)	(38,617,334)
(868,480)	(11,690,079)	(33,004,116)	(4,199,269)
86,684	985,352	3,143,451	50,782
5,245,088	883,431	50,563,263	(3,312,694)
-	849,200	3,076,490	32,915
(907,310)	(3,100,079)	(12,716,616)	(792,470)
(4,500,000)	1,071,633	2,599,762	(129,808)
-	7,294,964	7,294,964	-
-	(1,540,853)	(1,540,853)	-
(5,407,310)	4,574,865	(1,286,253)	(889,363)
(13,982,108)	(26,285,549)	(88,445,350)	(369,790)
1,058	97,017	500,104	496,308
-	-	2,512,187	482,631
(19,983,521)	(2,392,824)	(37,308,580)	-
(240,010)	(41,615)	(690,949)	-
(3,096,082)	-	(7,761,142)	-
-	(294,016)	(4,860,526)	-
27,018,321	9,462,160	93,617,106	70,744
-	965,605	965,605	-
-	12,378	59,853	-
-	11,062,018	12,591,643	-
(10,282,362)	(7,414,826)	(29,020,049)	679,890
1,360,757	10,806,625	55,527,532	16,824,689
(2,009,595)	(15,562,310)	(95,463,762)	(16,511,105)
1,709,580	995,059	5,982,677	887,593
1,060,742	(3,760,626)	(33,953,553)	1,201,177
(9,383,842)	(5,717,156)	(13,696,592)	(2,320,990)
16,756,540	13,086,577	68,858,737	4,432,716
$ 7,372,698	$ 7,369,421	$ 55,162,145	$ 2,111,726
$ 4,292,368	$ (9,084,936)	$ 23,880,796	$ (2,109,403)
384,514	8,497,448	30,435,038	322,088
86,684	900,665	3,058,764	50,782
(32,734)	(733,257)	(1,923,981)	(7,157)
-	(54,556)	(103,752)	(380,619)
-	(124,114)	(152,589)	-
266,346	1,017,859	(11,750,440)	58,566
-	-	5,125,989	-
240,703	131,087	627,886	(1,260,890)
-	300	685,765	-
7,207	332,935	679,787	13,939
$ 5,245,088	$ 883,431	$ 50,563,263	$ (3,312,694)
$ -	$ -	$ 3,847,820	$ 119,897

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"Serve with humility, lead with passion, commit to excellence."

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Basic Financial Statements (BFS) of the City of Lubbock, Texas (City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to government units, including specialized industry practices as specified in the American Institute of Certified Public Accountants audit and accounting guide titled *State and Local Governments*. The Governmental Accounting Standards Board (GASB) is the acknowledged standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities related to business-type activities and enterprise funds, including component units, the City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant accounting policies are described below.

A. <u>REPORTING ENTITY</u>

The City is a municipal corporation governed by a Council-Manager form of government. The City, incorporated in 1909, is located in the northwestern part of the state. The City currently occupies a land area of 119.1 square miles and serves a population exceeding 211,000. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City provides a full range of services, including police and fire protection; recreational activities and cultural events; construction and maintenance of highways, streets, and other infrastructure; and sanitation services. The City also provides utilities for electricity, water, wastewater, and stormwater as well as a public transportation system.

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

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

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

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS

The **Urban Renewal Agency (URA)** has been included in the City's financial reporting entity within the primary government using the blended method because, although it is legally separate, its operations are so intertwined with the City that it is, in substance, a part of the City. The URA was formed to provide urban renewal services including rehabilitation of housing, acquisition of housing, and disposition of land. The URA Board is composed of nine members appointed by the Mayor with the consent of the City Council, and acts only in an advisory capacity to the City Council. All powers to govern the URA are held by the City Council. There are no separate financial statements available for the URA.

West Texas Municipal Power Agency (WTMPA) is a legally separate municipal corporation, a political subdivision of Texas, and body politic and corporate, formed in 1983, governed by an eight member Board of Directors. The board consists of two directors from each city. One member is elected as the president who presides over monthly meetings. Directors serve without compensation. WTMPA has no employees and instead contracts with the City for general operations. WTMPA may engage in the business of generation, transmission, sale, and exchange of electric energy to the four participating public entities: Lubbock, Tulia, Brownfield, and Floydada. WTMPA may also participate in power pooling and power exchange agreements with other entities. WTMPA provides electricity to its four member cities with the City having a 92.2% interest in its operations. Each member city appoints two members to the WTMPA board, however an affirmative vote of the "majority in interest" is required to approve the operating budget, approve capital projects, approve debt issuance, and approve any amendments to WTMPA rules and regulations. The City maintains the "majority in interest" vote based on Kilowatt purchases, and consequently has majority voting control. As the City purchases approximately 92.2% of the electricity brokered, WTMPA provides services almost exclusively to the City and is therefore presented as a blended enterprise fund. Their separate audited financial statements may be obtained through the City.

DISCRETELY PRESENTED COMPONENT UNITS

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

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

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

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

RELATED ORGANIZATIONS

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

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

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

The **Lubbock Housing Finance Corporation, Inc.** was formed pursuant to the Texas Housing Finance Corporation Act, to finance the cost of decent, safe, and affordable residential housing. The Mayor appoints the seven-member board.

North and East Lubbock Community Development Corporation (CDC) was formed from the recommendation of the mayor's commission formed in May 2002 to examine the condition of North & East Lubbock. Incorporated in February 2004, the CDC began work to effectuate change in North and East Lubbock. The North & East Lubbock Community Development Corporation is a local entity that drives social change; promotes autonomy and empowerment by increasing the supply of quality and affordable housing, generating economic activity, and coordinating the efficient delivery of social services. The City Council appoints two members of an eleven-member board. The City Council is not able to impose its will on the entity and there is no financial benefit/burden relationship.

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

The **Lubbock Firemen's Retirement and Relief Fund (Pension Trust Fund)** operates under provisions of the Firemen's Relief and Retirement Laws of the State of Texas for purposes of providing retirement benefits for the City's firefighters. The Mayor's designee, the Director of Fiscal Planning, three firefighters elected by members of the Pension Trust Fund and two at-large members elected by the Board, govern its affairs. It is funded by contributions from the firefighters and City matching contributions. As provided by enabling legislation, the City's responsibility to the Pension Trust Fund is limited to matching monthly contributions made by the members. Title to assets is vested in the Pension Trust Fund and not in the City. The State Firemen's Pension Commission is the governing body over the Pension Trust Fund and the City cannot significantly influence its operations. Their separate audited financial statements may be obtained through the City.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City's financial statements are prepared using the reporting model specified in GASB Statement No. 34 – *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37 – *Basic Financial Statements - and Management's Discussion and Analysis – For State and Local Governments* – Omnibus, GASB Statement No. 38 – *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. As specified by Statement No. 34, the Basic Financial Statements (BFS) include both Government-Wide and Fund Financial Statements. In FY 2006 the City adopted the provisions of GASB Statement No. 44 – *Economic Condition Reporting: The Statistical Section*. This new standard improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model.

The Government-Wide Financial Statements (GWFS) (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City and its blended component units as a whole. The discretely presented component units are also aggregately presented within these statements. The effect of interfund activity has been removed from these statements by allocation of the activities of the various internal service funds to the governmental and business-type activities on a fund basis based on the predominant users of the services. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the GWFS using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The GWFS focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The Government-Wide Statement of Net Assets reports all financial and capital resources of the City, excluding those reported in the fiduciary fund. It is displayed in the format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: (1) invested in capital assets net of related debt, (2) restricted, and (3) unrestricted. Invested in capital assets net of related debt equals capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as invested in capital assets net of related debt or restricted, are shown as unrestricted. Reservations or designations of net assets imposed by the City, whether by administrative policy or legislative actions of the City Council that do not otherwise meet the definition of restricted net assets, are considered unrestricted in the GWFS.

The Government-Wide Statement of Activities demonstrates the degree to which the direct expenses for a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Also part of the BFS are Fund Financial Statements (FFS) for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the GWFS. The focus of the FFS is on major funds, as defined by GASB Statement No. 34. GASB Statement No. 34 sets forth minimum criteria for determination of major funds, i.e., a percentage of assets, liabilities, revenue, or expenditures/expenses of fund category and of the governmental and enterprise funds combined. However, it also gives governments the option of displaying other funds as major funds. The City can elect to add some funds as major funds because of outstanding debt or community focus. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the FFS. Other non-major funds are combined in a single column in the appropriate FFS.

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

Fund Financial Statements

The GWFS are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary FFS. The City's fiduciary FFS includes only an agency fund that uses the accrual basis of accounting. However, because agency funds report only assets and liabilities, this fund does not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Because the enterprise funds are combined into a single business-type activities column on the GWFS, certain interfund activities between these funds are eliminated in the consolidation for the GWFS, but are included in the fund columns in the proprietary FFS. The effect of inter-fund activity has been eliminated from the GWFS. For instance, 92.2% of the operations of WTMPA representing transactions between WTMPA and Lubbock Power & Light have been eliminated for the GWFS presentation and for the electric BTA. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's electric, water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental FFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is necessary, (1) to demonstrate legal and covenant compliance, (2) to demonstrate the sources and uses of liquid resources, and (3) to demonstrate how the City's actual revenues and expenditures conform to the annual budget. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available, generally, if they are collected within 45 days of the end of the current fiscal period, with the exception of sales taxes which are considered to be available if they are collected within 60 days of year end. The City considers the grant availability period to be one year for revenue recognition. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when the liability has matured. Because the governmental FFS are presented on a different basis of accounting than the GWFS, reconciliations are provided immediately following each fund statement. These reconciliations explain the adjustments necessary to convert the FFS into the governmental activities column of the GWFS.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fund Accounting

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

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

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

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

The Electric Fund accounts for the activities of Lubbock Power & Light (LP&L), the City-owned electric production and distribution system.

The Water Fund accounts for the activities of the City's water system.

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

The West Texas Municipal Power Agency (WTMPA) Fund accounts for the activities of power generation and power brokering to member cities. Member cities include Lubbock with 92% ownership, and Tulia, Brownfield, and Floydada comprising the remaining 8% ownership.

The Stormwater Fund accounts for the activities of the stormwater utility, which provides stormwater drainage for the City.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following non-major funds:

Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest (other than debt service payments made by proprietary funds).

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital improvements (other than those recorded in the proprietary funds).

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

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

Internal Service Funds are used to account for services provided to other departments, agencies of the departments or to other governments on a cost reimbursement basis (i.e., Fleet Maintenance Fund, Central Warehouse Fund, Print Shop Fund, Self-Insurance Fund, etc.).

Fiduciary Fund is an Agency Fund that is used to account for assets held by the City as an agent for private organizations. This fund closed in FY 2006 and is not part of the government-wide financials.

D. BUDGETARY ACCOUNTING

The City Manager submits a proposed operating budget and capital improvement plan to the City Council annually for the upcoming fiscal year. Public hearings are conducted to obtain taxpayer comments, and the budget is legally enacted through passage of an ordinance by City Council. City Council action is also required for the approval of any supplemental appropriations. All budget amounts presented in the budget comparison statement reflect the original budget and the amended budget, which have been adjusted for legally authorized supplemental appropriations to the annual budget during the fiscal year. The operating budget is adopted on a basis consistent with GAAP for the General Fund. Budgetary control is maintained at the department level in the following expenditure categories: personnel services, supplies, other charges, and

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY ACCOUNTING (Continued)

capital outlay. Management may make administrative transfers and increases or decreases in accounts within categories without Council approval, as long as expenditures do not exceed budgeted appropriations at the fund level, the legal level of control. All annual operating appropriations lapse at the end of the fiscal year. Capital budgets do not lapse at fiscal year end but remain in effect until the project is completed and closed.

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

E. ENCUMBRANCES

At the end of the fiscal year, encumbrances for goods and services that have not been received are canceled. At the beginning of the next fiscal year, management reviews all open encumbrances. During the budget revision process, encumbrances may be re-established. On October 1, 2006, the General Fund had no significant amounts of open encumbrances.

F. ASSETS, LIABILITIES AND FUND BALANCE/NET ASSETS

Equity in Cash and Investments - The City pools the resources of the various funds in order to facilitate the management of cash and enhance investment earnings. Records are maintained which reflect each fund's equity in the pooled account. The City's investments are stated at fair value, which is based on quoted market prices as of the valuation date.

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 present an insignificant risk of changes in value because of changes in interest rates. Restricted cash includes cash equivalents that have been restricted by bond covenants for debt service requirements and passenger facility charges.

Investments – Investments include securities in the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. Restricted investments include investments that have been restricted for bond financed capital projects and money restricted for claims in the Risk and Health Insurance Funds.

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

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ASSETS, LIABILITIES, AND FUND BALANCE/NET ASSETS (Continued)

the City. The City adjusts the allowance for uncollectible taxes and deferred tax revenue at fiscal year end based upon historical collection experience. To write off property taxes receivable, the City eliminates the receivable and reduces the allowance for uncollectible accounts.

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

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

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

Mortgage Receivables - Mortgage receivables consist of loans made to Lubbock residents and businesses under the City's Community Development loan program. These loans were originally funded primarily through grants received from the U.S. Department of Housing and Urban Development.

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

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

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

Infrastructure/Improvements	10-50 years
Buildings	15-50 years
Equipment	3-15 years
Water rights	85 years

Interest Capitalization – Because the City issues general-purpose capital improvement bonds, which are recorded within the proprietary funds, the City capitalizes interest costs for business-type activities and enterprise funds according to the Financial Accounting Standards Board (FASB) Statement No. 34 *Capitalization of Interest Cost* and FASB Statement No. 62 *Capitalization of Interest Costs*. The City capitalized interest of approximately $961,000 net of interest earned, for the business-type activities and the enterprise funds during the current fiscal year.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ASSETS, LIABILITIES, AND FUND BALANCE/NET ASSETS (Continued)

Restricted Net Assets - Certain enterprise fund and governmental activities assets are restricted for construction and debt; consequently, net assets have been restricted for those amounts. The excess of other restricted assets over related liabilities are included as restricted net assets for bond proceeds, bond indentures requirements, and passenger facility charges.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

G. REVENUES, EXPENSES AND EXPENDITURES

Interest Income on pooled cash and investments is allocated monthly based on the percentage of a fund's six-month rolling average monthly balance in pooled cash and investments to the total citywide six-month rolling average monthly balance in pooled cash and investments, except for certain Fiduciary Funds, certain Special Revenue Funds, Capital Project Funds, and certain Internal Service Funds. The interest income on pooled cash and investments of those funds is reported in the General Fund or the Debt Service Fund.

Sales Tax Revenue for the City results from an allocation of 1.5% of the total sales tax levy of 8.25%, which is collected by the State of Texas and remitted to the City monthly. The tax is collected by the vendor and is required to be remitted to the State by the 20th of the month following collection. The tax is then paid to the City by the 10th of the next month.

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

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

Compensated Absences consists of vacation leave and sick leave. Vacation leave of 10-20 days is granted to all regular employees dependent upon the date employed, years of service, and civil service status. Currently, up to 40 hours of vacation leave may be "carried over" to the next calendar year. The City is obligated to make payment upon retirement or termination for employees in good standing for any available, unused vacation leave.

Sick leave for employees is accrued at 1-¼ days per month with a maximum accrual status of 200 days. After 15 years of continuous full time service for non-civil service personnel, vested sick leave is paid on retirement or termination at the current hourly rate for up to 90 days. Upon retirement or termination, Civil Service Personnel (Police) are paid for up to 90 days accrued sick leave after one year of employment. Civil Service Personnel (Firefighters) are paid for up to 90 days of accrued sick leave upon retirement or termination. The Texas Civil Service laws dictate certain benefits and personnel policies above and beyond those policies of the City.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. REVENUES, EXPENSES AND EXPENDITURES (Continued)

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

Post Employment Benefits for retirees of the City of Lubbock include the option to purchase health and life insurance benefits at their own expense. However, employees that retire with 15 years of service or Civil Service employees that retire who have a sick-leave balance in excess of 90 days will be able to elect to continue receiving medical coverage in full 30-day periods for the term of the balance of their sick leave. Amounts to cover premiums and administrative costs, with an incremental charge for reserve funding, are determined by the City's health care administrator. Employer contributions are funded on a pay-as-you-go basis and approximated $1.4 million for fiscal 2005. These contributions are included in the amount of insurance expense reflected in the financial activity reported in the Health Insurance Internal Service Fund.

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. RESTRICTED NET ASSETS

Restricted net assets are only used for their intended purpose. For projects funded by tax exempt debt proceeds, the debt proceeds are used first, then unrestricted resources are used.

B. NET ASSET/FUND BALANCE DEFICIT

The deficit of $198,884 in the Health Benefits Internal Service Fund is due to unusually high health claim activity in FY 2006. The revenues charged to user departments were based on predetermined rates. The health rates have been reevaluated in FY 2007 to prevent future deficits.

C. GENERAL FUND BUDGET OVERAGE

The General Fund FY 2006 amended budgeted expenditures and transfers out were $113,255,548 and actual expenditures and transfers out were $113,714,942, an overage of $459,394. Management has recently issued new policies for departmental review of budgets.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. DEPOSITS AND INVESTMENTS

Deposits

On September 30, 2006, the bank balance of the City's deposits was $3,002,928. All of the bank balances are covered by federal depository insurance or collateralized. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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. The City's Investment Policy requires the minimum collateral level to be 102% of market value of principal and accrued interest.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

A. CASH AND DEPOSITS (Continued)

At September 30, 2006, bank balances was exposed to custodial credit risk as follows:

Insured	$ 400,000
Uninsured and uncollateralized	-
Uninsured and collateral held by pledging financial institution	2,602,928
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the City's name	-
	$3,002,928

Investments

At September 30, 2006, the City had the following investments and maturities:

	September 30, 2006		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Repurchase Agreements *	$ 1,796,529	$ 1,796,529	-
Federal Home Loan Banks	9,929,600	9,929,600	-
Federal Home Loan Mortgage Corporation	10,579,104	8,591,704	$ 1,987,400
Federal National Mortgage Association	36,548,440	30,605,040	5,943,400
Farm Credit Note	1,980,000	1,980,000	-
Federal Home Loan Step Up Note	3,978,600	1,981,400	1,997,200
Money market mutual funds **	35,926,078	35,926,078	-
State Investment Pools **	166,306,317	166,306,317	-
	$ 267,044,668	$ 257,116,668	$ 9,928,000

*Considered cash equivalent for financial reporting.

