



B R O W N S V I L L E
PUBLIC UTILITIES BOARD



Public Utilities Board of the City of Brownsville, TX
(A Component Unit of the City of Brownsville, Texas)

Comprehensive Annual Financial Report

For the Fiscal Years Ended
September 30, 2017 and 2016



Front cover top center:

- 1.) *Dean Porter Park Resaca view (BPUB completed dredging of this Resaca in fiscal year 2015).*

Front cover bottom, left to right:

- 3.) *BPUB employee reporting potential hazards during a snow/freeze event.*
- 4.) *BPUB employee demonstrates how to safely climb a utility pole.*



Public Utilities Board of the City of Brownsville, Texas
(A Component Unit of the City of Brownsville, Texas)



Comprehensive Annual Financial Report
For the Fiscal Years Ended September 30, 2017 and 2016

PREPARED BY: FINANCE DIVISION
LEANDRO G. GARCIA, CPA
Chief Financial Officer

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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

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INTRODUCTORY SECTION

- ❖ *Transmittal Letter*
- ❖ *GFOA Certificate of Achievement*
- ❖ *Principal Officials*
- ❖ *Organizational Chart*

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March 12, 2018

Members of the Board of Directors
Public Utilities Board of the City of Brownsville, Texas

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Utilities Board of the City of Brownsville, Texas (Public Utilities Board) for the fiscal year ended September 30, 2017. As required by state law, the CAFR includes financial statements which have been audited by a firm of licensed certified public accountants. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by the licensed certified public accounting firm of Carr, Riggs & Ingram, L.L.C.

The report consists of management's representation concerning the finances of the Public Utilities Board. As a result, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Public Utilities Board has established a comprehensive internal control framework that is designed both to protect the Public Utilities Board's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of the Public Utilities Board's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Public Utilities Board's comprehensive framework of internal controls is 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 goal of the independent audit, conducted by Carr, Riggs & Ingram, L.L.C., is to provide reasonable assurance that the financial statements of the Public Utilities Board for the fiscal year ended September 30, 2017, 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. Carr, Riggs & Ingram, L.L.C. concluded, based upon the audit, that there is a reasonable basis for rendering an unmodified opinion. The Public Utilities Board's financial statements

for the fiscal year ended September 30, 2017, 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. GAAP requires 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 the MD&A and should be read in conjunction with it. The Public Utilities Board's MD&A can be found immediately following the report of the independent auditors.

In accordance with standards established by the Governmental Accounting Standards Board's (GASB) Statement No. 61, the Financial Reporting Entity: Omnibus, an amendment of GASB Statement No. 14, the Public Utilities Board meets the definition of a component unit of the City of Brownsville, Texas (City).

PROFILE

The Public Utilities Board was formed in 1960 to provide electric, water, and wastewater services to its customers in the Brownsville area. Pursuant to the City's Charter, management, operation, and control of the City's combined water, wastewater, and electric utilities system is delegated to the Public Utilities Board. The Public Utilities Board is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member being the City's Mayor serving Ex-officio.

The **Electric System** provides retail electric service through its electric facilities to consumers inside and outside the city limits. The existing customer service area of the electric facilities encompasses approximately 133 square miles of Cameron County, including substantially the entire City (estimated by the Public Utilities Board at over 96%). The electric system serves a growing base of about 48,726 customers and serves a peak load of 284 MW. Current resources, mainly owned by the Public Utilities Board, are sufficient to cover peak demand.

The Public Utilities Board meets its power supply obligations through a combination of resources: (i) the operation of Oklaunion Unit No. 1, a coal-fired steam electric generating unit jointly owned and operated by Public Service Company of Oklahoma, AEP Texas Central Company, Oklahoma Municipal Power Authority, and the Public Utilities Board entitling the Public Utilities Board to 124 MW of capacity, (ii) the operation of the Silas Ray Power Production Facilities owned and operated by the Public Utilities Board (composed of one conventional steam turbine unit and a re-powered steam turbine in Combined Cycle with a combustion turbine and a GE LM6000 gas turbine generator for an estimated gas fired capability of 115 MW), (iii) the operation of the Calpine/Hidalgo combined cycle Power Plant in which the Public Utilities Board has an ownership interest entitling it to 105 MW of capacity, (iv) a Power Purchase Agreement with Exelon Corporation entitling the Public Utilities Board to purchase 78 MW of renewable energy and (v) economy energy purchases through an economy power interchange arrangement.

The Public Utilities Board currently has a gas transportation agreement with Texas Gas Services Company ("TGS"), a division of ONE Gas, Inc. and a gas supply agreement with Tenaska Marketing Ventures

("TMV") for service to its Silas Ray Generation units, and a gas supply agreement with Calpine Energy Services, LP for service to its Calpine/Hidalgo Plant.

Fuel and transportation contracts are in place, limiting the Public Utilities Board's exposure to the volatile fuel commodity markets.

The **Water System** draws raw water from the Rio Grande River and consists of a river rock weir, a river pump station, two reservoirs providing 187 million gallons total capacity, and a raw water transport system. Surface water treatment is achieved by two water treatment plants providing 40 million gallons per day (MGD) of total capacity (20 MGD treatment capacity each). Two clear wells provide 6.84 million gallons storage capacity, and three elevated storage tanks provide 5 million gallons of elevated storage capacity. Water is pumped by three high-service pumping stations into the distribution system which consists of 676 miles of transmission and distribution mains. The Public Utilities Board mainly sells to residential and commercial customers, but also sells treated water on a wholesale basis to two other water distribution companies that amount to approximately 5.03% of sales. The Public Utilities Board partnered with the Southmost Regional Water Authority (the Authority) and built a 7.5 million gallon per day reverse osmosis water treatment plant of which the Public Utilities Board has 92.91% ownership. The Authority's plant completed an expansion in November 2015 to provide microfiltration pretreatment and a total production capacity up to 10 MGD. The Authority's plant includes a 7.5 million gallon storage tank and one high service pumping station.

The Public Utilities Board has an annual allocation of municipal priority water rights from the Texas Commission on Environmental Quality (TCEQ) in the amount of 31,442.381 acre-feet of water, which is dependent upon inflow to the Falcon and Amistad Reservoirs. In addition, the Public Utilities Board holds Permit No. 1838 entitling it the right to 40,000 acre-feet of surplus water.