** Money market mutual funds and State Investment Pools are considered cash equivalents for financial reporting, unless restricted for bond financed capital projects and claims for Risk and Health Insurance Funds.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to those that can be held to maturity and by limiting final maturity to no more than five (5) years. The money market mutual funds and investment pools are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's policy allows investment in direct obligations of and other obligations guaranteed as to principal of the U.S. Treasury and U.S. agencies and instrumentalities with the exception of mortgage backed securities. It allows obligations of investment in 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. It may also invest in fully collateralized repurchase agreements, fully collateralized certificates of deposit, commercial paper and bank acceptances with a stated maturity of 270 days or fewer from the date of issuance, AAA-rated, no-load money market mutual funds regulated by the Securities and Exchange Commission, and AAA-rated, constant dollar investments pools authorized by the City Council. At September 30, 2006, Standard & Poor's rated the investment pools and the money market mutual funds AAAm. The senior unsecured debt for investments in FNMA and FHLMC are rated AAA by Standard & Poor's and Moody's.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

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 required that deposits and repurchase agreements be held in an institution that has a minimum collateral level of 102% of the market value. FHLB, FHLMC, and FNMA investments are held in the City's name in third party safekeeping by a Federal Reserve member financial institution designated as a City depository. The City shall maintain a list of authorized broker/dealers and financial institutions, which are approved by the Audit 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. At September 30, 2006, the City's investments constituted the following percentages of total investments: repurchase agreements – 0.7%, FHLB – 5.2%, FHLMC - 0.4%, FNMA – 13.7%, FFCN - 0.7%, Money Market Mutual Funds – 13.45%, and State Investment Pools – 62.28%.

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

B. INTERFUND TRANSACTIONS

Interfund balances, specifically the due to and due from other funds, are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. These outstanding balances are repaid within the following fiscal year.

Interfund balances, specifically advances to and from other funds, are longer-term loans to cover Council directed internal financing of certain projects. At September 30, 2006 the City had $10,761,331 in internal financing. These balances are assessed an interest charge and are repaid over time through operations and transfers.

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

	Interfund Receivables (Thousands)				
	Governmental Funds		Proprietary Funds		
Interfund Payables (Thousands)	General	Nonmajor Government	WTMPA	Nonmajor Enterprise	Totals
Governmental Funds:					
Nonmajor Governmental	$ 450	$ 631	$ -	$ 1,541	$ 2,622
Proprietary Funds:					
Electric	-	-	6,173	-	6,173
Nonmajor Enterprise	1,927	-	-	-	1,927
Internal Service	39	-	-	-	39
Totals	$ 2,416	$ 631	$ 6,173	$ 1,541	$ 10,761

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

B. INTERFUND TRANSACTIONS (Continued)

Net transfers of $9,607,211 from business-type activities to governmental activities, down $5.9 million from the prior year, on the government-wide statement of activities is primarily the result of 1) debt service payments made from the debt service fund, but funded from an operating fund; 2) subsidy transfers from unrestricted funds; and 3) transfers to move indirect cost allocations, payments in lieu of taxes (PILOT), and franchise fees to the general fund or other funds as appropriate. The following interfund transfers are reflected in the fund financial statements (all amounts in thousands):

	Interfund Transfers Out: (Thousands)								
	Governmental Funds		Proprietary Funds						
Interfund Transfers In: (Thousands)	General	Nonmajor Gov.	Electric	Water	Sewer	Storm-Water	Nonmajor Enterprise	Internal Service	Totals
Governmental Funds:									
General Fund	$ -	$ 723	$ 880	$ 4,649	$ 2,623	$ 907	$ 2,828	$ 714	$ 13,324
Nonmajor Governmental	587	4,632	25	-	-	-	30	78	5,352
Proprietary Funds:									
Electric	-	312	-	225	-	-	100	-	637
Water	-	521	-	-	-	-	142	-	663
Wastewater	-	620	-	-	-	-	-	-	620
Stormwater	-	-	-	-	-	-	-	-	-
WTMPA	-	-	307	-	-	-	-	-	307
Nonmajor Enterprise	849	-	-	-	-	-	-	-	849
Internal Service Funds	-	33	-	-	-	-	-	-	33
Total	$ 1,436	$ 6,841	$ 1,212	$ 4,874	$ 2,623	$ 907	$ 3,100	$ 792	$ 21,785

C. DEFERRED CHARGES

The total deferred charge of $3,077,777 in the LP&L Enterprise Fund represents an advertising contract with the United Spirit Arena. The advertising (and amortization) began with the opening of the sports arena in fiscal year 2000 and will continue for 30 years.

D. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, was as follows:

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

D. CAPITAL ASSETS (Continued)

Primary Government:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	$ 8,951,100	$ 20,354	$ -	$ 8,971,454
Construction in Progress	37,793,428	27,701,223	14,844,298	50,650,353
Total Capital Assets Not Depreciated	46,744,528	27,721,577	14,844,298	59,621,807
Capital Assets Depreciated:				
Buildings	57,606,045	3,674,134	330,543	60,949,636
Improvements Other than Buildings	136,398,990	11,520,452	914,367	147,005,075
Machinery and Equipment	60,242,876	8,065,957	3,336,666	64,972,167
Total Capital Assets Depreciated	254,247,911	23,260,543	4,581,576	272,926,878
Less Accumulated Depreciation:				
Buildings	29,459,873	1,934,827	314,587	31,080,113
Improvements Other than Buildings	92,503,760	4,834,434	775,906	96,562,288
Machinery and Equipment	40,414,655	7,057,454	3,115,466	44,356,643
Total Accumulated Depreciation	162,378,288	13,826,715	4,205,959	171,999,044
Total Capital Assets Depreciated, Net	91,869,623	9,433,828	375,617	100,927,834
Governmental Activities Capital Assets, Net	$ 138,614,151	$ 37,155,405	$ 15,219,915	$ 160,549,641

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

Governmental activities:	
Administrative Services	$ 386,871
Community Services	144,336
Cultural and Recreation Services	3,351,006
Economic and Development	146,397
Fire	1,213,165
Health	271,771
Other Public Safety	496,369
Police	3,163,233
Street and Traffic Engineering	3,791,173
Non-Departmental	327,104
Internal Service Funds	130,646
Total depreciation expense - governmental activities	13,422,071
Transfer in to accumulated depreciation - governmental activities	404,644
Increase in accumulated depreciation - governmental activities	$ 13,826,715

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

D. CAPITAL ASSETS (Continued)

Business-Type Activities:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	$ 31,948,711	$ -	$ -	$ 31,948,711
Construction in Progress	128,432,179	58,415,600	50,201,552	136,646,227
Total Capital Assets Not Depreciated	160,380,890	58,415,600	50,201,552	168,594,938
Capital Assets Depreciated:				
Buildings	97,027,146	483,657	-	97,510,803
Improvements Other than Buildings	605,412,170	59,621,921	375,396	664,658,695
Machinery and Equipment	138,670,688	27,169,630	4,116,964	161,723,354
Total Capital Assets Depreciated	841,110,004	87,275,208	4,492,360	923,892,852
Less Accumulated Depreciation:				
Buildings	31,075,692	2,342,667	-	33,418,359
Improvements Other than Buildings	258,019,184	17,325,603	159,373	275,185,414
Machinery and Equipment	74,952,427	12,057,269	3,280,169	83,729,527
Total Accumulated Depreciation	364,047,303	31,725,539	3,439,542	392,333,300
Total Capital Assets Depreciated, Net	477,062,701	55,549,669	1,052,818	531,559,552
Business-Type Activities Capital Assets, Net	$637,443,591	$113,965,269	$ 51,254,370	$ 700,154,490

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

Business-Type Activities:	
Electric	$ 8,839,585
Water	7,118,132
Wastewater	5,462,027
Stormwater	384,514
Solid Waste	3,875,819
Airport	3,281,317
Transit	1,340,312
Internal Service	191,442
Total depreciation expense - business-type activities	30,493,148
Transfer in to accumulated depreciation - business-type activities	1,232,391
Increase in accumulated depreciation - business-type activities	$ 31,725,539

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

D. CAPITAL ASSETS (Continued)

Construction Commitments

The City of Lubbock has active construction projects at fiscal year end. The Parks Department projects include a 12-field fastpitch softball complex. The City continues to work on a large street project involving Milwaukee Avenue from 34th Street to 98th Street. This project is in the Gateway Street Projects Fund.

Water projects include the design and construction of a new pump station in southwest Lubbock. The recompaction of 98th Street from Slide to just beyond Frankford Avenue is a major wastewater project. The City is busy working at the airport to construct 38,000 square yards of new pavement to help serve air carrier aircrafts. Stormwater operations continue to work on two very large construction projects. The first project provides for flood relief for Clapp Park and the eleven playa lakes immediately upstream. The second project provides for the construction of a flood relief project for south Lubbock's chain of playa lakes.

Projects	Original Commitments	Spent-to-Date	Remaining Commitments
Public Safety	$ 1,708,338	$ 1,553,720	$ 154,618
Park Improvements	27,149,311	8,620,769	18,528,542
Street Improvements	26,133,199	10,999,784	15,133,415
General Capital Projects	925,000	6,575	918,425
General Facilities Improvements	4,456,673	2,259,430	2,197,243
Tax Increment Fund Capital Projects	24,131,566	6,537,195	17,594,371
Gateway Street Projects	23,349,000	19,684,371	3,664,629
Electric	26,476,192	8,814,299	17,661,893
Water	71,421,032	32,078,599	39,342,433
Wastewater	17,400,000	8,377,603	9,022,397
Solid Waste	7,215,680	991,100	6,224,580
Airport	30,994,699	20,092,779	10,901,920
Stormwater	83,688,018	65,636,771	18,051,247
Internal Service Fund	1,000,000	655,076	344,924
Total	$ 346,048,708	$ 186,308,071	$ 159,740,637

E. RETIREMENT PLANS

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

Summary of significant data for each retirement plan follows:

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

Plan Description

The City provides pension benefits for all of its full-time employees (with the exception of firefighters) through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of 811 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years.

Contributions

The contribution rate for the employees is 7% and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

Actuarial Assumptions

The actuarial assumptions for the December 31, 2005 valuations are as follows:

Actuarial cost method:	Unit credit
Amortization method:	Level percent of payroll
Remaining amortization period:	25 years- open period
Asset valuation method:	Amortized cost
Investment rate of return:	7%
Projected salary increases:	None
Includes inflation at:	3.5%
Cost of Living adjustments:	None

As of September 30	Annual Pension Cost	Contribution Made
2004	$ 8,708,867	8,708,867
2005	9,933,373	9,933,373
2006	10,904,031	10,904,031

**TEXAS MUNICIPAL RETIREMENT SYSTEM
THREE-YEAR HISTORICAL SCHEDULE OF ACTUARIAL LIABILITIES
AND FUNDING PROGRESS REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

As of December 31	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)
2003	$ 182,884,183	239,809,434	76.3%	56,925,251
2004	186,398,545	248,432,807	75.0%	62,034,262
2005	195,046,632	261,430,108	74.6%	66,383,476

As of December 31	Annual Covered Payroll	UAAL as a % Of Covered Payroll
2003	$ 57,577,743	98.9%
2004	61,931,003	100.2%
2005	65,424,918	101.5%

The City of Lubbock is one of 811 municipalities having the benefit plan administered by TMRS. Each of the municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

LUBBOCK FIREFIGHTER'S RELIEF AND RETIREMENT FUND (LFRRF)

Plan Description

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

The LFRRF provides service retirement, death, disability and withdrawal benefits. These benefits fully vest after 20 years of credited service. A partially vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. Employees may retire at age 50 with 20 years of service. A reduced early service retirement benefit is provided for employees who terminate employment with 20 or more years of service. The LFRRF Plan effective November 1, 2003 provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 68.92% of final 48-month average salary plus $335.05 per month for each year of service in excess of 20 years.

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

There is no provision for automatic postretirement benefit increases. LFRRF has the authority to provide, and has periodically provided for in the past, ad hoc postretirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighter's Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

Contributions Required and Contributions Made

The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

State law requires that each plan of benefits adopted by LFRRF be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, LFRRF's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize LFRRF's unfunded actuarial accrued liability (UAAL), if any, and the number of years needed to amortize LFRRF's unfunded actuarial liability, if any, is determined using a level percentage of payroll method.

The costs of administering the plan are financed by LFRRF.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

Annual Pension Cost

For the fiscal year ended September 30, 2006, the City of Lubbock's Annual Pension Cost (APC) for the Lubbock Fire Fund was equal to $3,208,595 as described in item 4 in the table below. Based on the results of the December 31, 2004 actuarial valuation of the Plan Effective November 1, 2003, the most recent biennial actuarial valuation, the Board's actuary found that the fund had an adequate financing arrangement, as described in the paragraph below, based on the fixed level of the firefighter contribution rates and on the assumed level of City contribution rates. Based on the Plan Effective November 1, 2003, LFRRF's funding policy requires contributions equal to 12.43% of pay by the firefighters. Contributions by the City are based on a formula, which causes the City's contribution rate to fluctuate from year to year. The December 31, 2004 actuarial valuation assumes that the City's contributions will average 19% of payroll in the future.

Therefore, based on the December 31, 2004 actuarial valuation of the Plan Effective November 1, 2003, the Annual Required Contributions (ARC) are not actuarially determined but are equal to the City's actual contributions beginning January 1, 2005. This actuarial valuation satisfied the parameters of the Governmental Accounting Standards Board (GASB) Statement No. 27. Prior to January 1, 2005, the ARC were not actuarially determined but, based on the December 31, 2002 actuarial valuation, were equal to the City's actual contributions in calendar year 2004. This actuarial valuation also satisfied the parameters of GASB Statement No. 27.

The following shows the development of the Net Pension Obligation (NPO) as of September 30, 2006:

1.	Annual Required Contributions (ARC)	$ 3,220,205
2.	Interest on NPO	(72,729)
3.	Adjustment to ARC	61,119
4.	Annual Pension Cost (APC)	3,208,595
5.	Actual City contributions made	(3,220,205)
6.	Increase (Decrease) in NPO/(asset)	(11,610)
7.	NPO/(asset) at October 1, 2005	(909,112)
8.	NPO/(asset) at September 30, 2006	($920,722)

The ARC for the period October 1, 2005 through September 30, 2006 was based on the December 31, 2002 and the December 31, 2004 actuarial valuations. The entry age actuarial cost method was used with the normal cost calculated as a level percentage of payroll. The actuarial value of assets was market value smoothed by a five-year deferred recognition method, with the actuarial value not more than 110% or less than 90% of the market value of assets. The actuarial assumptions included in an investment return assumption of 8% per year (net of expenses), projected salary increases including promotion and longevity averaging 5.7% per year over a 30-year career, and no postretirement cost-of-living adjustments. An inflation assumption of 4% per year was included in the investment return and salary increase assumptions. The UAAL is amortized with the excess of the assumed total contribution rate over the normal cost rate. The number of years needed to amortize the UAAL is determined using an open, level percentage of payroll method, assuming that the payroll will increase 4% per year, and was 24.7 years as of the December 31, 2002 actuarial valuation and 20.6 years as of December 31, 2004 actuarial valuation, both based on the plan provisions effective November 1, 2003.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

E. RETIREMENT PLANS (Continued)

Further details concerning the financial position of the LFRRF and the latest actuarial valuation are available by contacting the Board of Trustees, LFRRF, City of Lubbock, P.O. Box 2000, Lubbock, Texas 79457. A stand-alone financial report is available by contacting the LFRRF.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
9/30/04	$ 2,582,713	101 %	(897,648)
9/30/05	3,016,942	100	(909,112)
9/30/06	3,208,595	100	(920,722)

Analysis of Funding Progress
Required Supplementary Information (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) /Funding excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c) 4	UAAL/ Funding Excess as a Percentage of Covered Payroll ((b-a)/c)
12/31/00 1,2	$119,660,788	114,675,049	(4,985,739)	104.3%	12,243,913	(40.7)%
12/31/02 1,3	111,261,775	127,850,414	16,588,639	87.0	13,521,366	122.7
12/31/04 5	130,174,984	143,991,975	13,816,991	90.4	14,711,366	93.9

1. Economic and demographic assumptions were revised.
2. Reflects changes in plan benefit provisions effective December 1, 2001.
3. Reflects changes in plan benefit provisions effective November 1, 2003.
4. The covered payroll is based on estimated annualized salaries used in the valuation.
5. Demographic assumption was revised.

F. DEFERRED COMPENSATION

The City offers its employees two deferred compensation plans in accordance with Internal Revenue Code ("IRC") Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans' assets are held in trust for the exclusive benefits of the participants and their beneficiaries.

The City does not provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the BFS.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

G. SURFACE WATER SUPPLY

Canadian River Municipal Water Authority

The Canadian River Municipal Water Authority (CRMWA) is a Conservation and Reclamation Authority established by the Texas Legislature to construct a dam, water reservoir, and aqueduct system for the purpose of supplying water to surrounding cities. The Authority was created in 1953 and comprises eleven cities, including the City of Lubbock. The budget, financing, and operations of the Authority are governed by a Board of Directors selected by the governing bodies of each of the member cities, each city being entitled to one or two members dependent upon population. At September 30, 2006, the Board was comprised of 18 members, two of which represented the City.

The City contracted with the CRMWA to reimburse it for a portion of the cost of the Canadian River Dam and aqueduct system in exchange for surface water. The City's pro rata share of annual fixed and variable operating and reserve assessments are recorded as an expense of obtaining surface water.

Prior to FY 1999, long-term debt was owed to the U.S. Bureau of Reclamation for the cost of construction of the facility, which was completed in 1969. The City's allocation of project costs was $32,905,862. During FY 1999, bonds in the principal amount of $12,300,000 were issued to pay off the construction obligation owed to the U.S. Bureau of Reclamation via CRMWA in the amount of $20,809,067. The difference of $8,509,067 was a discount in the remaining principal provided by the U.S. Bureau of Reclamation to the member cities. This discount has been recorded as a deferred gain on refunding and is being amortized over the life of the refunding bonds. At September 30, 2006, $4,091,071 remains unamortized. The annual principal and interest payments are included in the disclosures for other City related long-term debt. The above cost for the rights are recorded as capital assets and are being amortized over 85 years. The cost and debt are recorded in the Water Enterprise Fund.

In 2005, the Canadian River Municipal Authority issued $48,125,000 in Contract Revenue Bonds. The City of Lubbock shared in this issue in the amount of $17,960,000.