The Public Utilities Board is subject to regulation of water quality by the TCEQ. The Public Utilities Board presently has a "Superior" water system as determined in accordance with current TCEQ regulations.

The Public Utilities Board's water utility service area is subject to the certification jurisdiction of the TCEQ. The Public Utilities Board has been certified singly to provide water service within the boundaries of the City. A large portion of the area, three and one-half miles surrounding the boundaries (the "extraterritorial jurisdiction") of the City, is dually certified. There is a small water utility system (El Jardin Water Supply Corporation) whose customers are situated adjacent to or within the System. All of its treated water is supplied by the Public Utilities Board's water system.

The **Wastewater System**, consisting of collection and treatment facilities, includes gravity wastewater collection lines, 173 pumping/lift stations and two treatment plants. Wastewater is transported by pumping stations and associated force mains to one of two wastewater treatment plants – the Robindale Plant or the South Plant. The Robindale Plant was designed to treat 5 MGD in 1980 and expanded to a capacity of 10 MGD in 1995. The Robindale renovation and expansion project completed in July 2014 increased the treatment capacity to 14.5 MGD. The Robindale Plant provides secondary waste treatment utilizing a Modified Ludzack-Ettinger (MLE) process (anoxic and aerobic with an internal nitrate cycle)

of activated sludge, turbo blowers (with magnetic bearings) with auto dissolved oxygen control, secondary settling, ultra-violet light system (as alternate source of disinfection), effluent cascade aeration system, sludge thickening, aerobic digestion, mechanical sludge dewatering (via 2-meter belt filter press), a SCADA (Supervisory Control and Data Acquisition) system, and sludge disposal at a Dedicated Land Disposal (DLD) site of 137 Acres. The South Plant was originally constructed in 1952, with a trickling filter process and anaerobic digestion plant design with a treatment capacity of 5 MGD. South Plant was modified in 1974 with major modifications in 1978 when it was expanded to a capacity of 7.8 MGD and the treatment process design was changed to a variation of activated sludge identified as complete-mix process and anaerobic digesters were converted to aerobic digesters. In 2000, the plant was expanded to 12.8 MGD. The treatment process was changed to reflect the complete mix activated sludge treatment process we have today. It consists of a dual channel mechanical bar screening system, two grit classifiers, compactor washer, a four aerated grit chamber system, three complete mix aeration basins, RAS and WAS pumping stations, four final clarifiers, chlorine contact chamber, chemical feed station with scrubber system, two effluent river pump stations for offsite force main for pumping treated effluent to the Rio Grande River, two gravity thickeners, four aerobic digesters with mechanical sludge dewatering process (via 2-meter belt filter press unit that was added in July of 2010) and sludge disposal at a Dedicated Land Disposal (DLD) site of 137 Acres.

The wastewater system is subject to regulation by the EPA and the TCEQ with regards to operations of the facilities and the water quality of the wastewater plants' effluent.

The Public Utilities Board has the authority to provide wastewater service both inside and outside the city limits. The Brownsville Navigation District owns and operates its own wastewater treatment facilities. There is no competition between the Public Utilities Board's wastewater system and the Brownsville Navigation District since the Brownsville Navigation District operates in defined areas in which the System has no wastewater lines.

Mission Statement

By 2018, the Public Utilities Board will be the foundation for our community's future by providing reliable infrastructure, competitive rates, and exceptional customer service.

Strategic Plan

In 2008, the Public Utilities Board launched the 2008-2013 Strategic Plan, which identified issues and strategies required to reach defined goals and to move the organization toward its Mission/Strategic Destination. For those five years, the Strategic Plan inspired stronger interdepartmental communication and cooperation, and increased employee involvement in the Public Utilities Board's planning culture.

During 2012-2013, the Public Utilities Board updated its Strategic Plan to identify the key issues that continue to influence the utility's efforts over a five year period of 2013-2018. The updated Strategic Plan was adopted by the Public Utilities Board on December 9, 2013.

The Public Utilities Board’s Strategic Plan continues to promote strategies about the workforce, internal and external communications, and business processes that continue to be important areas in which to focus the utility’s efforts. Issues identified in the updated strategic plan revolve around the Public Utilities Board’s infrastructure and corporate culture. The issues identified in the 2013-2018 Strategic Plan support the Public Utilities Board’s Mission Statement of being the foundation for our community’s future by providing reliable infrastructure, competitive rates, and exceptional customer service.

The following table summarizes each of the Public Utilities Board’s five priority issues, goals, and strategies as identified in the Strategic Plan for implementation.

ISSUE	GOAL	STRATEGIES
1 We must address our growing infrastructure and business demands.	BPUB will have the necessary infrastructure to effectively provide reliable and exceptional service at competitive rates.	<ol style="list-style-type: none"> 1. Optimizing and integrating the use of technology increases efficiency. 2. Environmental stewardship enables the community to conserve resources. 3. Preventative maintenance programs improve quality and reliability. 4. A business plan builds the foundation for a successful natural gas utility system. 5. Adequate infrastructure provides reliable service, supports a growing community, and is in alignment with the Greater Brownsville Infrastructure Development Plan.
2 A skilled and knowledgeable workforce must be attracted, developed, and retained.	BPUB will become the employer of choice by offering competitive salaries, benefits, and career development plans for employees.	<ol style="list-style-type: none"> 1. Identifying and addressing employee needs retains a talented and skilled workforce. 2. A competitive compensation package supports employee recruitment and retention. 3. A competitive benefits package supports employee recruitment and retention. 4. A leading recruitment program attracts the most qualified workforce. 5. Effective HR systems increase the HR Department’s productivity in attracting, retaining, and developing the workforce.
3 We must challenge how we work to improve our processes.	Key processes meet and exceed process performance measures.	<ol style="list-style-type: none"> 1. Creating an inventory of key processes builds the foundation for improved organizational performance. 2. Streamlining existing key processes improves efficiency and effectiveness. 3. Defining and documenting processes enhances organizational performance. 4. Implementing revised key processes enables consistency and increases work quality.
4 We must improve our communications.	BPUB will expand and enhance customer and stakeholder understanding of BPUB’s value to the community.	<ol style="list-style-type: none"> 1. Identifying our external audiences, methods, and messages will establish effective communications. 2. Effective and open internal communications improves employee relations and morale.