The Canadian River Municipal Authority issued a new Contract Revenue Bond, Series 2006 in April 2006 in the amount of $49,075,000. The City of Lubbock shared in the issue for $18,573,906 and other costs of $492,465, and received depreciable assets (water rights) valued at $19,066,371. These assets and liabilities are recorded in the Water Enterprise Fund.

Brazos River Authority - Lake Alan Henry

During 1989, the City entered into an agreement with the Brazos River Authority (BRA) for the construction, maintenance, and operation of the facilities known as Lake Alan Henry. The BRA, which is authorized by the State of Texas to provide for the conservation and development of surface waters in the Brazos River Basin, issued bonds for the construction of a dam and lake facilities on the South Fork of the Double Mountain Fork of the Brazos River. The BRA issued $16,970,000 in revenue bonds in 1989 and $39,685,000 in revenue bonds in 1991, which were refunded in July 1995. The asset, Lake Alan Henry dam and facilities, are recorded as capital assets and are being depreciated over 50 years. The financial activity, along with related obligation, is accounted for in the Water Enterprise Fund.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT

GENERAL OBLIGATION BONDS AND CERTIFICATES OF OBLIGATION:

Interest Rate%	Issue Date	Maturity Date	Amount Issued	Outstanding 9-30-06
5.39	10-01-93	02-15-14	$ 2,550,000	$ 1,040,000
5.20	10-01-93	02-15-14	1,470,000	225,000
5.14	10-01-93	02-15-14	19,215,000	2,895,000
4.91	01-15-97	02-15-09	17,530,000	5,225,000
4.61	01-01-98	02-15-08	1,330,000	320,000
4.71	01-01-98	02-15-18	10,260,000	2,575,000
4.36	01-15-99	02-15-14	20,835,000	16,710,000
4.58	01-15-99	02-15-19	15,355,000	2,310,000
4.77	04-01-99	02-15-19	6,100,000	915,000
4.71	04-01-99	02-15-19	12,300,000	8,060,000
5.37	09-15-99	02-15-20	24,800,000	3,100,000
5.54	03-15-00	02-15-20	7,000,000	875,000
4.90	02-01-01	02-15-21	9,100,000	1,560,000
4.81	02-01-01	02-15-21	2,770,000	560,000
5.25	06-01-01	02-15-31	35,000,000	3,710,000
4.68	02-15-02	02-15-22	9,400,000	8,470,000
4.71	02-15-02	02-15-22	6,450,000	5,805,000
4.70	02-15-02	02-15-22	1,545,000	1,385,000
4.62	07-01-02	02-15-22	2,605,000	2,250,000
3.18	07-01-02	02-15-10	10,810,000	4,635,000
4.42	07-15-03	02-15-23	11,885,000	10,415000
4.47	07-15-03	02-15-24	9,775,000	9,130,000
4.48	07-15-03	02-15-24	685,000	635,000
4.47	07-15-03	02-15-24	3,595,000	3,355,000
4.87	07-15-03	02-15-34	40,135,000	38,710,000
4.47	07-15-03	02-15-24	3,800,000	3,550,000
4.60	08-15-03	04-15-23	8,900,000	7,810,000
4.60	08-15-03	04-15-23	13,270,000	11,635,000
4.37	06-30-04	08-01-12	1,000,000	750,000
4.09	09-28-04	02-15-24	2,025,000	1,735,000
4.08	09-28-04	02-15-24	3,100,000	2,585,000
3.58	09-28-04	02-15-20	22,620,000	22,100,000
3.89	02-15-05	04-15-25	23,055,000	21,470,000
3.94	06-15-05	02-15-21	49,615,000	49,615,000
4.26	08-15-05	02-15-25	46,525,000	44,950,000
4.82	07-15-05	02-15-21	43,080,000	41,380,000
4.27	07-15-05	02-15-25	7,265,000	7,035,000
4.58	04-15-06	02-15-26	76,950,000	76,950,000
4.58	04-15-06	02-15-26	2,740,000	2,740,000
4.84	05-15-06	02-15-31	18,830,000	18,830,000
Total			$ 605,275,000	$ 448,025,000(A)

(A) Excludes ($4,264,274) net deferred losses on advance refundings, net bond premiums and discounts, and bond issuance costs - ($1,906,682) business-type and ($2,357,592) governmental. Additionally, this amount includes $323,567,720 of bonds used to finance enterprise fund activities.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

At September 30, 2006, management of the City believes that it was in compliance with all financial bond covenants on outstanding general obligation bonded debt, certificates of obligation, and water revenue bonded debt.

LP&L REVENUE BONDS

Interest Rate(%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-06
3.80 to 5.50	6-15-95	4-15-08	$ 13,560,000	$ 1,965,000
4.25 to 6.25	1-01-98	4-15-18	9,170,000	5,520,000
3.10 to 5.00	1-15-99	4-15-19	14,975,000	7,525,000
4.00 to 5.25	7-01-01	4-15-21	9,200,000	6,900,000
Total			$ 46,905,000	$21,910,000 *

* Balance outstanding excludes $274,845 of net deferred losses on advance refundings, bond premiums and discounts, and bond issuance costs.

OTHER REVENUE BONDS

Interest Rate(%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-06
3.983	09-30-05	09-30-25	17,960,000	17,595,417
4.25 to 5.0	04-30-06	02-15-27	18,573,906	18,573,905
			$36,533,906	$36,169,322 *

* Balance outstanding excludes ($461,839) discount and deferred losses on bonds sold or refunded.

The annual requirements to amortize all outstanding debt of the City as of September 30, 2006 are as follows:

Fiscal	Governmental Activities		Business-Type Activities			
	General Obligation Bonds		General Obligation Bonds		Revenue Bonds	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2007	6,367,599	5,970,307	16,182,401	15,617,695	3,871,149	3,021,708
2008	6,815,093	5,270,849	17,019,907	14,101,110	3,777,331	2,612,994
2009	6,855,963	4,994,544	17,004,037	13,406,654	3,016,932	2,448,196
2010	6,677,160	4,718,846	17,147,840	12,696,672	3,062,637	2,315,474
2011	6,892,527	4,428,865	17,557,473	11,942,950	3,110,359	2,181,036
2012-2016	33,943,446	17,559,698	86,021,554	47,795,579	14,872,099	8,860,165
2017-2021	32,655,873	9,916,808	79,014,127	27,439,606	14,887,118	5,089,955
2022-2026	24,249,619	2,482,180	46,720,381	12,003,058	10,891,111	1,655,657
2027-2031	-	-	19,835,000	4,279,800	590,586	29,529
2032-2036	-	-	7,065,000	541,625	-	-
Totals	$ 124,457,280	$ 55,342,097	$ 323,567,720	$ 159,824,748	$ 58,079,322	$ 28,214,714

Capital leases were used to acquire equipment and vehicles. The interest rate on the leases ranged from 2.0% to 4.3%. The annual requirements on capital leases of the City as of September 30, 2006, including interest payments of $1,790,785 are as follows:

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

Fiscal Year	Governmental Capital Lease Minimum Payment	Business-Type Capital Lease Minimum Payment	Total Capital Lease Minimum Payment
2007	1,694,843	2,277,756	3,972,599
2008	1,694,843	1,946,263	3,641,106
2009	1,673,144	1,842,705	3,515,849
2010	1,522,290	1,748,474	3,270,764
2011	725,904	1,086,012	1,811,916
2012-2016	1,116,246	381,832	1,498,078
Less:			
Interest	(896,711)	(894,074)	(1,790,785)
Total	$ 7,530,559	$ 8,388,968	$ 15,919,527

The carrying values on the leased assets of the City as of September 30, 2006 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
Governmental Activities	$ 12,350,672	$ 3,363,345	$ 8,987,327
Business-Type Activities	12,093,797	2,158,891	9,934,906
Total Leased Assets	$ 24,444,469	$ 5,522,236	$ 18,922,233

Long-term obligations (net of discounts and premiums) for governmental and business-type activities for the year ended September 30, 2006 are as follows:

	Debt Payable 9/30/2005	Additions	Deletions	Debt Payable 9/30/2006	Due in one year
Governmental activities:					
Tax-Supported -					
Obligation Bonds	$ 102,720,269	$ 27,526,113	$ 5,789,102	$ 124,457,280	$ 6,367,599
Capital Leases	3,954,885	5,119,980	1,544,306	7,530,559	1,426,999
Compensated Absences	16,288,365	6,313,086	6,341,414	16,260,037	6,133,264
Insurance Claim Payable	2,340,260	19,060,956	18,640,060	2,761,156	2,512,041
Bond Discounts/Premiums	1,865,984	620,860	129,252	2,357,592	-
Arbitrage Payable	-	151,716	-	151,716	-
Total Governmental activities	$ 127,169,763	$ 58,792,711	$ 32,444,134	$ 153,518,340	$ 16,439,903
Business-Type activities:					
Self-Supported -					
Obligation Bonds	286,749,731	70,993,887	34,175,898	323,567,720	16,182,401
Revenue Bonds	42,800,000	18,573,906	3,294,584	58,079,322	3,871,149
Capital Leases	1,354,576	8,158,734	1,124,342	8,388,968	1,974,403
Closure/Post Closure	3,073,391	225,740	-	3,299,131	-
Compensated Absences	5,000,765	2,582,659	2,217,628	5,365,796	2,571,795
Insurance Claim Payable	6,501,898	3,235,231	4,476,153	5,260,976	2,444,632
Bond Discounts/Premiums	2,555,448	648,300	1,297,066	1,906,682	-
Arbitrage Payable	-	71,191	-	71,191	-
Total Business-Type activities	$ 348,035,809	$ 104,489,648	$ 46,585,671	$ 405,939,786	$ 27,044,380

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

Payments on bonds payable for governmental activities are made in the Debt Service Fund. Bonded debt is subject to the applicability of federal arbitrage regulations. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue funds. The Risk Management Internal Service Fund will liquidate insurance claims payable that pertain to governmental activities. Payments for the capital leases that pertain to the governmental activities will be liquidated by the General Fund and Capital Projects Funds.

The total long-term debt is reconciled to the total annual requirements to amortize long-term debt as follows:

Long-term debt - Governmental Activities	$ 153,518,340	
Long-term debt - Business-type Activities	405,939,786	
Interest	243,381,559	
Total amount of debt		$ 802,839,685
Net gains/losses, premiums/discounts	(4,264,274)	
Less: Arbitrage payable	(222,907)	
Less: Capital leases	(15,919,527)	
Less: Insurance claims payable	(8,022,132)	
Less: Compensated absences	(21,625,833)	
Less: Closure/post closure	(3,299,131)	
Total other debt		(53,353,804)
Total future bonded debt requirements		$ 749,485,881

New Bond Issuances

In April 2006, the City issued $76,950,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2006. The Certificates were issued at a premium of $2,580,245. After paying issuance costs of $541,101, the net proceeds were $78,985,000. Proceeds from the sale of these certificates will be used for airport, Municipal Building, parks, and cemetery improvements, street repairs, and solid waste, stormwater, wastewater, parks, streets, Lubbock Power & Light and economic development projects; and costs associated with the issuance of the Certificates. The proceeds of the debt are recorded in various Enterprise Funds and Capital Projects Funds.

The City also issued $2,740,000 General Obligation Bonds, Series 2006 in April 2006. The General Obligation Bonds were issued at a premium of $8,076. After paying issuance costs of $14,766, the net proceeds were $2,715,000. Proceeds from the sale of these certificates will be used for constructing street improvements including drainage, curbs, gutters, landscaping, sidewalks, curb ramps, utility line relocation and traffic signalization and the acquisition of land and rights-of-way and for acquiring and improving land for park purposes. The proceeds of the debt are recorded in various Capital Projects Funds.

The Canadian River Municipal Authority issued a new Contract Revenue Bond, Series 2006 in April 2006 in the amount of $49,075,000. The City of Lubbock shared in that issue for $18,573,906 and other costs of $492,465, and received depreciable assets (water rights) valued at $19,066,371. These assets and liabilities are recorded in the Water Enterprise Fund.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. LONG-TERM DEBT (Continued)

Advanced Refundings

The City issued an advance refunding to retire a portion of the City's outstanding debt to lower the debt service requirements on such indebtedness. The net proceeds from the issuance of the Refunding Bonds were deposited with the Escrow Agent (JP Morgan Chase Bank, National Association) in an amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their scheduled redemption date. 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 JP Morgan Chase Bank, the escrow funds are irrevocably pledged to the payment of principal and interest on the Refunded Bonds.

In May 2006, the City issued General Obligation Refunding Bonds, Series 2006 ("Refunding Bonds") with a par value of $18,830,000. The Refunding Bonds refunded $18,015,000 outstanding bonds. They were issued at a net premium of $272,244 and had $208,013 issuance costs. As a result of the refunding, the City decreased its total debt service requirements by $702,199, which resulted in an economic gain of $450,705 and an accounting loss of $862,823. The debt transactions are recorded in an Enterprise Fund.

I. CONDUIT DEBT

The City issued Housing Finance Corporation Bonds, Health Facilities Development Corporation Bonds, and Education Facilities Authority Bonds to provide financial assistance to private sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2006, there were five series of Lubbock Health Facilities Development Corporation Bonds outstanding with an aggregate principal amount payable of $273,890,991. The bonds were issued between 1993 and 2005. Also as of September 30, 2006, there was one series of Lubbock Education Facilities Authority Inc. Bonds outstanding with an aggregate principal amount payable of $8,635,000. The bonds were issued in 1999.

J. RISK MANAGEMENT

The Risk Management Fund was established to account for liability claims, worker's compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, which are based on costs.

In April 1999, the City purchased workers' compensation coverage, with no deductible, from a third party. Prior to April 1999 the City was self-insured for worker's compensation claims. Any claims outstanding prior to April 1999 continue to be the responsibility of the City.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

J. RISK MANAGEMENT (Continued)

The City's self-insurance liability program is on a cash flow basis, which means that the servicing contractor processes, adjusts and pays claims from a deposit provided by the City. The City accounts for the liability program by charging premiums based upon losses, administrative fees and reserve requirements. In order to control the risks associated with liability claims, the City purchased excess liability coverage in September 1999, which is renewed annually. The policy has a $10 million annual aggregate limit and is subject to a $250,000 deductible per claim prior to October 1, 2005, and a $500,000 deductible per claim since October 1, 2005.

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 based upon estimated premiums for the upcoming year.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. Funds are charged based on premium amounts and administrative charges. The City has had no significant reductions in insurance coverage during the fiscal year. Settlements in the current year and preceding two years have not exceeded insurance coverage. The City accounts for all insurance activity in Internal Service Funds.

K. HEALTH INSURANCE

The City provides medical and dental insurance for all full-time employees that are accounted for in the Health Benefits Fund. Revenue for the health insurance premiums are generated from each cost center based upon the number of active full-time employees. The City's plan is self-insured under an Administrative Services Only (ASO) Agreement. The ASO Agreement provides excess coverage of $175,000 per covered individual annually and an aggregate cap of $18,845,757. The insurance vendor based on medical trend, claims history, and utilization determines the aggregate deductible. The contract requires an IBNR reserve of approximately $2.3 million.

The City also provides full-time employees basic term life insurance. Revenues for the life insurance premiums are also generated from each cost center based upon the number of active employees. The life insurance policy has a face value of $10,000 per employee.

Full-time employees may elect to purchase medical and dental insurance for eligible dependents and the City subsidizes dependent premiums to reduce the cost to employees. Employees may also elect to participate in several voluntary insurance programs such as a cancer income policy, voluntary life, and personal accident insurance. Voluntary insurance products are fully paid by the employee.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

K. HEALTH INSURANCE (Continued)

Retiring City employees may elect to retain medical and dental insurance and a reduced amount of life insurance on themselves and eligible dependents. The retiree pays a portion of the premium costs, but the City subsidies retiree premiums by about $1.3 million annually. The life insurance is fully paid by the retiree.

L. ACCRUED INSURANCE CLAIMS

The Self-Insurance Funds establish a liability for self-insurance for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Self-Insurance Funds during the past two years ended September 30:

	FY 2006	FY 2005
Workers' Compensation and Liability Reserves at beginning of fiscal year	$ 6,501,898	$ 6,436,854
Claims Expenses	3,235,231	4,658,359
Claims Payments	(4,476,153)	(4,593,315)
Workers' Compensation and Liability Reserves at end of fiscal year	5,260,976	6,501,898
Medical and Dental Claims Liability at beginning of fiscal year	2,340,260	2,354,536
Claims Expenses	19,060,956	17,432,646
Claims Payments	(18,640,060)	(17,446,922)
Medical and Dental Claims Liability at end of fiscal year	2,761,156	2,340,260
Total Self-Insurance Liability at end of fiscal year	8,022,132	8,842,158
Total Assets to pay claims at end of fiscal year	11,237,066	12,646,638
Accrued insurance claims payable from restricted assets - current	4,956,673	3,943,861
Accrued insurance claims payable - noncurrent	3,065,459	4,898,297
Total accrued insurance claims	$ 8,022,132	$ 8,842,158

M. LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place final covers on its landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and postclosure costs as operating expenses (and recognizing a corresponding liability) in each period based on landfill capacity used as of each balance sheet date.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

M. LANDFILL CLOSURE AND POSTCLOSURE CARE COST (Continued)

The $3,299,131 included in landfill closure and postclosure care liability at September 30, 2006, represents the cumulative amount expensed by the City to date for its two landfills that are registered under TCEQ permit numbers 69 (Landfill 69) and 2252 (Landfill 2252), less amounts that have been paid. Approximately 92 percent of the estimated capacity of Landfill 69 has been used to date, with $806,525 remaining to be recognized over the remaining closure period, which is estimated at two years. Approximately 2.7 percent of the estimated capacity of Landfill 2252 has been used to date, with $23,900,641 remaining to be recognized over the remaining closure period, which is estimated at over 80 years. Postclosure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may be different due to inflation, deflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to provide assurance that financial resources will be available to provide for closure, postclosure care, and remediation or containment of environmental hazards at its landfills. The City is in compliance with those requirements and has chosen the Local Government Financial Test mechanism for providing this assurance. The City expects to finance costs through normal operations.

N. DISAGREGATION OF ACCOUNTS – FUND FINANCIAL STATEMENTS

	Accounts Receivable Summary				
	Court Fines	Property Damage	Paving	Misc.	Balance at 9/30/06
Governmental Activities:					
General Fund	$ 4,394,859	$ 258,940	$ 329,780	$ 175,317	$ 5,158,896
Nonmajor	-	-	-	341,907	341,907
Total	$ 4,394,859	$ 258,940	$ 329,780	$ 517,224	$ 5,500,803

	Accounts Receivable Summary			
	General Consumer	Credit Card	Misc.	Balance at 9/30/06
Business-type Activities:				
LP&L	$ 16,472,414	$ -	$ 81,008	$ 16,553,422
Water	4,737,859	-	250	4,738,109
Wastewater	2,445,149	-	-	2,445,149
Stormwater	775,559	-	-	775,559
WTMPA	1,800,814	-	-	1,800,814
Nonmajor	3,142,939	5,791	125	3,148,855
Total	$ 29,374,734	$ 5,791	$ 81,383	$ 29,461,908

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

N. DISAGREGATION OF ACCOUNTS – FUND FINANCIAL STATEMENTS (Continued)

Allowance for Doubtful Accounts Summary

	Balance at 9/30/06
Governmental	
General Fund	$ 3,333,240
Nonmajor	-
Business-Type	
LP&L	1,008,169
Water	445,656
Wastewater	187,475
Stormwater	86,291
WTMPA	-
Nonmajor	231,312
Total	$ 5,292,143

Accounts Payable Summary

	Vouchers	Accounts	Miscellaneous	Balance at 9/30/06
Governmental:				
General Fund	$ 688,014	$ 2,188,258	$ 409,627	$ 3,285,899
Nonmajor	1,022,563	1,000,889	176,081	2,199,533
Business-Type:				
LP&L	490,514	272,557	272,135	1,035,206
Water	331,100	2,179,886	124,574	2,635,560
Wastewater	149,577	755,676	161,633	1,066,886
Stormwater	55,729	1,075,828	14,880	1,146,437
WTMPA	-	8,329,910	-	8,329,910
Nonmajor	96,251	1,728,886	94,330	1,919,467
Total	$ 2,833,748	$ 17,531,890	$ 1,253,260	$ 21,618,898

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2006

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUND (Continued)

O. DISAGREGATION OF ACCOUNTS - GOVERNMENT-WIDE

	Net Receivables				
	Accounts Receivable	Interest Receivable	Taxes Receivable	Internal Service Receivables	Balance at 9/30/06
Governmental Activities	$ 2,167,563	$ 386,349	$ 9,159,695	$ 5,784	$ 11,719,391
Business-type Activities	27,503,005	111,576	-	5,704	27,620,285
Total	$ 29,670,568	$ 497,925	$ 9,159,695	$ 11,488	$ 39,339,676

	Accounts Payable		
	Accounts Payable	Internal Service Payables	Balance at 9/30/06
Governmental Activities	$ 5,485,432	$ 181,289	$ 5,666,721
Business-type Activities	16,133,466	736,217	16,869,683
Total	$ 21,618,898	$ 917,506	$ 22,536,404

NOTE IV. CONTINGENT LIABILITIES

A. FEDERAL GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audits by agents of the granting authority to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grants is not believed to be significant.

B. LITIGATION

The City is currently involved in the following lawsuits which could have an impact on the financial position if the City is found liable.

Charles Emmanuel Bosler, as Surviving Parent of Courtney Nicole Bosler, as Guardian of Colton Bosler v. Travis Riddle and The City of Lubbock:

Plaintiff sued the City of Lubbock and Officer Travis Riddle on behalf of himself and his children arising out of the death of his teenage daughter and injuries to his son from an automobile accident with Officer Travis Riddle. Plaintiff alleges that Officer Riddle was operating his vehicle in a negligent manner and was speeding at the time of the collision. The Defendants asserted that the driver of the vehicle carrying the Bosler children, which was the mother, was negligent in failing to yield the right-of-way to Officer Travis Riddle.

NOTE IV. CONTINGENT LIABILITIES (Continued)

B. LITIGATION (Continued)

The City filed a Motion for Summary Judgment based on the fact that the Plaintiff did not present his notice of claim to the City of Lubbock within six (6) months of the date of the accident. The Plaintiff never filed a notice of claim and filed suit seven (7) months after the date of the accident. The Plaintiff claims that notice was not necessary in that the Defendants had actual notice of the incident.

The trial court granted the City's Summary Judgment based on the fact that the Plaintiff did not file a claim with the City of Lubbock within six (6) months from the date of the accident. The Plaintiff has appealed this decision to the Court of Appeals.

Martha Dillon v. City of Lubbock:

Plaintiff is suing the City of Lubbock for injuries arising from an automobile accident with a City of Lubbock driver. The City of Lubbock driver was exiting an alley when he "T-Boned" the vehicle driven by Martha Dillon. The Plaintiff had undergone previous back surgery, undergone rehabilitation, and had recovered from the previous back surgery to return to work full-time. She had been working full-time for approximately three (3) weeks before this accident occurred.

As a result of this accident she has undergone other procedures including another back surgery at the end of October. According to her treating physician, who is a well respected local physician, her prognosis for being able to return to work on a full-time basis is not very good.

Grace Nunez and Juan Nunez, et al v. City of Lubbock and Taser International, Inc.:

Plaintiffs are suing the City of Lubbock and Taser International arising from the City of Lubbock's police officer's use of a taser in arresting Juan Nunez. The City of Lubbock police officer utilized a taser in arresting Juan Nunez and Nunez died after the taser was utilized.

The City of Lubbock's Plea to the Jurisdiction asserting that the City has no liability under Section 101.057 of the Texas Tort Claims Act has been denied by the trial court. The City has appealed the decision to the Court of Appeals. A recent case with similar facts to the present case was decided by the Waco Court of Appeals in *City of Waco v. Williams*. In that case the appellate court ruled that the City of Waco had immunity under this scenario. This was a 2-1 decision and it is anticipated that the Plaintiffs will appeal the City of Waco case to the Texas Supreme Court.

Grace Nunez and Juan Nunez, et all v. City of Lubbock, Officer Matt Doherty and Taser International, Inc.

This lawsuit presents the same fact situation as described in the previous Nunez lawsuit. The difference is that this lawsuit alleges civil rights violations against the City and Officer Matt Doherty. The suit was filed on December 22, 2006 in the Amarillo Division of the Northern District.

NOTE IV. CONTINGENT LIABILITIES (Continued)

B. LITIGATION (Continued)

Oscar Renda Contracting, Inc., et al v. City of Lubbock, et al:

The Plaintiff is a contractor who bid to perform a contract for the City of Lubbock. Even though Oscar Renda Contracting's bid was over $2,000,000 less than the company who received the award from the City of Lubbock, Oscar Renda Contracting was not awarded such bid. Oscar Renda asserts that the reason it was not awarded the bid was because it has filed a suit against another public entity in El Paso regarding one of its construction projects. They base this on the fact that litigation and the cost of litigation with non-local contractors was mentioned at the time the bid was awarded in August 2006. City of Lubbock filed a Motion for Summary Judgment and it was granted by the trial court. However, the Fifth Circuit of Appeals reversed the decision of the trial court and remanded the case back to trial in a split decision in August 2006. The City of Lubbock has filed a petition with the United States Supreme Court in an effort to get them to review the case.

Layne Stanford v. City of Lubbock and Lubbock Civil Service Commission:

Plaintiff, a fire fighter, filed suit under the Civil Service Act alleging he was wrongfully denied a promotion. He asserts that the Fire Chief wrongfully passed him over for a promotion because he was charged, but not convicted, of DWI.

The main issue in the case pertains to whether he was entitled to have his case heard by a third-party hearing examiner. He asserts that since the City refused to allow the case to be heard by a hearing examiner, he is entitled to the promotion.

The trial court ruled in the Defendant's favor. The case is currently on appeal. Damages are limited to attorney's fees and back pay.

L.J. McCallan, Jr. v. City of Lubbock, et al:

A lawsuit was filed in late November against the City of Lubbock and three Lubbock police officers pertaining to an incident in which a suspect was injured with a taser utilized by one of the Lubbock police officers.

Plaintiff is suing the City and the officers under the Civil Rights Act and is also suing the City under the Texas Tort Claims Act. At this time we do not have much information as we have yet to review the police reports, the investigation by internal affairs, or review the video of the incident. However, it does not appear that there were any significant injuries to the plaintiff.

Terry Ellerbrook v. City of Lubbock:

Plaintiff is a current employee of the City of Lubbock alleging claims of age discrimination, whistle blower claims, retaliation and damages because he was moved from one position to another position within the City. Also, the Plaintiff is asserting open meeting violations by the City. Mr. Ellerbrook is employed as the Director of Solid Waste and is currently earning more money than he was in his prior position. Discovery is ongoing. This case is pending the 237th District Court and is set for trial in August 2007. The City is denying the allegations and claims made by the Plaintiff.

NOTE IV. CONTINGENT LIABILITIES (Continued)

C. SITE REMEDIATION

The City has identified specific locations requiring site remediation relative to underground fuel storage tanks and historical fire training sites. One of the sites referred to below as Lubbock Power & Light (LP&L) Plant 1, represents a liability equally shared by both the City and LP&L.

As of September 30, 2006 the City identified three locations that posed a probable liability. The City recorded the liabilities for the three locations in the Enterprise Funds as follows:

- LP&L Plant 1 ($236,000) – this represents LP&L's portion of the liability only
- LP&L Cooke Plant ($539,000)
- WesTex Aircraft ($300,000)

The City recorded the probable liabilities in the government-wide governmental statements as follows:

- LP&L Plant 1 ($236,000) – this represents the City's portion only
- Police Firing Range ($30,000)
- CFR Training Facility ($114,220)
- Fire Training Academy ($338,335)
- South Fueling Facility ($204,000)

The potential exposure for one remaining location is not readily determinable as of September 30, 2006. In the opinion of management, the ultimate liability for this location will not have a materially adverse effect on the City's financial position.

NOTE V. SUBSEQUENT EVENT

On January 10, 2007, the City sold $54,020,000 General Obligation Refunding Bonds and $25,255,000 Certificate of Obligation Bonds.

APPENDIX B

FORM OF BOND COUNSEL OPINION

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Vinson&Elkins

[Form of Opinion of Bond Counsel]

[Closing Date]

$52,900,000
CITY OF LUBBOCK, TEXAS
TAX AND WASTEWATER SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
SERIES 2008

WE HAVE represented the City of Lubbock, Texas (the "City"), as its Bond Counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

CITY OF LUBBOCK, TEXAS TAX AND WASTEWATER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2008, dated January 15, 2008, issued in the principal amount of $52,900,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Ordinance").

WE HAVE represented the City as its Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City, customary certificates of officers, agents and representatives of the City and other public officials, and other certified showings relating to the authorization and issuance of the Certificates. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the City; and

(B) A continuing ad valorem tax upon all taxable property within the City, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for sucb purposes, within the limit prescrihed by law, and the total indebtedness of the City, including the Certificates, does not exceed any constitutional, statutory or other limitations. In addition, the Certificates are further secured by a limited pledge (not to exceed $1,000) of the surplus net revenues of the City's Wastewater System, as described in the Ordinance.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting tbe rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and

(2) The Certificates are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Certificates will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the City, the City's financial advisor and the underwriters of the Certificates with respect to matters solely within the knowledge of the City, the City's financial advisor and the underwriters respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

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APPENDIX C

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _______________ By _______________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019
(212) 826-0100

RBC Capital Markets

PURCHASE CONTRACT

RELATING TO

$11,805,000
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008

December 19, 2007

The Honorable Mayor and Members of the City Council
City of Lubbock
P.O. Box 2000
Lubbock, Texas 79457

Dear Mayor and Members of the City Council:

MORGAN STANLEY & CO. INCORPORATED (the "Underwriter"), offers to enter into this Purchase Contract (the "Purchase Contract") with the ***CITY OF LUBBOCK, TEXAS*** (the "City") for the purchase by the Underwriter of the City's *Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008* (the "Certificates"). This offer is made subject to the City's acceptance of this Purchase Contract on or before 10:00 p.m. Central Time on December 19, 2007.

1. **Purchase and Sale of the Certificates**. Upon the terms and conditions and upon the basis of the representations set forth herein, the Underwriter agrees to purchase from the City, and the City hereby agrees to sell and deliver to the Underwriter the Certificates in an aggregate principal amount of ***$11,805,000*** (representing the original aggregate principal amount of the Certificates). The Certificates shall have the maturities, interest rates and be subject to redemption in accordance with the provisions of Exhibit A hereto and shall be issued and secured under the provisions of the Ordinance (as defined below).

The purchase price for the Certificates shall be ***$11,532,991.85*** (representing the principal amount of the Certificates, less original issue discount on the Certificates in the amount of ***$185,703.00***, and less an Underwriter's discount on the Certificates of ***$86,305.15***) plus accrued interest from their dated date to the date of the payment for and delivery of the Certificates.

2. **Ordinance**. The Certificates shall be as described in and shall be issued and secured under the provisions of an ordinance adopted by the City on June 26, 2007, as amended by the City on December 14, 2007, authorizing the issuance and sale of the Certificates (the "Ordinance"). In the Ordinance, the City Council of the City delegated the authority to the Chief Financial Officer

to establish the pricing terms for the Certificates through the execution of a Pricing Certificate dated the date hereof (the "Pricing Certificate"). The Certificates shall be secured and payable as provided in the Ordinance and the Pricing Certificate.

3. **Public Offering**. It shall be a condition of the obligations of the City to sell and deliver the Certificates to the Underwriter, and of the obligations of the Underwriter to purchase and accept delivery of the Certificates, that the entire principal amount of the Certificates authorized by the Ordinance and as set forth in the Pricing Certificate shall be sold and delivered by the City and accepted and paid for by the Underwriter at the Closing. The Underwriter agrees to make a bona fide public offering of all of the Certificates, at not in excess of the initial public offering prices, as set forth in the Official Statement; provided, however, at least ten percent (10%) of the principal amount of the Certificates of each maturity thereof shall be sold to the "public" (exclusive of dealers, brokers and investment bankers, etc.) at the initial offering price set forth in the Official Statement.

4. **Security Deposit.** Delivered to the City herewith is a corporate check of the Underwriter payable to the order of the City in the amount of ***$116,350.00***. Such check is a common "Good Faith" check for the Certificates, and such check may be applied toward any obligation of the Underwriter owing as a result of the failure of the Underwriter to accept delivery of the Certificates as provided herein. The City agrees to hold such check uncashed until the Closing to ensure the performance by the Underwriter of its obligation to purchase, accept delivery of and pay for the Certificates at the Closing. Concurrently with the payment by the Underwriter of the purchase price of the Certificates, the City shall return such check to the Underwriter as provided in Paragraphs 7 and 8 hereof. Should the City fail to deliver the Certificates at the Closing, or should the City be unable to satisfy the conditions of the obligations of the Underwriter to purchase, accept delivery of and pay for the Certificates, as set forth in this Purchase Contract (unless waived by the Underwriter), or should such obligations of the Underwriter be terminated for any reason permitted by this Purchase Contract, such check shall immediately be returned to the Underwriter. In the event the Underwriter fails (other than for a reason permitted hereunder) to purchase, accept delivery of and pay for the Certificates at the Closing as herein provided, such check shall be retained by the City as and for full liquidated damages for such failure of the Underwriter and for any defaults hereunder on the part of the Underwriter. The Underwriter hereby agrees not to stop or cause payment on said check to be stopped unless the City has breached any of the terms of this Purchase Contract.

5. **Official Statement**. The Official Statement, including the cover pages and Appendices thereto, of the City, dated December 19, 2007, with respect to the Certificates, as further amended only in the manner herein provided, is hereinafter called the "Official Statement." The City hereby authorizes the Ordinance and the Official Statement and the information therein contained to be used by the Underwriter in connection with the public offering and sale of the Certificates. The City confirms its consent to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement, relative to the Certificates, dated December 7, 2007, as amended (the "Preliminary Official Statement"), in connection with the preliminary public offering and sale of the Certificates, and it is "deemed final" as of its date, within the meaning, and for the purposes, of Rule 15c2-12 promulgated under authority granted by the federal Securities and Exchange Act

of 1934 (the "Rule"). The City agrees to cooperate with the Underwriter to provide a supply of final Official Statements within seven business days of the date hereof in sufficient quantities to comply with the Underwriter's obligations under the Rule and the applicable rules of the Municipal Securities Rulemaking Board. The Underwriter will use its best efforts to assist the City in the preparation of the final Official Statement in order to ensure compliance with the aforementioned rules.

If at any time after the date of this Purchase Contract but before the first to occur of (i) the date upon which the Underwriter notifies the City that the period of the initial public offering of the Certificates has expired or (ii) the date that is 90 days after the date hereof, any event shall occur that might or would cause the Official Statement to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City shall notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in the form and in a manner approved by the Underwriter and furnish to the Underwriter a reasonable number of copies requested by the Underwriter in order to enable the Underwriter to comply with the Rule.

To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, as required by the Rule. Except as disclosed in the Official Statement, the City has not failed to comply with any undertaking specified in paragraph (b)(5)(i) of the Rule within the last five years.