	BPUB will communicate Board and Management decisions to help employees understand the reasoning behind those decisions and create an avenue for employees to provide feedback.	<ol style="list-style-type: none"> 3. Making the most of every customer contact improves customer relations. 4. Sharing information with key stakeholders about issues, projects, and achievements improves their knowledge and support of BPUB. 5. Partnering and participating in community organizations and events promotes goodwill and enhances BPUB’s image.
5 A value-driven corporate culture must be developed and maintained.	All BPUB employees know, understand and incorporate the core values in their daily work routines.	<ol style="list-style-type: none"> 1. Developing and maintaining a positive work culture and environment builds employee satisfaction and success. 2. Engaging leadership leads to sustainable cultural change. 3. Integrating our core values within our business practices drives cultural change.

In 2014, Brownsville was named an All-America City by the National Civic League (NCL). The All-America City award recognizes “cities where citizen action has succeeded in making the community a better place to live.” The city commission, city staff and collaborative partners, including the Public Utilities Board, successfully illustrated the premise of the U.S. Healthy Communities movement, with projects or initiatives aimed at addressing the underlying conditions that affect the health of communities. The Public Utilities Board’s role included highlighting the annual Connect to Wellness fitness event and the future development of outdoor activity spaces as envisioned by community partners of the Public Utilities Board’s Resaca Restoration Project.

In 2017, the Public Utilities Board was one of 43 of the nation’s more than 2,000 public power utilities to earn the American Public Power Association’s (APPA) highest designation, Diamond Reliable Public Power Provider (RP3®), for providing consumers with reliable and safe electric service. The RP3 designation recognizes public power utilities that demonstrate proficiency in four key disciplines: reliability, safety, workforce development and system improvement. Criteria within each category are based on sound business practices and represent a utility-wide commitment to safe and reliable delivery of electricity.

ECONOMIC CONDITIONS AND OUTLOOK

The City is the county seat of Cameron County. It is the southernmost city in Texas and the largest city in the Lower Rio Grande Valley. In Texas, Brownsville is second only to San Antonio in historical significance. Its location is attractive, since it is the closest to the major tourism and business travel attractions of the area: South Padre Island, Mexico, and the Gladys Porter Zoo, rated as one of the ten best zoos in the United States. Brownsville is also one of the top five cities in Texas as a destination location.

The City is located about 25 miles inland from the Gulf of Mexico on the north bank of the Rio Grande River directly across from Matamoros, Mexico, which it joins by three international bridges. The City serves as a trade center for much of the Lower Rio Grande Valley.

According to the U.S. Census Bureau, Brownsville's estimated population for 2017 was 185,349. The demographics of Brownsville's population can be summed up as young and fast growing. The median age is 30.7 years versus a national average of 37.7 years. About 32% of all persons in the City are younger than 18 years of age.

Reporting Entity

A basis for preparing the CAFR for the Public Utilities Board was the identification of the reporting entity. A component unit was considered to be part of the Public Utilities Board's reporting entity when it was concluded that the Public Utilities Board was financially accountable for the entity or the nature and significance of the relationship between the Public Utilities Board and the entity was such that exclusion would cause the Public Utilities Board's financial statements to be misleading or incomplete.

The reporting entity of the Public Utilities Board consists of the primary government and a blended component unit, Southmost Regional Water Authority. The Authority is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196. The Authority provides treated water to various areas of Cameron County.

Major Initiatives

Farm to Market (FM) 511-802 Colonias Project

The Public Utilities Board and the Texas Water Development Board (TWDB) completed the design on the FM 511 and 802 Wastewater Improvement Project in December 2011. The project cost for the design portion was \$1.3 million and included TWDB funding of \$1.08 million and Public Utilities Board funding of \$291,000. The Public Utilities Board successfully submitted a grant application for the construction phase and was awarded on April 19, 2012 a grant of \$24,505,000 and a loan of \$840,000 from the Economically Distressed Areas Program (EDAP). TWDB performed an Environmental Review of the FM 511 and 802 Wastewater Improvement Project proposed by the Public Utilities Board, pursuant to environmental assessment requirements of Sections 363.14 and 363.13 of the TWDB Rules. The construction phase consists of: seven lift stations; upgrade three existing lift stations; 120,000 linear feet of 8, 10, 12 and 15-inch gravity sewer lines; 43,500 linear feet of 4, 6 and 8-inch force mains and 874 service connections. The project was substantially complete in December 2016. Through September 30, 2017 TWDB has funded \$23,525,433 of project costs while the Public Utilities Board has paid \$1,763,432 in project costs. The Public Utilities Board has secured \$3.7 million from the Border Environment Cooperative Commission/North American Development Bank (NADBank) for 465 service connections to the sewer lines of which 64 have been completed as of September 30, 2017. Estimated completion date of the remaining connections is July 2018.

Resaca Restoration Project

Resacas are former distributaries of the Rio Grande River. They now serve as urban waterways throughout the City of Brownsville. The central focus of the Resaca Restoration Project involves the removal of accumulated bottom sediments through dredging, which will increase both the depths and storage capacity of the resacas. It is anticipated that the depths of most resacas will be restored from less than two (2) feet in some areas up to eight (8) feet in others. Plans for dredging the resacas have been designed to improve water quality, promote erosion control and bank stabilization, while also improving habitat conditions for fish and other aquatic wildlife. During rainy seasons or hurricanes, the dredged resacas will provide better flood control by storing flood waters that otherwise could inundate adjacent developments.

The project scope was implemented in phases. Phase I included dredging several segments of the Town Resaca system. These segments included the City Cemetery resaca, Dean Porter Park resaca, the Gladys Porter Zoo resaca, and the Resaca Boulevard resaca. The Public Utilities Board began by undertaking planning studies and submitting proposed plans to the U.S. Army Corps of Engineers and the TCEQ. Phase I work began on March 2013. The dredged sediment handling process consists of a series of treatment components designed specifically to remove the solid material from the dredged slurry extracted from the resacas, leaving essentially clean water for discharge back into the resacas. Multiple separators remove and stockpile coarse debris and sand particles which are then hauled from the processing site to appropriate disposal areas. Dredging of the Phase I resacas was completed in September 2017.