6. **Representations, Warranties and Agreements of the City**. On the date hereof, the City represents, warrants and agrees as follows:

(a) The City is a home rule municipality and a political subdivision of the State of Texas and a body politic and corporate, and has full legal right, power and authority to enter into this Purchase Contract, to adopt the Ordinance, to sell the Certificates, and to issue and deliver the Certificates to the Underwriter as provided herein and to carry out and consummate all other transactions contemplated by the Ordinance, and this Purchase Contract;

(b) By official action of the City prior to or concurrently with the acceptance hereof, the City has duly adopted the Ordinance, has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations contained in the Certificates and this Purchase Contract and has duly authorized and approved the performance by the City of its obligations contained in the Ordinance, including, without limitation, the submission of a transcript of proceedings to the Public Finance Division of the Office of the Attorney General of Texas (the "Attorney General") for the approval of the Certificates; and the Ordinance and this Purchase Contract constitute legal, valid and binding agreements of the City, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws and principles of equity relating to or affecting the enforcement of creditors' rights or by general principles of equity which permit the exercise of judicial discretion;

(c) The City is not in breach of or default under any law or administrative regulation of the State of Texas or the United States (including regulations of its agencies) applicable to the issuance of the Certificates or any applicable judgment or decree or any loan agreement, note, order, agreement or other instrument, except as may be disclosed in the Official Statement, to which the City is a party or to the knowledge of the City it is otherwise subject, that would have a material and adverse effect upon the business or financial condition of the City; and the execution and delivery of the Certificates and this Purchase Contract by the City and the adoption of the Ordinance by the City and compliance with the provisions of each thereof will not violate or constitute a breach of or default under any existing law or administrative regulation, or any judgment, decree or agreement or other instrument to which the City is a party or, to the knowledge of the City, is otherwise subject;

(d) All approvals, consents and orders of any governmental authority or agency having jurisdiction of any matter that would constitute a condition precedent to the performance by the City of its obligations to sell and deliver the Certificates hereunder will have been obtained prior to the Closing, except for the approval of the Certificates by the Attorney General and registration of the Certificates by the Office of the Comptroller of the State (the "Comptroller"), and the City shall timely cause a transcript of proceedings to be filed with the Attorney General in form and substance consistent with the administrative rules of the Public Finance Division of the Attorney General, which will permit the review of such transcript and the approval of the Certificates by the Attorney General, and the registration of the Certificates by the Comptroller on or before the Closing, as required by Section 8(e)(6) hereof, but subject to the discretion of the Attorney General with respect to the issuance of his approving opinion;

(e) At the time of the City's acceptance hereof and at the time of the Closing, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) Between the date of this Purchase Contract and the Closing, the City will not, without the prior written consent of the Underwriter, sell or issue any additional bonds, notes or other obligations for borrowed money payable in whole or in part from ad valorem taxes, and the City will not incur any material liabilities, direct or contingent, nor will there be any adverse change of a material nature in the financial position of the City;

(g) Except as described in the Official Statement, no litigation is pending or, to the knowledge of the City, threatened in any court affecting the corporate existence of the City, the title of its officers to their respective offices, or seeking to restrain or enjoin the issuance or delivery of the Certificates, the levy, collection or application of the ad valorem taxes or the surplus net revenues (the "Pledged Revenues") of the City's Waterworks System pledged or to be pledged to pay the principal of and interest on the Certificates, or in any way contesting or affecting the issuance, execution, delivery, payment, security or validity of the Certificates, or in any way contesting or affecting the validity or enforceability of the Ordinance, or contesting the powers of the City, or any authority for the Certificates, the Ordinance or this Purchase Contract or contesting in any way the completeness, accuracy or fairness of the Preliminary Official Statement or the Official Statement;

(h) The City will cooperate with the Underwriter in arranging for the qualification of the Certificates for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter designates, and will use its best efforts to continue such qualifications in effect so long as required for distribution of the Certificates; provided, however, that the City will not be required to execute a consent to service of process or to qualify to do business in connection with any such qualification in any jurisdiction;

(i) The descriptions of the Certificates and the Ordinance contained in the Official Statement accurately summarize certain provisions of such instruments, and the Certificates, when validly executed, authenticated and delivered in accordance with the Ordinance and sold to the Underwriter as provided herein, will constitute legal, valid and binding agreements of the City entitled to the benefits of the Ordinance and enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws and principles of equity relating to or affecting the enforcement of creditors' rights;

(j) If prior to the Closing an event occurs affecting the City that is materially adverse for the purpose for which the Official Statement is to be used and is not disclosed in the Official Statement, the City shall notify the Underwriter, and if in the opinion of the City and the Underwriter such event requires a supplement or amendment to the Official Statement, the City will supplement or amend the Official Statement in a form and in a manner approved by the Underwriter;

(k) The financial statements contained in the Official Statement present fairly the financial position of the City as of the date and for the period covered thereby and are stated on a basis substantially consistent with that of the prior year's audited financial statements;

(l) Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed a representation and warranty by the City to the Underwriter as to the truth of the statements therein contained; and

(m) The City will not knowingly take or omit to take any action, which action or omission will in any way cause the proceeds from the sale of the Certificates to be applied in a manner other than as provided in the Ordinance.

7. **Closing**. At 10:00 A.M., Central Time, on January 17, 2008 (the "Closing"), the City will deliver the initial securities certificates of the Certificates (as provided for in the Ordinance) to the Underwriter and the City shall take appropriate steps to provide DTC with one definite securities certificate for each year of maturity of the Certificates, and to provide the Underwriter with the other documents hereinafter mentioned. On or prior to the date of Closing, the Underwriter shall make arrangements with The Depository Trust Company ("DTC") for the Certificates to be immobilized and thereafter traded as book-entry only securities and on the date of Closing the Underwriter will accept such delivery and pay the purchase price of the Certificates as set forth in Paragraph 1 hereof in immediately available funds. Concurrently with such payment by the Underwriter, the City shall return to the Underwriter the check referred to in Paragraph 4 hereof. Delivery and payment as aforesaid shall be made at the office of the paying agent/registrar for the Certificates, as identified in the Official Statement, or such other place as shall have been mutually agreed upon by the City and the Underwriter.

In addition, the City and the Underwriter agree that there shall be a preliminary closing held at such place as the City and the Underwriter shall mutually agree, commencing at least 24 hours prior to the Closing; provided, however, in lieu of this preliminary closing Bond Counsel, as defined below, may provide the counsel to the Underwriter with a complete Transcript of Proceedings on the business day preceding the Closing. Drafts of all documents to be delivered at the Closing shall be prepared and distributed to all parties and their counsel for review at least three business days prior to the Closing.

8. **Conditions**. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein and to be contained in the documents and instruments to be delivered at the Closing, and upon the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of Closing. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase and pay for the Certificates shall be subject to the performance by the City of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following conditions:

(a) The representations and warranties of the City contained herein shall be true, complete and correct in all material respects on the date hereof and on and as of the date of Closing, as if made on the date of Closing;

(b) At the time of the Closing, (i) the Ordinance shall be in full force and effect, and the Ordinance shall not have been amended, modified or supplemented and the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter; and (ii) the net proceeds of the sale of the Certificates shall be deposited and applied as described in the Official Statement and in the Ordinance;

(c) At the time of the Closing, all official action of the City related to the Ordinance shall be in full force and effect and shall not have been amended, modified or supplemented;

(d) The City shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money;

(e) At or prior to the Closing, the Underwriter shall have received each of the following documents:

(1) The Official Statement of the City executed on behalf of the City by the Mayor and City Secretary, or a conformed copy thereof;

(2) The Ordinance, certified by the City Secretary under the seal of the City as having been duly adopted by the City and as being in effect, with such changes or amendments as may have been agreed to by the Underwriter, and the Ordinance shall contain the agreement of the City, in form satisfactory to the Underwriter, that is described under the caption "Other Information - Continuing Disclosure of Information" in the Preliminary Official Statement;

(3) the Pricing Certificate, having been duly executed on behalf of the City;

(4) the Paying Agent/Registrar Agreement, having been duly executed on behalf of the City and The Bank of New York Trust Company, National Association, as Paying Agent/Registrar;

(5) The opinion pertaining to the Certificates, dated the date of Closing, of Vinson & Elkins L.L.P. ("Bond Counsel") in substantially the form and substance set forth in Appendix B to the Official Statement;

(6) An opinion or certificate with respect to the Certificates, dated on or prior to the date of Closing, of the Attorney General, approving the Certificates as required by law and the registration certificate of the Comptroller;

(7) The supplemental opinion, dated the date of Closing, of Bond Counsel, addressed to the City and the Underwriter, which provides that the Underwriter may rely upon the opinion of Bond Counsel delivered in accordance with the provisions of Paragraph 8(e)(5) hereof, and opining to the effect that (a) the Purchase Contract has been duly authorized, executed and delivered by the City and (assuming due authorization by the Underwriter) constitutes a binding and enforceable agreement of the City in accordance with its terms; (b) in its capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions or subcaptions "The Certificates" (exclusive of the information under the subcaption "Book-Entry-Only System"), "Taxable Status of the Certificates" and the subcaptions "Legal Investments and Eligibility to Secure Public Funds in Texas," "Legal Matters" and "Continuing Disclosure of Information" (exclusive of the information under the subcaption "Compliance with Prior

Undertakings") under the caption "Other Information" in the Official Statement, and such firm is of the opinion that such descriptions present a fair and accurate summary of the provisions of the laws and instruments therein described and, with respect to the Certificates, such information conforms to the Ordinance; and (c) the Certificates are exempt from registration pursuant to the Securities Act of 1933, as amended, and the Ordinance is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended;

(8) An opinion of McCall, Parkhurst & Horton L.L.P., Underwriter's Counsel, addressed to the Underwriter, and dated the date of Closing in substantially the form attached hereto as Exhibit B;

(9) A certificate, dated the date of Closing, signed by the Mayor and Chief Financial Officer of the City, to the effect that (i) the representations and warranties of the City contained herein are true and correct in all material respects on and as of the date of Closing as if made on the date of Closing; (ii) except to the extent disclosed in the Official Statement, no litigation is pending or, to the knowledge of such persons, threatened in any court to restrain or enjoin the issuance or delivery of the Certificates, or the levy, collection or application of the ad valorem taxes or the Pledged Revenues pledged or to be pledged to pay the principal of and interest on the Certificates, or the pledge thereof, or in any way contesting or affecting the validity of the Certificates or the Ordinance or contesting the powers of the City or the authorization of the Certificates or the Ordinance, or contesting in any way the accuracy, completeness or fairness of the Official Statement (but in lieu of or in conjunction with such certificate, the Underwriter may, in its sole discretion, accept certificates or opinions of the City Attorney that, in the opinion thereof, the issues raised in any such pending or threatened litigation are without substance or that the contentions of all plaintiffs therein are without merit); (iii) to the best of their knowledge, no event affecting the City has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purpose for which it is to be used or that it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect; and (iv) that there has not been any material and adverse change in the affairs or financial condition of the City since September 30, 2006, the latest date as to which audited financial information is available;

(10) An opinion of the City Attorney addressed to the Underwriter and dated the date of Closing substantially in the form and substance of Exhibit C hereto;

(11) Evidence of the ratings on the Certificates shall be delivered in a form acceptable to the Underwriter, which shall be "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard and Poor's Corporation, a division of the McGraw-Hill Companies, Inc. ("S&P"), and "AAA" by Fitch Ratings ("Fitch"), as

a result of the issuance of the municipal bond insurance policy described in clause (12) below;

(12) A copy of the policy of municipal bond insurance issued by Financial Security Assurance Inc. with respect to the Certificates;

(13) Such additional legal opinions, certificates, instruments and other documents as Bond Counsel or the Underwriter may reasonably request to evidence the truth, accuracy and completeness, as of the date hereof and as of the date of Closing, of the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance and satisfaction by the City at or prior to the date of Closing of all agreements then to be performed and all conditions then to be satisfied by the City.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Contract shall be deemed to be in compliance with the provisions hereof if, but only if, they are satisfactory to the Underwriter.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Certificates as set forth in this Purchase Contract, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Certificates shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate, the security deposit referred to in Paragraph 4 of this Purchase Contract shall be returned to the Underwriter and neither the Underwriter nor the City shall be under further obligation hereunder, except that the respective obligations of the City and the Underwriter set forth in Paragraphs 10 and 12 hereof shall continue in full force and effect.

9. **Termination**. The Underwriter may terminate its obligation to purchase at any time before the Closing if any of the following should occur:

(a) (i) Legislation shall have been enacted by the Congress of the United States, or recommended to the Congress for passage by the President of the United States or favorably reported for passage to either House of the Congress by any Committee of such House; or (ii) a decision shall have been rendered by a court established under Article III of the Constitution of the United States or by the United States Tax Court; or (iii) an order, ruling or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or the Internal Revenue Service or any other agency of the United States; or (iv) a release or official statement shall have been issued by the President of the United States or by the Treasury Department of the United States or by the Internal Revenue Service, the effect of which, in any such case described in clause (i), (ii), (iii), or (iv), would, in the reasonable judgment of the Underwriter, materially impair the marketability or materially reduce the market price of obligations of the general character of the Certificates.

(b) Any action shall have been taken by the Securities and Exchange Commission or by a court that would require registration of any security under the Securities Act of 1933, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering of the Certificates, or any action shall have been taken by any court or by any governmental authority suspending the use of the Preliminary Official Statement or the Official Statement or any amendment or supplement thereto, or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority.

(c) (i) The Constitution of the State of Texas shall be amended or an amendment shall be proposed, or (ii) legislation shall be enacted, or (iii) a decision shall have been rendered as to matters of Texas law, or (iv) any order, ruling or regulation shall have been issued or proposed by or on behalf of the State of Texas by an official, agency or department thereof, affecting the tax status of the City, its property or income, its securities (including the Certificates) or the interest thereon, that in the judgment of the Underwriter would materially affect the market price of the Certificates.

(d) A general suspension of trading in securities shall have occurred on the New York Stock Exchange.

(e) A material disruption in securities clearance, payment or settlement services in the United States shall have occurred.

(f) There shall have occurred any (i) material outbreak of hostilities (including, without limitation, an escalation of hostilities that existed prior to the date hereof or an act of terrorism) or (ii) material other national or international calamity or crisis, or any material adverse change in the financial, political or economic conditions affecting the United States, the effect of which on U.S. financial markets of such an event described in clauses (i) or (ii) shall make it, in the reasonable judgment of the Underwriter, impractical or inadvisable to proceed with the offering or delivery of the Certificates as contemplated by the final Official Statement (exclusive of any amendment or supplement thereto).

(g) An event described in Paragraph 6(j) hereof occurs that, in the reasonable judgment of the Underwriter, requires a supplement or amendment to the Official Statement that is deemed by them, in their discretion, to adversely affect the market for the Certificates.

(h) A general banking moratorium shall have been declared by authorities of the United States, the State of New York or the State of Texas.

(i) A lowering of the ratings of "Aaa," "AAA" and "AAA," initially assigned to the Certificates by Moody's, S&P and Fitch, respectively, shall occur prior to the Closing.

10. **Expenses**. (a) The City shall pay all expenses incident to the issuance of the Certificates, including but not limited to: (i) the cost of the preparation, printing and distribution of

the Preliminary Official Statement and the Official Statement; (ii) the cost of the preparation and printing of the Certificates; (iii) the fees and expenses of Bond Counsel to the City; (iv) the fees and disbursements of the City's accountants, advisors, and of any other experts or consultants retained by the City; (v) the fees for the bond ratings and any travel or other expenses incurred incident thereto; and (vi) the premium, if any, for municipal bond insurance policy pertaining to the Certificates.

(b) The Underwriter shall pay (i) all advertising expenses in connection with the offering of the Certificates; (ii) the cost of the preparation and printing of all the underwriting documents; and (iii) the fee of McCall, Parkhurst & Horton L.L.P., Underwriter's Counsel, for such firm's opinion required by Paragraph 8(e)(8) hereof.

11. **Notices**. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing at the address for the City set forth above, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Morgan Stanley & Co. Incorporated, 6300 Bridge Point Parkway, Suite 250, Austin, Texas 78730, Attention: Mr. Ajay Thomas.

12. **Parties in Interest**. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors or assigns of any Underwriter) and no other person shall acquire or have any right under this contract. The City's representations, warranties and agreements contained in this Purchase Contract that exist as of the Closing, and without regard to any change in fact or circumstance occurring subsequent to the Closing, shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of the Underwriter, and (ii) delivery of any payment for the Certificates hereunder; and the City's representations and warranties contained in Paragraph 6 of this Purchase Contract shall remain operative and in full force and effect, regardless of any termination of this Purchase Contract.

13. **Severability**. If any provision of this Purchase Contract shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstances, or of rendering any other provision inoperative or unenforceable to any extent whatever.

14. **Choice of Law**. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Texas.

15. **Execution in Counterparts.** This Purchase Contract may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Purchase Contract by signing any such counterpart.

16. **Section Headings**. Section headings have been inserted in this Contract as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Contract and will not be used in the interpretation of any provisions of this Contract.

17. **Status of the Underwriter**. The City acknowledges that in connection with the offering of the Certificates and the discussions and negotiations relating to the terms of the Certificates set forth in this Contract: (a) the Underwriter has acted at arm's length, is not an agent of or advisor to, and owes no fiduciary duties to, the City or any other person; (b) the Underwriter's duties and obligations to the City shall be limited to those contractual duties and obligations set forth in this Contract; and (c) the Underwriter may have interests that differ from those of the City. The City waives to the full extent permitted by applicable law any claims it may have against the Underwriter arising from an alleged breach of fiduciary duty in connection with the offering of the Certificates.

[Signature page follows.]

If you agree with the foregoing, please sign the enclosed counterpart of this Purchase Contract and return it to the Underwriter. This Purchase Contract shall become a binding agreement between you and the Underwriter when at least the counterpart of this Purchase Contract shall have been signed by or on behalf of each of the parties hereto.

Very truly yours,

THE UNDERWRITER

Morgan Stanley & Co. Incorporated

By: R. D. Potter
Name: R. David Potter
Title: Vice President

ACCEPTANCE

ACCEPTED pursuant to a motion adopted by the City Council of the City of Lubbock, Texas on the 26th day of June, 2007 and executed this 19th day of December, 2007.

By: Jeffrey A. Yates
Name:
Title:
City of Lubbock, Texas

EXHIBIT A

Schedule of Maturities, Interest Rates, Yields and Redemption Provisions

$11,805,000
City of Lubbock, Texas
Tax and Waterworks System Surplus Revenue
Certificates of Obligation, Taxable Series 2008

Maturity (February 15)	Principal Amount	Interest Rate (%)	Initial Yield (%)
2018	$4,620,000	5.250%	5.330%
****	****	****	****
2027	$7,185,000	6.250%	6.450%

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2018, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

The Certificates maturing on February 15 in the years 2018 and 2027 (collectively, the "Term Certificates") are subject to mandatory redemption prior to maturity in part by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on February 15 in the respective years and principal amounts shown below:

TERM CERTIFICATES MATURING FEBRUARY 15, 2018

REDEMPTION DATE	REDEMPTION AMOUNT
February 15, 2009	$360,000
February 15, 2010	380,000
February 15, 2011	400,000
February 15, 2012	420,000
February 15, 2013	445,000
February 15, 2014	470,000
February 15, 2015	495,000
February 15, 2016	520,000
February 15, 2017	550,000
February 15, 2018 (maturity)	580,000

TERM CERTIFICATES MATURING FEBRUARY 15, 2027

REDEMPTION DATE	REDEMPTION AMOUNT
February 15, 2019	$615,000
February 15, 2020	655,000
February 15, 2021	695,000
February 15, 2022	740,000
February 15, 2023	790,000
February 15, 2024	840,000
February 15, 2025	890,000
February 15, 2026	950,000
February 15, 2027 (maturity)	1,010,000

EXHIBIT B

Proposed Form of Underwriter's Counsel Opinion of McCall, Parkhurst & Horton L.L.P.

January 17, 2008

Morgan Stanley & Co. Incorporated
6300 Bridge Point Parkway, Suite 250
Austin, Texas 78730

RE: $11,805,000 TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008

Ladies and Gentlemen:

We have acted as counsel for you as the underwriters of the Certificates described above, issued under and pursuant to an Ordinance of the City of Lubbock, Texas (the "Issuer"), authorizing the issuance of the Certificates, which Certificates you are purchasing pursuant to a Purchase Contract, dated December 19, 2007. All capitalized undefined terms used herein shall have the meaning set forth in the Purchase Contract.

In connection with this opinion letter, we have considered such matters of law and of fact, and have relied upon such Certificates and other information furnished to us, as we have deemed appropriate as a basis for our opinion set forth below. We are not expressing any opinion or views herein on the authorization, issuance, delivery, validity of the Certificates and we have assumed, but not independently verified, that the signatures on all documents and Certificates that we have examined are genuine.

Based on and subject to the foregoing, we are of the opinion that, under existing laws, the Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Ordinance is not required to be qualified under the Trust Indenture Act of 1939, as amended.

Because the primary purpose of our professional engagement as your counsel was not to establish factual matters, and because of the wholly or partially nonlegal character of many of the determinations involved in the preparation of the Official Statement dated December 19, 2007 (the "Official Statement") and because the information in the Official Statement under the headings "THE CERTIFICATES - Book-Entry-Only System," "TAXABLE STATUS OF THE CERTIFICATES," and "OTHER INFORMATION - Continuing Disclosure of Information – Compliance with Prior Undertakings" and Appendices A and B thereto were prepared by others who have been engaged to review or provide such information, we are not passing on and do not assume any responsibility for, except as set forth in the last sentence of this paragraph, the accuracy, completeness or fairness of the statements contained in the Official Statement (including any appendices, schedules and exhibits thereto) and we make no representation that we have independently verified the accuracy, completeness or fairness of such statements. In the course of our review of the Official Statement, we had discussions with representatives of the City regarding the contents of the Official Statement. In the course of our participation in the preparation of the Official Statement as your counsel, we had discussions with representatives of the Issuer, including its City Attorney, Bond Counsel and Financial Advisor, regarding the contents of the Official Statement. In the course of such activities, no facts came to our attention that would lead us to believe that the Official Statement (except for the financial statements and other financial and statistical data contained therein, the information set forth under the headings "THE CERTIFICATES - Book-Entry-Only System," "TAXABLE STATUS OF THE CERTIFICATES," and "OTHER INFORMATION - Continuing Disclosure of Information – Compliance with Prior Undertakings" and Appendices A and B thereto, as to which we express no opinion), as of its date contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

This opinion letter may be relied upon by only you and only in connection with the transaction to which reference is made above and may not be used or relied upon by any other person for any purposes whatsoever without our prior written consent.

Respectfully,

EXHIBIT C

Proposed Form of Opinion of the City Attorney

January 17, 2008

Morgan Stanley & Co. Incorporated
6300 Bridge Point Parkway, Suite 250
Austin, Texas 78730

RE: $11,805,000 TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008

Ladies and Gentlemen:

I am the City Attorney for the City of Lubbock, Texas (the "City") at the time of the issuance of the above referenced Certificates (the "Certificates"), pursuant to the provisions of the ordinance duly adopted by the City Council of the City on June 26, 2007 and as duly amended by the City Council of the City on December 13, 2007 (referred to herein collectively as the "Ordinance"). Capitalized terms not otherwise defined in this opinion have the meanings assigned in the Purchase Contract.

In my capacity as City Attorney to the City, I have reviewed such agreements, documents, certificates, opinions, letters, and other papers as I have deemed necessary or appropriate in rendering the opinions set forth below.

In making my review, I have assumed the authenticity of all documents and agreements submitted to me as originals, conformity to the originals of all documents and agreements submitted to me as certified or photostatic copies, the authenticity of the originals of such latter documents and agreements, and the accuracy of the statement contained in such documents.

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, I am of the opinion that under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. Based on reasonable inquiry made of the responsible City employees and public officials, the City is not, to the best of my knowledge, in breach of or in default under any applicable law or administrative regulation of the State of Texas or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is party or is otherwise subject and, to the best of my knowledge after due inquiry, no event has occurred and is continuing that, with the passage of time or the giving of notice, or both, would constitute such a default by the City under any of the foregoing; and the execution and delivery of the Purchase Contract, the Certificates, and the adoption of the Ordinance and compliance with the

provisions of each of such agreements or instruments does not constitute a breach of or default under any applicable law or administrative regulation of the State of Texas or the United States or any applicable judgment or decree or, to the best of my knowledge, any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject; and

2. Except as disclosed in the Official Statement, no litigation is pending, or, to my knowledge, threatened, in any court in any way; (a) challenging the titles of the Mayor or any of the other members of the City Council to their respective offices; (b) seeking to restrain or enjoin the issuance, sale or delivery of any of the Certificates, or the levy, collection or application of the ad valorem taxes or the Pledged Revenues pledged or to be pledged to pay the principal of and interest on the Certificates; (c) contesting or affecting the validity or enforceability of the Certificates, the Ordinance or the Purchase Contract; (d) contesting the powers of the City or any authority for the issuance of the Certificates, or the adoption of the Ordinance; or (e) that would have a material and adverse effect on the financial condition of the City.

3. I have reviewed the information in the Official Statement contained under the caption "Other Information--Litigation" and such information in all material respects accurately and fairly summarizes the matters described therein.

This opinion is furnished solely for your benefit and may be relied upon only by the addresses hereof or anyone to whom specific permission is given in writing by me.

Very truly yours,

REGISTERED | REGISTERED
No. 1 | $4,620,000

United States of America
State of Texas
County of Lubbock
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2008

INTEREST RATE:	MATURITY DATE:	CERTIFICATE DATE:	CUSIP NUMBER:
5.250%	February 15, 2018	December 15, 2007	549187 6N7

The City of Lubbock (the "City"), in the County of Lubbock, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

FOUR MILLION SIX HUNDRED TWENTY THOUSAND DOLLARS

unless this Certificate shall have been sooner called for redemption and the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Certificate Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360 day year of twelve 30 day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2008. All capitalized terms used herein but not defined shall have the meaning assigned to them in the Ordinance (defined below).

The principal of this Certificate shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Certificate at the corporate trust office in Dallas, Texas (the "Designated Payment/Transfer Office"), of The Bank of New York Trust Company, National Association, or, with respect to a successor Paying Agent/Registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Certificate is payable by check dated as of the interest payment date, and will be mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner; provided, however, such registered owner shall bear all risk and expenses of such customary banking arrangement. At the option of an Owner of at least $1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with

REGISTERED | REGISTERED
No. 2 | $7,185,000

United States of America
State of Texas
County of Lubbock
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2008

INTEREST RATE:	MATURITY DATE:	CERTIFICATE DATE:	CUSIP NUMBER:
6.250%	February 15, 2027	December 1, 2007	549187 6P2

The City of Lubbock (the "City"), in the County of Lubbock, State of Texas, for value received, hereby promises to pay to

CEDE & CO.

or registered assigns, on the Maturity Date specified above, the sum of

SEVEN MILLION ONE HUNDRED EIGHTY-FIVE THOUSAND DOLLARS

unless this Certificate shall have been sooner called for redemption and the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Certificate Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360 day year of twelve 30 day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2008. All capitalized terms used herein but not defined shall have the meaning assigned to them in the Ordinance (defined below).

The principal of this Certificate shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Certificate at the corporate trust office in Dallas, Texas (the "Designated Payment/Transfer Office"), of The Bank of New York Trust Company, National Association, or, with respect to a successor Paying Agent/Registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Certificate is payable by check dated as of the interest payment date, and will be mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner; provided, however, such registered owner shall bear all risk and expenses of such customary banking arrangement. At the option of an Owner of at least $1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar. For the purpose of the payment of interest on this Certificate, the registered owner shall be the person in whose name this Certificate is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date.

If the date for the payment of the principal of or interest on this Certificate shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

This Certificate is one of a series of fully registered certificates specified in the title hereof issued in the aggregate principal amount of $1[illegible],805,000 (herein referred to as the "Certificates"), issued pursuant to a certain ordinance of the City (the "Ordinance") for the purpose of paying contractual obligations to be incurred for authorized public improvements (collectively, the "Project") as described in the Ordinance, and to pay the contractual obligations for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

The City has reserved the option to redeem the Certificates maturing on or after February 15, 2018, in whole or in part, before their respective scheduled maturity dates, on February 15, 2017, or on any date thereafter, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date fixed for redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot or other customary method that results in a random selection the Certificates, or portions thereof, within such maturity and in such principal amounts, for redemption.

Certificates maturing on February 15 in each of the years 2018 and 2027 (the "Term Certificates") are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedule:

Term Certificates Maturing February 15, 2018

Redemption Date	Principal Amount
February 15, 2009	$360,000
February 15, 2010	380,000
February 15, 2011	400,000
February 15, 2012	420,000
February 15, 2013	445,000
February 15, 2014	470,000
February 15, 2015	49[illegible],000
February 15, 2016	[illegible]20,000
February 15, 2017	[illegible]0,000
February 15, 2018 (maturity)	5[illegible],000

Term Certificates Maturing February 15, 2027

Redemption Date	Principal Amount
February 15, 20[illegible]	$ 615,000
February 15, 2[illegible]2[illegible]	655,000
February 15, 2021	695,000
February 15, 2022	740,000
February 15, 2023	790,000
February 15, 2024	840,000
February 15, 2025	890,000
February 15, 2026	950,000
February 15, 2027 (maturity)	1,010,000

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

Notice of such redemption or redemptions shall be given by first class mail, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the registered owner of each of the Certificates to be redeemed in whole or in part. Notice having been so given, the Certificates or portions thereof designated for redemption shall become due and payable on the redemption date specified in such notice; from and after such date, notwithstanding that any of the Certificates or portions thereof so called for redemption shall not have been surrendered for payment, interest on such Certificates or portions thereof shall cease to accrue.

As provided in the Ordinance, and subject to certain limitations therein set forth, this Certificate is transferable upon surrender of this Certificate for transfer at the designated office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Certificates of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Certificate called for redemption where such redemption is scheduled to occur within forty-five (45) calendar days of the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Certificate.

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name this Certificate is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Certificate is registered on the Record Date) and for all other purposes, whether or not this Certificate be overdue, and neither the City nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Certificate and the series of which it is a part is duly authorized by law; that all acts, conditions, and things to be done precedent to and in the issuance of the Certificates have been properly done and performed and have happened in regular and due time, form, and manner as required by law; that ad valorem taxes upon all taxable property in the City have been levied for and pledged to the payment of the debt service requirements of the Certificates within the limit prescribed by law; that, in addition to said taxes, further provisions have been made for the payment of the debt service requirements of the Certificates by pledging to such purpose Surplus Revenues, as defined in the Ordinance, derived by the City from the operation of the Waterworks System in an amount limited to $1,000; that when so collected, such taxes and Surplus Revenues shall be appropriated to such purposes; and that the total indebtedness of the City, including the Certificates, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City has caused this Certificate to be executed by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Secretary, and the official seal of the City has been duly impressed or placed in facsimile on this Certificate.

Mayor, City of Lubbock, Texas

City Secretary,
City of Lubbock, Texas

[SEAL]

CITY OF LUBBOCK TEXAS

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Certificate of this series of certificates was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and that this is one of the Certificates referred to in the within-mentioned Ordinance.

The Bank of New York Trust Company,
National Association,
as Paying Agent/Registrar

Dated: ______________________ By: ______________________
Authorized Signatory

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address and Zip Code of transferee): ______________________________

____

____

(Social Security or other identifying number: ______________) the within Certificate and all rights hereunder and hereby irrevocably constitutes and appoints ____________________ attorney to transfer the within Certificate on the books kept for registration hereof, with full power of substitution in the premises.

Dated: ______________________

____

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Certificate in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

Signature Guaranteed By:

____

____

Authorized Signatory

STATEMENT OF INSURANCE

Financial Security Assurance Inc. ("Financial Security"), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to The Bank of New York Trust Company, National Association, Dallas, Texas, or its successor as paying agent for the Bonds (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Financial Security or the Paying Agent.

FINANCIAL SECURITY ASSURANCE INC.

SPECIMEN

MUNICIPAL BOND INSURANCE COMMITMENT

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security" or "FSA") hereby commits to issue its Municipal Bond Insurance Policy (the "Policy") relating to whole maturities of the debt obligations described in Exhibit A attached hereto (the "Bonds"), subject to the terms and conditions set forth in this Commitment, of which Commitment Exhibit A is an integrated part, or added hereto (the "Commitment"). To keep this Commitment in effect after the Expiration Date set forth in Exhibit A attached hereto, a request for renewal must be submitted to Financial Security prior to such Expiration Date. Financial Security reserves the right to refuse wholly or in part to grant a renewal.

THE MUNICIPAL BOND INSURANCE POLICY SHALL BE ISSUED IF THE FOLLOWING CONDITIONS ARE SATISFIED:

1. The documents to be executed and delivered in connection with the issuance and sale of the Bonds shall not contain any untrue or misleading statement of a material fact and shall not fail to state a material fact necessary in order to make the information contained therein not misleading.

2. No event shall occur which would permit any underwriter or purchaser of the Bonds, otherwise required, not to be required to underwrite or purchase the Bonds on the date scheduled for the issuance and delivery thereof ("Closing Date").

3. There shall be no material change in or affecting the Bonds (including, without limitation, the security for the Bonds) or the financing documents or the Official Statement (or any similar disclosure documents) to be executed and delivered in connection with the issuance and sale of the Bonds from the descriptions or forms thereof approved by Financial Security.

4. The Bonds shall contain no reference to Financial Security, the Policy or the insurance evidenced thereby except as may be approved by Financial Security. BOND PROOFS SHALL HAVE BEEN APPROVED BY FINANCIAL SECURITY PRIOR TO PRINTING. The Bonds shall bear a Statement of Insurance in the form provided by Financial Security.

5. Financial Security shall be provided with:

(a) Executed copies of all financing documents, any disclosure document (the "Official Statement") and the various legal opinions delivered in connection with the issuance and sale of the Bonds (which shall be dated the Closing Date and which, except for the opinions of counsel relating to the adequacy of disclosure, shall be addressed to Financial Security or accompanied by a letter of such counsel permitting Financial Security to rely on such opinion as if such opinion were addressed to Financial Security), including, without limitation, the approving opinion of bond counsel. Each of the foregoing shall be in form and substance acceptable to Financial Security. Copies of all drafts of such documents prepared subsequent to the date of the Commitment <u>(blacklined to reflect all revisions from previously reviewed drafts)</u> shall be furnished to Financial Security for review and approval. Final drafts of such documents shall be provided to Financial Security at least three (3) business days prior to the issuance of the Policy, unless Financial Security shall agree to some shorter period.

(b) Evidence of wire transfer in federal funds of an amount equal to the insurance premium, unless alternative arrangements for the payment of such amount acceptable to Financial Security have been made prior to the delivery date of the Bonds.

(c) Standard & Poor's Credit Market Services, Moody's Investors Service Inc. and Fitch IBCA, Inc. will separately present bills for their respective fees relating to the Bonds. Payment of such bills by the Issuer should be made directly to such rating agency. Payment of the rating fee is not a condition to release of the Policy by Financial Security.

6. Promptly after the closing of the Bonds, Financial Security shall receive three completed sets of executed documents (one original and either (i) two photocopies (each unbound) or (ii) three compact discs).

7. The Official Statement shall contain the language provided by Financial Security and only such other references to Financial Security or otherwise as Financial Security shall supply or approve. FINANCIAL SECURITY SHALL BE PROVIDED WITH FOUR PRINTED COPIES OF THE OFFICIAL STATEMENT.

EXHIBIT A

TERM SHEET FOR MUNICIPAL BOND INSURANCE COMMITMENT

Issuer: City of Lubbock, Texas

Principal Amount of Bonds Insured: Not to Exceed $11,635,000

Name of Bonds Insured: Tax and Waterworks System, Surplus Revenue Certificates of Obligation , Taxable Series 2007

Date of Commitment: December 11, 2007 Expiration Date: Friday, February 15, 2008*

Premium: .23% of total debt service on the Bonds Insured

Bond Counsel Opinion -- Language Requirements:

The approving opinion of Bond Counsel shall include language to the effect that the Bonds are a full faith and credit obligation of the Issuer, the payment for which the Issuer is obligated to exercise its ad valorem taxing power, within the limits prescribed by law, upon all taxable property within the Issuer.

FINANCIAL SECURITY ASSURANCE INC.

Elliot Schreiber

Authorized Officer

*To keep the Commitment in effect to the Expiration Date set forth above, Financial Security must receive a duplicate of this Exhibit A executed by an authorized officer by the earlier of the date on which the Official Statement containing disclosure language about Financial Security is circulated and ten days from the Date of Commitment.

The undersigned agrees that if the Bonds are insured by a policy of municipal bond insurance, such insurance shall be provided by Financial Security in accordance with the terms of the Commitment.

CITY OF LUBBOCK, TEXAS

Authorized Officer

PROCEDURES FOR PREMIUM PAYMENT TO FINANCIAL SECURITY ASSURANCE INC.

Financial Security's issuance of its municipal bond insurance policy at bond closing is contingent upon payment and receipt of the premium. NO POLICY MAY BE RELEASED UNTIL PAYMENT OF SUCH AMOUNT HAS BEEN CONFIRMED. Set forth below are the procedures to be followed for confirming the amount of the premium to be paid and for paying such amount:

Confirmation of Amount to be Paid: **Upon determination of the final debt service schedule, fax such schedule to Financial Security**

Attention: Michael Caldiero, Assistant Vice President
Phone No.: (212) 339-3468
Fax No.: (212) 857-0313

Confirm with the individual in our underwriting department that you are in agreement with respect to par and premium on the transaction prior to the closing date.

Payment Date: Date of Delivery of the insured bonds.

Method of Payment: Wire transfer of Federal Funds.

Wire Transfer Instructions:

Bank:	The Bank of New York
ABA#:	021 000 018
Acct. Name:	Financial Security Assurance Inc.
Account No.:	8900297263
Transaction No.:	100809

CONFIRMATION OF PREMIUM WIRE NUMBER AT CLOSING

Financial Security will accept as confirmation of the premium payment a wire transfer number and the name of the sending bank, to be communicated on the closing date to Audrey A. Udit, Paralegal , (212) 339-3548.