The Public Utilities Board contributed \$11.38 million in equipment and other costs and O&M funding for staff, engineering and other services for the dredging of the Phase I resacas.

Odor Control Improvements for Various Lift Stations Phase I & II

As part of the improvements recommended in the Odor Control Master Plan for the Wastewater Treatment and Collection Systems, the Public Utilities Board is conducting odor control improvements to mitigate foul odors at various wastewater facilities. The improvements will help minimize detectable odors and improve air quality within the wastewater facilities. Improvements at the South Wastewater Treatment plant and eight lift stations have already been completed at a construction cost of \$4.72 million. Improvements at seven additional lift stations will be completed during calendar year 2018 at an estimated construction cost of \$2.55 million.

Proposed New Electric Generation Station

On January 28, 2013, the Public Utilities Board and Tenaska Power Services Co. (“Tenaska”), an independent energy company based in Omaha, Nebraska, announced that they had entered into a development and purchase agreement which entitles the Public Utilities Board to purchase an ownership interest in an 800 MW natural gas-fueled combined-cycle electric generating plant that Tenaska plans to build on 270 acres in the north Brownsville area. The agreement permits the Public Utilities Board to receive 200 MW of electricity from the plant, which is an amount sufficient to meet the needs of approximately 100,000 homes in Brownsville. The plant (which is generally referred to by parties as the Tenaska Brownsville Generating Station) will use water from the Public Utilities Board’s Robindale Wastewater Treatment Plant. Under the agreement, the Public Utilities Board will be required to construct a water pipeline from the treatment plant to the electric plant (approximately five miles) and a gas

transmission pipeline to transport natural gas from the Edinburg area (approximately 50 miles). Construction of the plant, which is estimated to take 22 to 26 months to complete, is subject to Tenaska's receipt of all required permits and securing contracts with customers to purchase the remaining power from the plant. The Public Utilities Board expects that the City will need to issue approximately \$225,000,000 in principal amount of additional debt to finance its portion of costs related to the construction of the plant. No decisions have been made as to whether Tenaska will proceed with constructing the proposed Tenaska Brownsville Generating Station, but issuing approximately \$225,000,000 of additional obligations to finance the City's portion of the new facility would result in a significant increase in the Public Utilities Board's total outstanding indebtedness (i.e., approximately 77% over current outstanding debt).

New Public Utilities Board Service Yard

The Public Utilities Board is currently in the preconstruction phase of a new service yard to be located on FM 511 adjacent to the Southmost Regional Water Authority Water Treatment Plant. The new service yard will replace, consolidate and relocate thirteen existing facilities and the operations service center. It will provide a state of the art facility which will enhance employee performance and improve systems efficiency. This project is aligned with the Public Utilities Board Strategic Plan Issue 1 to address growing infrastructure and business demands.

Underground Electrical Line Upgrades

The Public Utilities Board completed the replacement of underground electrical lines in the Land O' Lakes area with service to over 800 customers. There were approximately 300 pit excavations and over 47,000 feet of cable installed. The project was completed in September 2016.

Upon completion of the Land O' Lakes project, work began on replacing approximately 180,000 feet of underground electrical lines in the Brownsville Country Club area which serves over 2,000 customers. The expected completion date of this project is December 2019.

Downtown Market Square Utility Improvements

As part of the City of Brownsville's Market Square Revitalization Project, the Public Utilities Board assisted with electric and wastewater utility improvements. The electric improvements included the conversion of overhead facilities to underground, the replacement of meters and the installation of new padmount transformers. The wastewater improvements included the replacement of clay gravity sewer lines and manholes. The total cost of these utility improvements was \$1.58 million. The project was completed in August 2017.

Brownsville Airport Electric Utility Improvements

As part of the City of Brownsville's New Airport Passenger Terminal Project, the Public Utilities Board has agreed to provide \$1.1 million dollars of in-kind funding for electric utility system improvements. The project will require the conversion of overhead utilities to underground. State law requires utility facilities located on public right-of-way and grounds to be relocated at the expense of the utility if necessary for authorized public improvements.

New Two Million Gallon Elevated Storage Tank to Replace the Southmost Elevated Storage Tank

The existing one-million gallon elevated storage tank on Southmost Road, constructed in 1969 is in poor structural condition and beyond its useful life. This tank is scheduled to be demolished during the first quarter of 2018. Additionally, the existing one-million gallon elevated water storage tank at UTRGV is approaching the end of its useful life and will need to be demolished soon. The Public Utilities Board will construct a new two-million gallon composite elevated storage tank to replace the two tanks and maintain adequate water system capacity, as well as pressure in the water distribution system for an estimated cost of \$3.6 million.

Light-Emitting Diode (LED) Streetlight Conversions

The Public Utilities Board, as part of a Street Lighting Consortium with the City of Brownsville, is analyzing and evaluating data for future conversions of street lights from high pressure sodium, metal halide and mercury vapor to an LED lamp type. This will be a multi-year project to strategically prioritize areas of the city to include in this improvement plan.

LONG-TERM FINANCIAL PLANNING

The Public Utilities Board's current electric, water, and wastewater capital improvement plan identifies projects for a five-year period ending September 30, 2022. The electric capital improvement plan identifies approximately \$102.2 million in generation, transmission, and distribution projects of which \$39.4 million are projected to be bond financed. The water capital improvement plan identifies approximately \$51.0 million in projects, of which approximately 72.20% are projected to be bond financed while the wastewater capital improvement plan identifies approximately \$60.1 million in projects, of which approximately 78.41% are projected to be bond financed.