In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: City of Lubbock, Texas

Policy No.: 209703-N

BONDS: $11,805,000 in aggregate principal amount of Tax and Waterworks System, Surplus Revenue Certificates of Obligation, Taxable Series 2008

Effective Date: January 17, 2008

Premium: $46,645.02

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019
(212) 826-0100

GENERAL CERTIFICATE

We, the undersigned, Mayor, City Secretary and Chief Financial Officer, respectively, of the City of Lubbock, Texas (the "City"), do hereby certify the following information:

1. This certificate relates to the City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates"). Capitalized terms used herein and not otherwise defined shall have the meaning assigned thereto in the ordinance (the "Ordinance") of the City Council authorizing the issuance of the Certificates.

2. The total tax supported debt of the City, after giving effect to the issuance of the proposed Certificates, is $524,055,000

3. The assessed value of property for the purpose of taxation in the City of Lubbock, Texas, as shown by its official tax rolls for the year 2007, being its latest approved official assessment rolls is $10,897,210,563, which amount is net of the amount of any exemptions to which property otherwise subject to taxation was entitled pursuant to applicable provisions of the Constitution and laws of the State of Texas.

4. A true and correct copy of the debt service schedule for the Certificates and all other outstanding indebtedness of the City payable from ad valorem taxes is set forth in the table entitled "General Obligation Debt Service Requirements" of the City's Official Statement under the heading "FINANCIAL INFORMATION," such debt service schedule being incorporated herein by reference for all purposes.

5. The City of Lubbock, Texas, is a duly incorporated Home Rule City, and is operating and existing under the Constitution and laws of the State of Texas and the duly adopted Home Rule Charter of the City. The Home Rule Charter was last amended at an election held in the City on November 2, 2004.

6. The following are duly qualified and acting, elected or appointed officials of the City of Lubbock, Texas:

David A. Miller, Mayor	Linda DeLeon	)	
Jim Gilbreath, Mayor Pro Tem	Floyd Price	)	
Lee Ann Dumbauld, City Manager	Todd R. Klein	)	Members of
Jeffrey A. Yates, Chief Financial Officer	Phyllis S. Jones	)	the Council
Rebecca Garza, City Secretary	John Leonard	)	
Tommy Combs, Deputy City Secretary		)	

7. No litigation of any nature has been filed or is now pending to restrain or enjoin the issuance or delivery of the Certificates or which would affect the provisions made for their payment or security, or in any manner questioning the proceedings or authority concerning the issuance of the Certificates, and so far as we know and believe, no such litigation is threatened.

8. Neither the corporate existence nor the boundaries of the City, nor the title of its present officers to their respective offices is being contested, and so far as we know and believe no litigation is threatened regarding such matters, and no authority or proceedings for the issuance of the Certificates have been repealed, revoked or rescinded.

9. There has not been filed or presented to the City Secretary or the City Council any petition protesting, challenging or otherwise questioning the issuance of the Certificates.

10. The Ordinance was duly adopted by the City Council on June 26, 2007.

11. The City has appropriated an amount of presently and lawfully available funds of the City which will be sufficient to pay debt service on the Certificates on February 15, 2008, and such appropriated amount will be deposited to the Interest and Sinking Fund created for the Certificates.

12. A true and correct statement of the revenues and expenses of the Waterworks System for fiscal years 2004, 2005 and 2006, together with a true and correct statement of current rates and charges for the services of the System, is attached hereto as Exhibit A.

13. Except for the pledge of income and revenues of the System to the payment of: (i) water supply contracts with the Canadian River Municipal Water Authority, (ii) the Certificates, and (ii) the obligations set forth in Exhibit B hereto, none of the City's debts or obligations will be secured by a lien on and pledge of the revenues or income of the System.

14. The City is not in default in the payment of principal and interest on its debt obligations.

15. The descriptions and statements of or pertaining to the City contained in its Official Statement pertaining to the Certificates (the "Official Statement"), and any addenda, supplement or amendment with respect to such descriptions or statements thereto, on the date of such Official Statement, on the date of sale of the Certificates and on the date of the delivery, were and are true and correct in all material respects.

16. Insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

17. Insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect.

18. There has been no material adverse change in the financial condition and affairs of the City since the date of the Official Statement.

19. The undersigned Mayor and City Secretary officially executed and signed the Obligations, including the Initial Certificate delivered to the initial purchasers of the Certificates, by manually executing the Certificates or by causing facsimiles of our manual signatures to be imprinted or copied on each of the Certificates, and we hereby adopt said manual or facsimile signatures as our own, respectively, and declare that said facsimile signatures constitute our signatures the same as if we had manually signed each of the Certificates.

20. The Certificates, including the Initial Certificates delivered to the initial purchasers of the Certificates, are substantially in the form, and have been duly executed and signed in the manner, prescribed in the Ordinances.

21. At the time we so executed and signed the Certificates we were, and at the time of executing this certificate we are, the duly chosen, qualified, and acting officers indicated therein, and authorized to execute the same.

22. We have caused the official seal of the City to be impressed, or printed, or copied on each of the Certificates; and said seal on the Certificates has been duly adopted as, and is hereby declared to be, the official seal of the City.

[EXECUTION PAGE FOLLOWS]

EXECUTED AND DELIVERED this JAN 17 2008.

MANUAL SIGNATURE | OFFICIAL TITLES

Mayor, City of Lubbock, Texas

STATE OF TEXAS §
§
COUNTY OF LUBBOCK §

Before me, the undersigned authority, on this day personally appeared David A. Miller, Mayor of the City of Lubbock, Texas, known to me to be such person who signed the above and foregoing certificate in my presence and acknowledged to me that such person executed the above and foregoing certificate for the purposes therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 3rd day of January 2008

Elisa Sanchez
Notary Public,
In and for the State of Texas

[SEAL]

ELISA SANCHEZ
Notary Public, State of Texas
My Commission Expires 11-07-2011

Signature Page for General Certificate

Dallas 1345881v.1

EXECUTED AND DELIVERED this JAN 1 7 2008.

MANUAL SIGNATURE | OFFICIAL TITLES

Jeffrey A. Yates

Chief Financial Officer, City of Lubbock, Texas

STATE OF TEXAS §
§
COUNTY OF LUBBOCK §

Before me, the undersigned authority, on this day personally appeared Jeffrey A. Yates, Chief Financial Officer of the City of Lubbock, Texas, known to me to be such person who signed the above and foregoing certificate in my presence and acknowledged to me that such person executed the above and foregoing certificate for the purposes therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 3rd day of January 2008

Elisa Sanchez
Notary Public
In and for the State of Texas

[SEAL]

ELISA SANCHEZ
Notary Public, State of Texas
My Commission Expires 11-07-2011

Signature Page for General Certificate

EXECUTED AND DELIVERED this JAN 17 2008.

MANUAL SIGNATURE | OFFICIAL TITLES

Rebecca Garza ______ City Secretary, City of Lubbock, Texas

STATE OF TEXAS §
§
COUNTY OF LUBBOCK §

Before me, the undersigned authority, on this day personally appeared Rebecca Garza, City Secretary of the City of Lubbock, Texas, known to me to be such person who signed the above and foregoing certificate in my presence and acknowledged to me that such person executed the above and foregoing certificate for the purposes therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 3rd day of January, 2008.

LINDA B HART
Notary Public, State of Texas
My Commission Expires
June 30, 2011

Linda B. Hart
Notary Public,
In and for the State of Texas

[SEAL]

Signature Page for General Certificate

EXHIBIT A

City of Lubbock, TX
Finance Department
Continuing Disclosure Report
Fiscal Year Ended September 30, 2006

Table 18 - Waterworks System Condensed Statement of Operations

	Fiscal Year Ended September 30,				
	2006	2005	2004	2003	2002
REVENUE					
Operating Revenues	$ 37,330,953	33,306,786	31,907,893	32,770,781	32,727,207
Non-Operating Revenues	1,678,056	883,824	539,413	1,337,330	1,313,649
Gross Revenues	39,009,009	34,190,610	32,447,306	34,108,111	34,040,856
EXPENSE					
Operating Expense (1)	20,720,395	17,619,668	20,550,379	20,137,448	19,596,079
Net Revenues	$ 18,288,614	16,570,942	11,896,927	13,970,663	14,444,777
Number of Water Meters	77,147	75,876	72,500	72,505	71,039

(1) Operating expense includes contruction repayment costs and operation and maintenance charges paid to Canadian River Municipal Water Authority and excludes depreciation and capital expenditures.

Exhibit B

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2007A, dated August 15, 2007, issued in the original principal amount of $60,820,000

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2007, dated January 1, 2007, issued in the original principal amount of $25,255,000

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2006, dated April 15, 2006, issued in the original principal amount of $76,950,000

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2005, dated August 15, 2005, issued in the principal amount of $46,525,000

Tax and Waterworks System Surplus Revenue Refunding Bonds, Series 2005, dated July 1, 2005, issued in the original principal amount of $43,080,000

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2004, dated September 15, 2004, issued in the original principal amount of $3,100,000

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2003, dated July 15, 2003, issued in the original principal amount of $9,765,000

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2002, dated February 15, 2002, issued in the original principal amount of $6,450,000

Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 1999, dated September 15, 1999, issued in the original principal amount of $24,800,000

Tax and Waterworks System Surplus Revenue Refunding Bonds, Series 1999, dated April 1, 1999, issued in the original principal amount of $12,300,000

Tax and Waterworks System (Limited Pledge) Revenue Certificates of Obligation, Series 1999, dated January 15, 1999, issued in the original principal amount of $15,355,000

Tax and Waterworks System (Limited Pledge) Revenue Certificates of Obligation, Series 1998, dated October 1, 1998, issued in the original principal amount of $10,260,000

Tax and Waterworks System (Limited Pledge) Revenue Certificates of Obligation, Series 1993, dated October 1, 1993, issued in the original principal amount of $1,470,000

City of Lubbock, Texas

December 20, 2007

The Attorney General of Texas
William P. Clements Building
300 West 15th Street, 9th Floor
Austin, Texas 78701
Attention: Public Finance Division

Comptroller of Public Accounts
Thomas Jefferson Rusk Building
208 East 10th Street, Room 448
Austin, Texas 78701-2407

Attention: Economic Analysis Center

Re: City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates")

To the Attorney General:

The executed Initial Certificate for the captioned series has been or soon will be delivered to you for examination and approval. In connection therewith, enclosed is a General Certificate executed and completed except as to date. When the Initial Certificate has received your approval and are ready for delivery to the Comptroller of Public Accounts for registration, this letter will serve as your authority to insert the date of your approval in the General Certificate and deliver the Initial Certificate to the Comptroller.

Should litigation in any way affecting such Certificate develop the undersigned will notify you at once by telephone and telecommunication. You may be assured, therefore, that there is no such litigation at the time the Initial Certificate is finally approved by you, unless you have been advised otherwise.

To the Comptroller:

The approved Initial Certificate for the captioned series of Certificates will be delivered to you by the Attorney General of Texas. You are hereby requested to register the Initial Certificate as required by law and by the proceedings authorizing such Initial Certificate.

Following registration, you are hereby authorized and directed to notify and deliver the Initial Certificate to Vinson & Elkins L.L.P., Dallas, Texas, which has been instructed to pick up same at your office.

Please also deliver to Vinson & Elkins L.L.P., Dallas, Texas, three copies of each of the following:

1. Attorney General's approving opinion; and

2. Comptroller's signature certificate.

Very truly yours,

CITY OF LUBBOCK, TEXAS

By: ______________________
Jeffery A. Yates, Chief Financial Officer

LUB200/71009
Dallas 1345892v.1

RECEIPT AND CERTIFICATE OF DELIVERY
OF PAYING/AGENT REGISTRAR

The undersigned, authorized representative of The Bank of New York Trust Company, National Association, as Paying Agent/Registrar, hereby makes the following acknowledgments and certifications in connection with the issuance and delivery of $11,805,000 principal amount of City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Ordinance authorizing the issuance thereof adopted by the City Council of the City of Lubbock, Texas (the "Issuer"). The undersigned hereby:

1. Acknowledges receipt of (i) $11,594,468.52 from Morgan Stanley (the "Underwriter"), representing the principal amount of the Certificates plus accrued interest of $61,476.67 and less a net discount of $185,703.00 and less underwriters' discount of $86,305.15.

2. Acknowledges and certifies the application of amounts described in paragraph 1 hereof as required by and in accordance with the Closing Instructions attached hereto as Exhibit A prepared by RBC Capital Markets, the Issuer's Financial Advisor.

4. Certifies that the Initial Certificate for the Certificates, registered by the Comptroller of Public Accounts of the State of Texas and representing the aggregate principal amount of the Certificates, was delivered to or upon order of the Underwriter and was duly canceled this date upon delivery of the definitive Certificates to the Underwriter through The Depository Trust Company.

DATED: Jan. 17, 2008.

THE BANK OF NEW YORK TRUST COMPANY,
NATIONAL ASSOCIATION,
as Paying Agent/Registrar

By: Pat Blue
Title: ASST VICE PRESIDENT

Moody's Corporation

7 World Trade Center at 250 Greenwich Street,
New York, New York 10007

January 16, 2008

Financial Security Assurance, Inc
31 West 52nd Street
New York, NY 10019

To Whom It May Concern:

Moody's Investors Service has assigned the rating of <u>**Aaa**</u> to the **$11,805,000.00, City of Lubbock, Texas - Tax and Waterworks System, Surplus Revenue Certificates of Obligation, Taxable Series 2008**, dated December 15, 2007 which sold through negotiation on December 18, 2007, insured by Financial Security Assurance, Inc (Policy No. **209703-N**). The rating is the highest of (i) the guarantor's financial strength rating, (ii) any published underlying rating on the security, or (iii) any published enhanced rating based on a state credit enhancement program.

Should you have any questions regarding the above, please do not hesitate to contact Karen Malkowski at (201) 395-6370.

Sincerely yours,

Joann Hempel

Joann Hempel
Vice President / Senior Credit Officer

JH / TM

STANDARD
&POOR'S

55 Water Street, 38th Floor
New York, NY 10041-0003
tel 212 438-2074
reference no.: 837264

January 15, 2008

Financial Security Assurance Inc
Financial Guaranty Group
31 West 52nd Street
New York, NY 10019
Attention: Mr. Richard Bauerfeld, Managing Director

Re: ***$11,805,000 City of Lubbock, Texas, Tax and Waterworks System, Surplus Revenue Certificates of Obligation, Taxable Series 2008, dated: December 15, 2007, Term Certificates due: February 15, 2018, February 15, 2027, (POLICY #209703-N)***

Dear Mr. Bauerfeld:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have changed the rating to "AAA" from "AA". The rating reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing. Therefore, rating adjustments may result from changes in the financial position of your company or from alterations in the documents governing the issue.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

Standard & Poor's is pleased to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.

Standard and Poor's /W/AD

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FitchRatings

One State Street Plaza
New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com

January 14, 2008

Mr. Jeffrey A Yates
Chief Financial Officer
Lubbock
P.O. Box 2000
Lubbock, TX 79457

Dear Mr. Yates:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed on the attached Notice of Rating Action.

Ratings assigned by Fitch are based on documents and information provided to us by issuers, obligors, and/or their experts and agents, and are subject to receipt of the final closing documents. Fitch does not audit or verify the truth or accuracy of such information.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

It is important that Fitch be provided with all information that may be material to its ratings so that they continue to accurately reflect the status of the rated issues. Ratings may be changed, withdrawn, suspended or placed on Rating Watch due to changes in, additions to or the inadequacy of information.

Ratings are not recommendations to buy, sell or hold securities. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

The assignment of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement or other filing under U.S., U.K., or any other relevant securities laws.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,

David Litvack
Managing Director
U.S. Public Finance

DTL/jh

Enc: Notice of Rating Action
(Doc ID: 97306)

Notice of Rating Action

Bond Description	Rating Type	Action	Rating	Outlook/ Watch	Eff Date	Notes
Lubbock (TX) tax & wtrwks sys surplus rev ctfs of oblig ser 2008 (taxable)	Long Term	New Rating	AA	RO:Sta	14-Jan-2008	
Lubbock (TX) GO bonds	Long Term	Affirmed	AA	RO:Sta	14-Jan-2008	
Lubbock (TX) COs	Long Term	Affirmed	AA	RO:Sta	14-Jan-2008	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

DISCLOSURE, NO DEFAULT AND TAX CERTIFICATE OF FINANCIAL SECURITY ASSURANCE INC.

The undersigned hereby certifies on behalf of Financial Security Assurance Inc. ("Financial Security"), in connection with the issuance by Financial Security of its Policy No. 209703-N (the "Policy") in respect of the $11,805,000 in aggregate principal amount of City of Lubbock, Texas Tax and Waterworks System, Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Bonds") that:

(i) the information set forth under the caption "BOND INSURANCE – Financial Security Assurance Inc." in the official statement dated December 19, 2007, relating to the Bonds is true and correct,

(ii) Financial Security is not currently in default nor has Financial Security ever been in default under any policy or obligation guaranteeing the payment of principal of or interest on an obligation,

(iii) the Policy is an unconditional and recourse obligation of Financial Security (enforceable by or on behalf of the holders of the Bonds) to pay the scheduled principal of and interest on the Bonds in the event of Nonpayment by the Issuer (as set forth in the Policy),

(iv) the insurance premium of $46,645.02 (the "Premium") is a charge for the transfer of credit risk and was determined in arm's length negotiations and is required to be paid to Financial Security as a condition to the issuance of the Policy,

(v) no portion of such Premium represents an indirect payment of costs of issuance, including rating agency fees, other than fees paid by Financial Security to maintain its ratings, which, together with all other overhead expenses of Financial Security, are taken into account in the formulation of its rate structure, or for the provision of additional services by us, nor the direct or indirect peyment for a cost, risk or other element that is not customarily borne by insurers of tax-exempt bonds (in transactions in which the guarantor has no involvement other than as a guarantor),

(vi) Financial Security is not providing any services in connection with the Bonds other than providing the Policy, and except for the Premium, Financial Security will not use any portion of the Bond proceeds,

(vii) except for payments under the Policy in the case of Nonpayment by the Issuer, there is no obligation to pay any amount of principal or interest on the Bonds by Financial Security,

(viii) Financial Security does not expect that a claim will be made on the Policy,

(ix) the Issuer is not entitled to a refund of the premium for the Policy in the event a Bond is retired before the final maturity date, and

(x) for Bonds which are secured by a debt service reserve, Financial Security would not have issued the Policy unless the authorizing or security agreement for the Bonds provided for a debt service reserve account or fund funded and maintained in an amount at least equal to, as of any particular date of computation, the reserve requirement as set forth in such agreement.