CASH MANAGEMENT POLICIES AND PRACTICES

As required by the provisions of Chapter 2256 of the Texas Government Code, the Public Utilities Board updates its Investment Policy annually. A primary objective of the Public Utilities Board's Cash and Investment Program is the safety and preservation of the principal. The Investment Policy authorizes the Public Utilities Board to invest in treasury notes, agencies and instrumentalities, and other investments guaranteed by the U.S. Treasury or the State of Texas, or investments rated by a national rating company at "A" or better. The Investment Policy also authorizes investments in local government investment pools and in certificates of deposit issued by banks across the United States that are FDIC insured. Investments are made only with certified brokers/dealers as required by the Investment Policy.

During FY 2017, the Public Utilities Board's cash portfolio earned an average yield of 0.87%. The Public Utilities Board's cash deposits at September 30, 2017, were entirely covered by the Federal Deposit Insurance Corporation or were secured by collateral held by the Bank of New York Mellon in the Public Utilities Board's name, pursuant to the Public Utilities Board's Investment Policy and its Depository Agreement.

AWARDS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Utilities Board for its comprehensive annual financial report for the fiscal year ended September 30, 2016. This was the eleventh consecutive year that the Public Utilities Board has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report 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 that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated services of the entire staff of the Public Utilities Board's Finance Division. Each member of this division has our sincere appreciation for the contributions made in the preparation of this report.

We would also like to acknowledge the support of the Board for its continuing interest in the development of a strong financial system to serve the customers of the Public Utilities Board.

Respectfully submitted,

Leandro G. García, CPA
Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Public Utilities Board
of the City of Brownsville
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Christopher P. Morill

Executive Director/CEO

PRINCIPAL OFFICIALS

~ Board Members ~

Rafael E. VelaChair
Rafael S. Chacon..... Vice-Chair
Martin C. ArambulaSecretary/Treasurer
Mayor Antonio Martinez Ex-Officio Member
Celestino Villarreal Member
Nurith Galonsky..... Member
Armando Magallanes Member

~ Board Administration ~

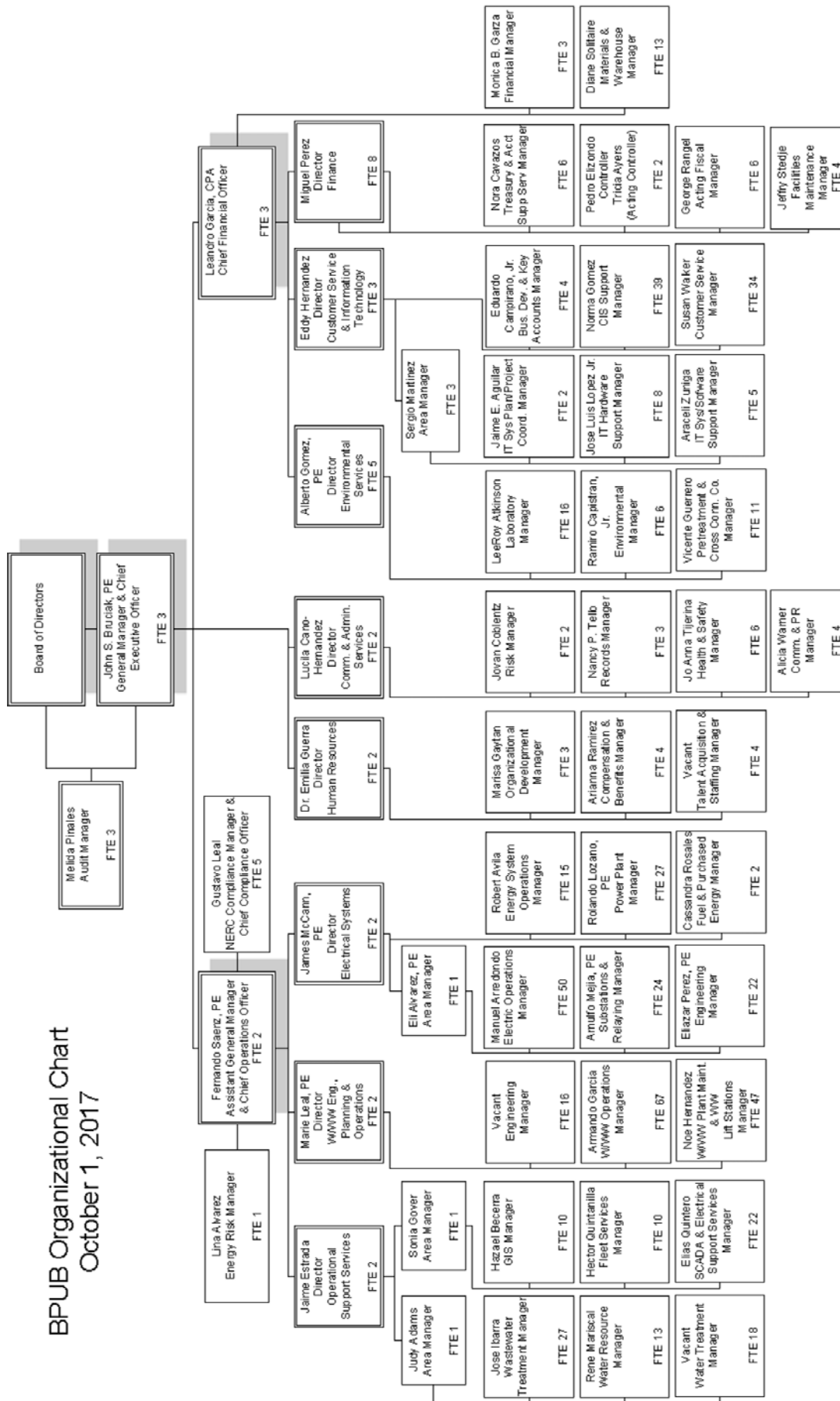
John S. Bruciak, P.E. General Manager & CEO
Fernando Saenz, P.E. Assistant General Manager & COO
Leandro G. García, CPA Chief Financial Officer

~ Consultants and Advisors ~

Andrews Kurth, LLP..... Houston, Texas
Carr, Riggs, & Ingram, LLC Brownsville, Texas
Davidson Troilo Ream & Garza, PCSan Antonio, Texas
Estrada Hinojosa & Company, Inc.Dallas, Texas
Treviño & Bodden, LLP ⁽¹⁾ Brownsville, Texas

⁽¹⁾ No longer affiliated with the entity subsequent to the end of the fiscal year.

BPUB Organizational Chart October 1, 2017



FINANCIAL SECTION

- ❖ *Independent Auditors' Report*
- ❖ *Management's Discussion and Analysis*
- ❖ *Financial Statements*
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- ❖ *Required Supplementary Information*

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Public Utilities Board of the City of Brownsville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Public Utilities Board of the City of Brownsville, Texas ("Public Utilities Board"), a component unit of the City of Brownsville, Texas, as of and for the year ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Public Utilities Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Public Utilities Board as of September 30, 2017 and 2016, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-15 and the schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of funding progress on pages 66-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Public Utilities Board's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2018, on our consideration of the Public Utilities Board's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Utilities Board's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas

March 12, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Public Utilities Board of the City of Brownsville, Texas' (Public Utilities Board) annual financial report presents management's analysis of its financial performance during the fiscal years that ended on September 30, 2017 and 2016. Please read it in conjunction with the financial statements that follow this section.

Overview of Annual Financial Report

The financial statements report information about the Public Utilities Board using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements.

The Statements of Net Position present the financial position of the Public Utilities Board on a full accrual, historical cost basis. The Statements of Net Position present information on all of the Public Utilities Board's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Public Utilities Board is improving or deteriorating.

While the Statements of Net Position provide information about the nature and amount of resources and obligations at year-end, the Statements of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Public Utilities Board's recovery of its costs.

The Statements of Cash Flows present changes in cash and cash equivalents, resulting from operating, financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Public Utilities Board's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Financial Analysis

The following condensed financial information and other selected information serve as the key financial data and indicators for management monitoring and planning.

Financial Condition

One of the most important questions asked about the Public Utilities Board's finances is, "Is the Public Utilities Board, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Public Utilities Board's activities in a way that will help answer this question. These two statements report the net position of the Public Utilities Board and changes in them. Increases or decreases in net position over time is a useful indicator of whether the Public Utilities Board's financial health is improving or deteriorating.

The Public Utilities Board's assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$488.5 million at the close of fiscal year 2017. Total net position increased by \$5.3 million or 1.1% compared to the previous fiscal year. The steady increase in total net position of the Public Utilities Board is a good indicator of its overall financial health.

Net position in investment in capital assets totaled \$311.7 million and \$310.7 million for fiscal years 2017 and 2016, respectively. The restricted net position of \$149.4 million and \$143.7 million for fiscal years 2017 and 2016, respectively, is subject to external restrictions on how it may be used. The remaining balances of unrestricted net position, totaling \$27.4 million and \$28.8 million for fiscal years 2017 and 2016, respectively, may be used to meet the Public Utilities Board's ongoing obligations. The Public Utilities Board's changes in net position are further analyzed in Table A-1 and Table A-2.

The City Commission adopted a five-year rate proposal on December 17, 2012, that included increases sufficient to meet projected costs and debt coverage requirements. Rates were increased effective April 1, 2013, for the electric utility and subsequent rate increases have effective dates of October 1, 2013, October 1, 2014, October 1, 2015, and October 1, 2016.

While affordability is always a concern, the rate increases implemented will allow the Public Utilities Board to continue investing in core service areas including energy reliability, water quality, and wastewater treatment services.

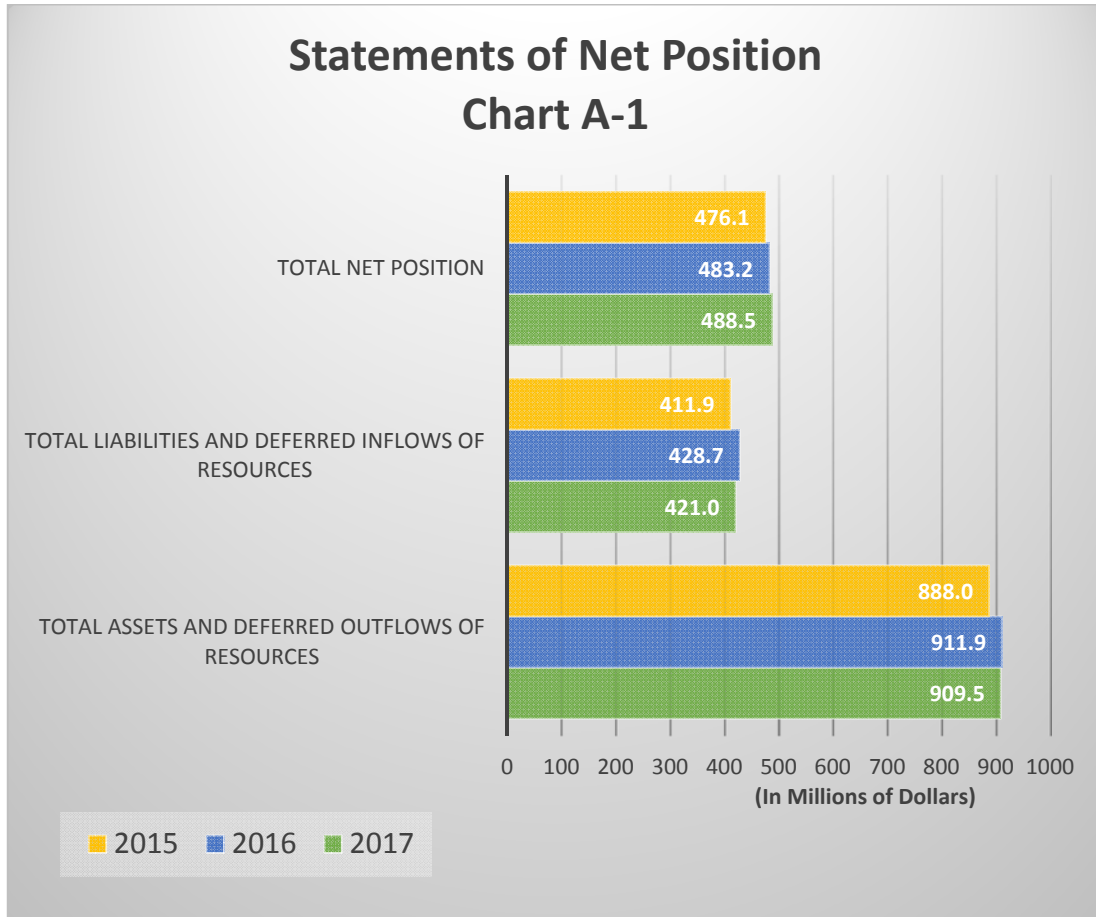
Net Position

A summary of the Public Utilities Board's Statements of Net Position is presented in Table A-1.