Financial Security makes no representation as to the nature of the interest to be paid on the Bonds or the treatment of the Policy under Section 1.148-4(f) of the Income Tax Regulations.

FINANCIAL SECURITY ASSURANCE INC.

By: Russ Miller

Authorized Officer

Dated: January 17, 2008

CERTIFICATE PURSUANT TO PURCHASE CONTRACT

We, the undersigned officials of the City of Lubbock, Texas (the "Issuer"), acting in our official capacity, in connection with the issuance and delivery by the Issuer of its City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates") hereby certify that:

1. This Certificate is delivered pursuant to the Purchase Contract, dated December 19, 2007 (the "Purchase Contract"), between the Issuer and Morgan Stanley (the "Underwriter"). Capitalized words used herein as defined terms and not otherwise defined herein have the respective meanings assigned to them in the Purchase Contract.

2. The representations and warranties of the Issuer contained in the Purchase Contract are true and correct in all material respects on and as of the date hereof as though made on and as of the date hereof.

3. Except to the extent disclosed in the Official Statement, no litigation is pending or, to our knowledge, threatened in any court to restrain or enjoin the issuance or delivery of the Securities, or the levy, collection or application of the ad valorem taxes and Pledged Revenues pledged or to be pledged to pay the principal of and interest on the Certificates, or the pledge thereof, or in any way contesting or affecting the validity of the Certificates or the Ordinance or contesting the powers of the City or the authorization of the Certificates or the Ordinance, or contesting in any way the accuracy, completeness or fairness of the Official Statement.

4. To the best of our knowledge, no event affecting the City has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purpose for which it is to be used or that it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect.

5. There has not been any material and adverse change in the affairs or financial condition of the City since September 30, 2006, the latest date as to which audited financial information is available.

DATED: JAN 1 7 2008

Mayor
City of Lubbock, Texas

Chief Financial Officer
City of Lubbock, Texas

Vinson&Elkins

January 17, 2008

$11,805,000
CITY OF LUBBOCK, TEXAS
TAX AND WATERWORKS SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION
TAXABLE SERIES 2008

WE HAVE represented the City of Lubbock, Texas (the "City"), as its Bond Counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

> CITY OF LUBBOCK, TEXAS TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008, dated December 15, 2007, issued in the principal amount of $11,805,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Ordinance") and the Pricing Certificate executed pursuant to the Ordinance.

WE HAVE represented the City as its Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the treatment of interest on the Certificates for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings

Vinson & Elkins LLP Attorneys at Law Austin Beijing Dallas
Dubai Houston London Moscow New York Tokyo Washington

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Dallas, Texas 75201-2975 **Tel** 214.220.7700 **Fax** 214.220.7716
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of the City, customary certificates of officers, agents and representatives of the City and other public officials, and other certified showings relating to the authorization and issuance of the Certificates. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the City; and

(B) A continuing ad valorem tax upon all taxable property within the City, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the City, including the Certificates, does not exceed any constitutional, statutory or other limitations. In addition, the Certificates are further secured by a limited pledge (not to exceed $1,000) of the surplus net revenues of the City's Waterworks System, as described in the Ordinance.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

Interest on the Certificates is not excludable from gross income for federal income tax purposes under existing law.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the acquisition, ownership or disposition of, or receipt or accrual of interest on, the Certificates.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

Vinson & Elkins L.L.P.

Vinson&Elkins

January 17, 2008

City of Lubbock, Texas
P.O. Box 2000
Lubbock, Texas 79457

Morgan Stanley & Co. Incorporated
6300 Bridge Point Parkway, Suite 250
Austin, Texas 78730

Re: City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008

Ladies and Gentlemen:

We have served as Bond Counsel to the City of Lubbock, Texas (the "Issuer") in connection with the issuance of its $11,805,000 City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008 (the "Certificates"), issued pursuant to the provisions of an ordinance duly adopted by the City Council of the Issuer on June 26, 2007, as amended on December 13, 2007 (the "Ordinance"). This opinion is delivered pursuant to the provisions of Section 8(e)(7) of the Purchase Contract (hereinafter defined). Capitalized terms not otherwise defined in this opinion have the meanings assigned in the hereinafter defined Purchase Contract.

In our capacity as Bond Counsel to the Issuer, we have reviewed the following:

(a) a certified copy of the Ordinance;

(b) an executed counterpart of the Purchase Contract dated December 19, 2007 (the "Purchase Contract") between the Issuer and the Underwriter named in such Purchase Contract;

(c) a copy of the Pricing Certificate, dated December 19, 2007;

(d) a copy of the Official Statement dated December 19, 2007; and

(e) such other agreements, documents, certificates, opinions, letters, and other papers as we have deemed necessary or appropriate in rendering the opinions set forth below.

In making our review, we have assumed the authenticity of all documents and agreements submitted to us as originals, conformity to the originals of all documents and agreements submitted to us as certified or photostatic copies, the authenticity of the originals of such latter documents and agreements, and the accuracy of the statements contained in such documents.

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, we are of the opinion that under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates are exempted securities under the Securities Act of 1933, as amended (the "1933 Act") and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and it is not necessary in connection with the offering and sale of the Certificates to register the Certificates under the 1933 Act or to qualify the Ordinance under the Trust Indenture Act.

2. Except as to the extent noted herein, we have not verified and are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. We have, however, reviewed the statements and information in the Official Statement under the captions "The Certificates" (except for the subcaption "Book-Entry-Only System") and "Taxable Status of the Certificates" and the subcaptions "Continuing Disclosure of Information" (except for the subcaption "Compliance with Prior Undertakings"), "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Matters" under the caption "Other Information," and we are of the opinion that such statements and information present a fair and accurate summary of the provisions of the laws and instruments therein described and, with respect to the Certificates, such information conforms to the Ordinance.

3. The Purchase Contract has been duly authorized, executed and delivered by the City and (assuming due authorization by the Underwriter) constitutes a binding and enforceable agreement of the City in accordance with its terms.

The addressees may rely on our opinion, dated as of the date hereof, delivered in connection with the issuance of the Certificates to the same extent as if such opinion were specifically addressed to them.

This opinion is furnished solely for your benefit and may be relied upon only by the addressees hereof or anyone to whom specific permission is given in writing by us.

Very truly yours,

Vinson & Elkins L.L.P.

LAW OFFICES
McCALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD
SUITE 900
DALLAS, TEXAS 75201-6587
TELEPHONE: 214 754-9200
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700 N. ST. MARY'S STREET
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SAN ANTONIO, TEXAS 78205-3503
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FACSIMILE: 210 225-2984

600 CONGRESS AVENUE
SUITE 1800
AUSTIN, TEXAS 78701-3248
TELEPHONE: 512 478-3805
FACSIMILE: 512 472-0871

January 17, 2008

Morgan Stanley & Co. Incorporated
6300 Bridge Point Parkway, Suite 250
Austin, Texas 78730

RE: $11,805,000 TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008

Ladies and Gentlemen:

We have acted as counsel for you as the underwriters of the Certificates described above, issued under and pursuant to an Ordinance of the City of Lubbock, Texas (the "Issuer"), authorizing the issuance of the Certificates, which Certificates you are purchasing pursuant to a Purchase Contract, dated December 19, 2007. All capitalized undefined terms used herein shall have the meaning set forth in the Purchase Contract.

In connection with this opinion letter, we have considered such matters of law and of fact, and have relied upon such Certificates and other information furnished to us, as we have deemed appropriate as a basis for our opinion set forth below. We are not expressing any opinion or views herein on the authorization, issuance, delivery, validity of the Certificates and we have assumed, but not independently verified, that the signatures on all documents and Certificates that we have examined are genuine.

Based on and subject to the foregoing, we are of the opinion that, under existing laws, the Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Ordinance is not required to be qualified under the Trust Indenture Act of 1939, as amended.

Because the primary purpose of our professional engagement as your counsel was not to establish factual matters, and because of the wholly or partially nonlegal character of many of the determinations involved in the preparation of the Official Statement dated December 19, 2007 (the "Official Statement") and because the information in the Official Statement under the headings "THE CERTIFICATES - Book-Entry-Only System," "TAXABLE STATUS OF THE CERTIFICATES," and "OTHER INFORMATION - Continuing Disclosure of Information – Compliance with Prior Undertakings" and Appendices A and B thereto were prepared by others who have been engaged to review or provide such information, we are not passing on and do not assume any responsibility for, except as set forth in the last sentence of this paragraph, the accuracy, completeness or fairness of the statements contained in the Official Statement (including any appendices, schedules and exhibits thereto) and we make no representation that we have independently verified the accuracy, completeness or fairness of such statements. In the course of our review of the Official Statement, we had discussions with representatives of the City regarding the contents of the Official Statement. In the course of our participation in the preparation of the Official Statement as your counsel, we had discussions with representatives of the Issuer, including its City Attorney, Bond Counsel and Financial Advisor, regarding the contents of the Official Statement. In the course of such activities, no facts came to our attention that would lead us to believe that the Official Statement (except for the financial statements and other financial and statistical data contained therein, the information set forth under the headings "THE CERTIFICATES - Book-Entry-Only System," "TAXABLE STATUS OF THE CERTIFICATES," and "OTHER INFORMATION - Continuing Disclosure of Information – Compliance with Prior Undertakings" and Appendices A and B thereto, as to which we express no opinion), as of its date contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

This opinion letter may be relied upon by only you and only in connection with the transaction to which reference is made above and may not be used or relied upon by any other person for any purposes whatsoever without our prior written consent.

Respectfully,

McCall, Parkhurst & Horton L.L.P.

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Attorney General of Texas

GREG ABBOTT

January 15, 2008

THIS IS TO CERTIFY that the City of Lubbock Texas (the "Issuer"), has submitted to me City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificate of Obligation, Taxable Series 2008 (the "Certificate"), in the principal amount of $11,805,000, for approval. The Certificate is dated December 15, 2007, numbered T-1, and was authorized by Ordinances of the Issuer passed on June 26, 2007 and December 14, 2007 (collectively, the "Ordinance").

I have examined the law and such certified proceedings and other papers as I deem necessary to render this opinion.

As to questions of fact material to my opinion, I have relied upon representations of the Issuer contained in the certified proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigation.

I express no opinion relating to the official statement or any other offering material relating to the Certificate.

Based on my examination, I am of the opinion, as of the date hereof and under existing law, as follows (capitalized terms, except as herein defined, have the meanings given to them in the Ordinance):

(1) The Certificate has been issued in accordance with law and is a valid and binding obligation of the Issuer.

(2) The Certificate is payable from the proceeds of an annual ad valorem tax levied, upon all taxable property in the Issuer, within the limit prescribed by law, and, by a pledge of the Surplus Revenues of the Issuer's Waterworks System, not to exceed $1,000.

Therefore, the Certificate is approved.

Greg Abbott

Attorney General of the State of Texas

No 47385
Book No. 2008-A
JCH

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

I, Melissa Mora, ☐ Bond Clerk ☒ Assistant Bond Clerk in the office of the Comptroller of the State of Texas, do hereby certify that, acting under the direction and authority of the Comptroller on the 15th day of January, 2008, I signed the name of the Comptroller to the certificate of registration endorsed upon the:

City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificate of Obligation, Series 2008,

numbered T-1, dated December 15, 2007, and that in signing the certificate of registration I used the following signature:

Susan Combs

IN WITNESS WHEREOF I have executed this certificate this the 15th day of January, 2008.

Melissa Mora

I, Susan Combs, Comptroller of Public Accounts of the State of Texas, certify that the person who has signed the above certificate was duly designated and appointed by me under authority vested in me by Chapter 403, Subchapter H, Government Code, with authority to sign my name to all certificates of registration, and/or cancellation of bonds required by law to be registered and/or cancelled by me, and was acting as such on the date first mentioned in this certificate, and that the bonds/certificates described in this certificate have been duly registered in the office of the Comptroller, under Registration Number 73846.

GIVEN under my hand and seal of office at Austin, Texas, this the 15th day of January, 2008.

Susan Combs

SUSAN COMBS
Comptroller of Public Accounts
of the State of Texas

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

I, SUSAN COMBS, Comptroller of Public Accounts of the State of Texas, do hereby certify that the attachment is a true and correct copy of the opinion of the Attorney General approving the:

City of Lubbock, Texas Tax and Waterworks System Surplus Revenue Certificate of Obligation, Series 2008

numbered T-1, of the denomination of $ 11,805,000, dated December 15, 2007, as authorized by issuer, interest various percent, under and by authority of which said bonds/certificates were registered electronically in the office of the Comptroller, on the 15th day of January, 2008, under Registration Number 73846.

Given under my hand and seal of office, at Austin, Texas, the 15th day of January, 2008.

Susan Combs

SUSAN COMBS
Comptroller of Public Accounts
of the State of Texas

FSA

A Dexia Company

January 17, 2008

Municipal Bond Insurance Policy No. 209703-N With Respect to
$11,805,000 In Aggregate Principal Amount of
City of Lubbock, Texas
Tax and Waterworks System, Surplus Revenue Certificates of Obligation, Taxable Series 2008

Ladies and Gentlemen:

I am Associate General Counsel of Financial Security Assurance Inc., a New York stock insurance company ("Financial Security"). You have requested my opinion in such capacity as to the matters set forth below in connection with the issuance by Financial Security of its above-referenced policy (the "Policy"). In that regard, and for purposes of this opinion, I have examined such corporate records, documents and proceedings as I have deemed necessary and appropriate.

Based upon the foregoing, I am of the opinion that:

1. Financial Security is a stock insurance company duly organized and validly existing under the laws of the State of New York and authorized to transact financial guaranty insurance business therein.

2. The Policy has been duly authorized, executed and delivered by Financial Security.

3. The Policy constitutes the valid and binding obligation of Financial Security, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to bankruptcy, insolvency, reorganization, rehabilitation, moratorium and other similar laws affecting the enforceability of creditors' rights generally applicable in the event of the bankruptcy or insolvency of Financial Security and to the application of general principles of equity.

In addition, please be advised that I have reviewed the description of the Policy under the caption "BOND INSURANCE – Bond Insurance Policy" in the official statement relating to the above-referenced Bonds dated December 19, 2007 (the "Official Statement"). There has not come to my attention any information which would cause me to believe that the description of the Policy referred to above, as of the date of the Official Statement or as of the date of this opinion, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Please be advised that I express no opinion with respect to any information contained in, referred to or omitted from under the caption "BOND INSURANCE – Financial Security Assurance Inc."

I am a member of the Bar of the State of New York, and do not express any opinion as to any law other than the laws of the State of New York.

Very truly yours,

Associate General Counsel

City of Lubbock, Texas,
1625 13th Street,
Lubbock, Texas 79457-0001.

Morgan Stanley & Co., Inc.,
as Representative of the Underwriters,
6300 Bridge Point Parkway, Suite 250,
Austin, Texas 78730.

Vinson&Elkins

January 17, 2008

Financial Security Assurance Inc.
31 West 52nd Street
New York, New York 10019

Re: City of Lubbock, Texas, Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2008

Ladies and Gentlemen:

You are hereby authorized to rely on our opinion dated the date hereof and delivered in connection with the issuance of the captioned obligations as if such opinion were specifically addressed to you. This letter is delivered to you at the request of our client, the City of Lubbock, Texas.

Very truly yours,

Vinson & Elkins L.L.P.

Vinson & Elkins LLP Attorneys at Law Austin Beijing Dallas
Dubai Houston London Moscow New York Tokyo Washington

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Office of the City Attorney

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January 17, 2008

Morgan Stanley & Co. Incorporated
6300 Bridge Point Parkway, Suite 250
Austin, Texas 78730

RE: $11,805,000 TAX AND WATERWORKS SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2008

Ladies and Gentlemen:

I am the City Attorney for the City of Lubbock, Texas (the "City") at the time of the issuance of the above referenced Certificates (the "Certificates"), pursuant to the provisions of the ordinance duly adopted by the City Council of the City on June 26, 2007 and as duly amended by the City Council of the City on December 13, 2007 (referred to herein collectively as the "Ordinance"). Capitalized terms not otherwise defined in this opinion have the meanings assigned in the Purchase Contract.

In my capacity as City Attorney to the City, I have reviewed such agreements, documents, certificates, opinions, letters, and other papers as I have deemed necessary or appropriate in rendering the opinions set forth below.

In making my review, I have assumed the authenticity of all documents and agreements submitted to me as originals, conformity to the originals of all documents and agreements submitted to me as certified or photostatic copies, the authenticity of the originals of such latter documents and agreements, and the accuracy of the statement contained in such documents.

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, I am of the opinion that under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. Based on reasonable inquiry made of the responsible City employees and public officials, the City is not, to the best of my knowledge, in breach of or in default under any applicable law or administrative regulation of the State of Texas or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is party or is

otherwise subject and, to the best of my knowledge after due inquiry, no event has occurred and is continuing that, with the passage of time or the giving of notice, or both, would constitute such a default by the City under any of the foregoing; and the execution and delivery of the Purchase Contract, the Certificates, and the adoption of the Ordinance and compliance with the provisions of each of such agreements or instruments does not constitute a breach of or default under any applicable law or administrative regulation of the State of Texas or the United States or any applicable judgment or decree or, to the best of my knowledge, any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject; and

2. Except as disclosed in the Official Statement, no litigation is pending, or, to my knowledge, threatened, in any court in any way; (a) challenging the titles of the Mayor or any of the other members of the City Council to their respective offices; (b) seeking to restrain or enjoin the issuance, sale or delivery of any of the Certificates, or the levy, collection or application of the ad valorem taxes or the Pledged Revenues pledged or to be pledged to pay the principal of and interest on the Certificates; (c) contesting or affecting the validity or enforceability of the Certificates, the Ordinance or the Purchase Contract; (d) contesting the powers of the City or any authority for the issuance of the Certificates, or the adoption of the Ordinance; or (e) that would have a material and adverse effect on the financial condition of the City.

3. I have reviewed the information in the Official Statement contained under the caption "Other Information--Litigation" and such information in all material respects accurately and fairly summarizes the matters described therein.

This opinion is furnished solely for your benefit and may be relied upon only by the addresses hereof or anyone to whom specific permission is given in writing by me.

Very truly yours,

Anita E. Burgess

Anita E. Burgess
City Attorney

Anita/MorganStanley.ltr
January 4, 2008