TABLE A-1
STATEMENTS OF NET POSITION
September 30, 2017, 2016 and 2015
(in millions of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 245.6	\$ 238.8	\$ 218.8
Capital assets	634.3	641.1	644.9
Total assets	<u>879.9</u>	<u>879.9</u>	<u>863.7</u>
Deferred outflows of resources	<u>29.6</u>	<u>32.0</u>	<u>24.3</u>
Total assets plus deferred outflows of resources	<u>909.5</u>	<u>911.9</u>	<u>888.0</u>
Current liabilities	60.5	52.0	45.4
Long-term liabilities	<u>358.8</u>	<u>374.0</u>	<u>364.5</u>
Total liabilities	<u>419.3</u>	<u>426.0</u>	<u>409.9</u>
Deferred inflows of resources	<u>1.7</u>	<u>2.7</u>	<u>2.0</u>
Total liabilities plus deferred inflows of resources	<u>421.0</u>	<u>428.7</u>	<u>411.9</u>
Net position:			
Investment in capital assets	311.7	310.7	308.0
Restricted	149.4	143.7	117.1
Unrestricted	<u>27.4</u>	<u>28.8</u>	<u>51.0</u>
Total net position	<u>\$ 488.5</u>	<u>\$ 483.2</u>	<u>\$ 476.1</u>

A graphic summary of the Public Utilities Board’s Statements of Net Position is presented in Chart A-1 below.

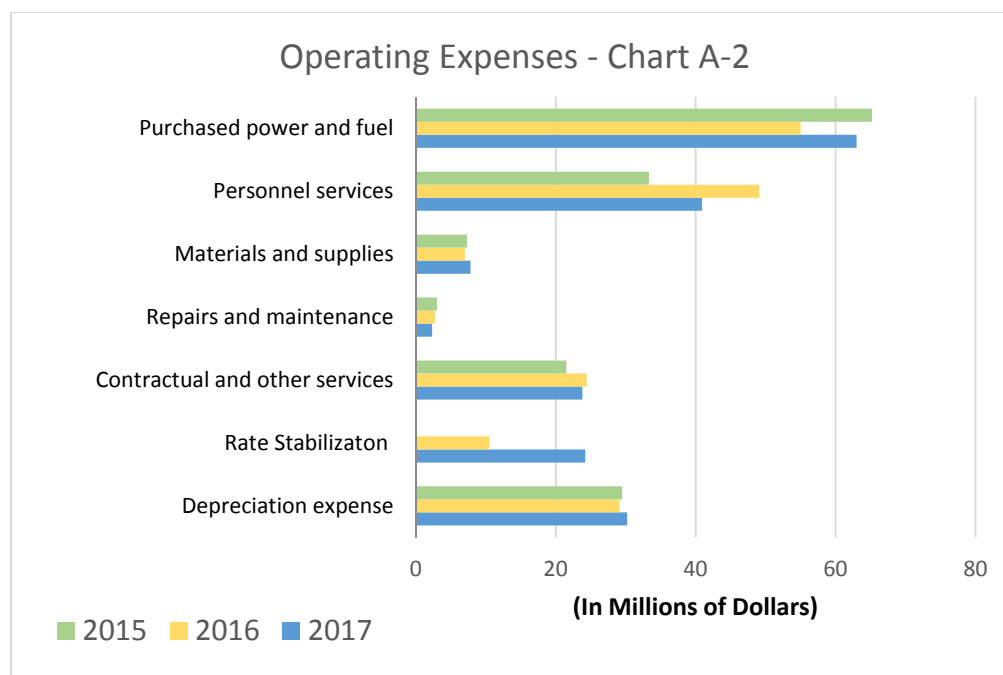


The Public Utilities Board’s net position as of September 30, 2017, increased by \$5.3 million or 1.1% from FY 2016, and increased 1.5% to \$483.2 million as of September 30, 2016 from the previous year. The increases in 2017 and 2016 are attributed to income earned on operations of the utility system and to receipt of grant funds reported as capital contributions.

The following is a tabular summarization of the Statement of Revenues, Expenses, and Changes in Net Position followed by a graphic summary of operating expenses.

TABLE A-2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For Fiscal Years Ended September 30, 2017, 2016 and 2015
(in millions of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues - sales	\$ 216.2	\$ 202.7	\$ 202.9
Investment and interest income	1.7	1.2	0.8
Non-Operating revenue	0	0.5	1.6
Total revenues	<u>217.9</u>	<u>204.4</u>	<u>205.3</u>
Purchased power and fuel	62.7	55.5	65.2
Personnel services	40.9	49.1	33.3
Materials and supplies	7.8	7.0	7.3
Repairs and maintenance	2.2	2.7	3.0
Contractual and other services	23.7	24.4	21.5
Rate stabilization	24.2	10.5	-
Depreciation expense	30.2	29.1	29.5
Interest expense	13.8	14.7	14.5
Loss on disposition of capital assets	3.3	1.0	3.6
Payments to the City of Brownsville	10.7	9.8	9.0
Total expenses	<u>219.5</u>	<u>203.8</u>	<u>186.9</u>
Changes in net position before capital contributions	(1.6)	0.6	18.4
Capital contributions	6.9	6.5	13.0
Change in net position	<u>5.3</u>	<u>7.1</u>	<u>31.4</u>
Beginning net position	483.2	476.1	457.6
Prior period adjustment	-	-	(12.9)
Beginning net position, as restated	<u>483.2</u>	<u>476.1</u>	<u>444.7</u>
Ending net position	<u>\$ 488.5</u>	<u>\$ 483.2</u>	<u>\$ 476.1</u>



While the Statements of Net Position show the yearly change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. For fiscal year 2017, the Public Utilities Board experienced an increase in operating revenues from prior year of \$13.5 million due in part to the final rate increase in utility system base revenue that was implemented on October 5, 2016. Investment earnings increased \$0.5 million from fiscal year 2016. Capital contributions increased slightly by \$.2 million from the prior year.

Some notable changes in expenses for 2017 were increases in purchased power and fuel expenses of \$7.2 million, and an increase in rate stabilization of \$13.7 million. Purchased power and fuel expenses can be attributed to increased consumer demand in kWh services from the previous year. For more detail on the rate stabilization, see Note 13 on page 62. Personnel services decreased by \$8.2 million. An increase in the Public Utilities Board's retirement plan matching ratio occurred in fiscal year 2016 with a required catch-up contribution. Personnel services decreased from the \$49.1 million observed in fiscal year 2016, which included the retirement plan change, to \$40.9 million in fiscal year 2017. Loss on disposition of capital assets increased from prior year by \$2.3 million. Overall, the Public Utilities Boards net position increased \$5.3 million in 2017.

In 2016, the Public Utilities Board had a decrease in operating revenues of \$0.2 million due to a combination of utility system revenue increases and decreases. Investment earnings increased \$0.4 million from fiscal year 2015. Non-operating revenue decreased \$1.1 million from prior year. Capital contributions decreased by \$6.5 million. Capital contributions may vary greatly from year to year based on grant awards and the cyclical nature of housing, commercial and industrial development in the City.

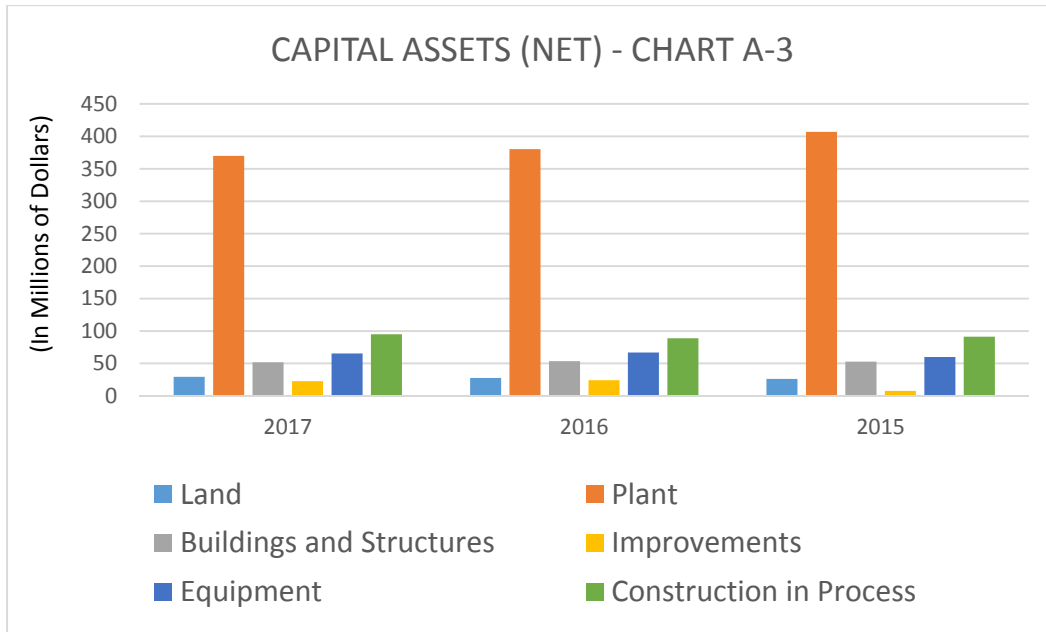
Some notable changes in expenses for 2016 were increases in personnel services of \$15.8 million, and a decrease in the loss on disposition of capital assets of \$2.6 million. The increase in personnel services can be attributed to an increase in pension expense and benefits. BPUB Board of Directors approved an increase in municipal matching ratio from 1.5-1 to 2-1 for employee retirement benefits. Overall, the Public Utilities Boards net position increased \$7.1 million in 2016.

Capital Assets

At the end of 2017 and 2016, the Public Utilities Board's net capital assets in Table A-3 of \$634.3 million and \$641.1 million, respectively. This represents a 1.1% or a \$6.8 million decrease, and a 0.6% or a \$3.8 million decrease, respectively, for fiscal year 2017 and 2016.

TABLE A-3
CAPITAL ASSETS
September 30, 2017, 2016 and 2015
(in millions of dollars)

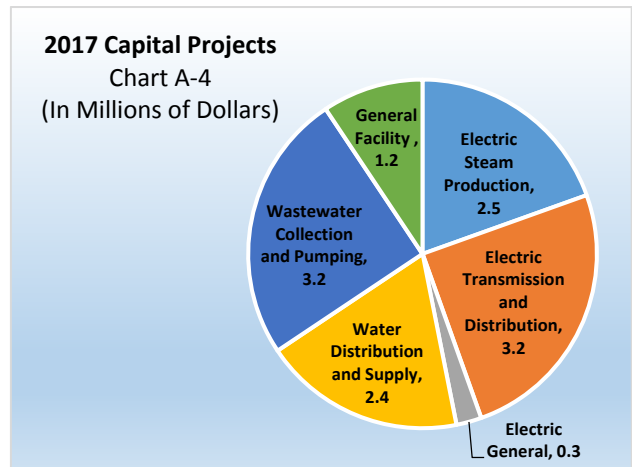
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 29.5	\$ 27.6	\$ 26.1
Plant	751.4	746.3	737.8
Buildings and structures	92.2	92.4	89.9
Improvements other than buildings	48.5	48.6	45.9
Equipment	130.1	133.0	125.1
Construction in progress	<u>95.0</u>	<u>88.7</u>	<u>91.3</u>
Subtotal	1,146.7	1,136.6	1,116.1
Less accumulated depreciation	<u>(512.4)</u>	<u>(495.5)</u>	<u>(471.2)</u>
Net capital assets	<u>\$ 634.3</u>	<u>\$ 641.1</u>	<u>\$ 644.9</u>



The following is a summary of some of the major improvements to the utility system during each fiscal year:

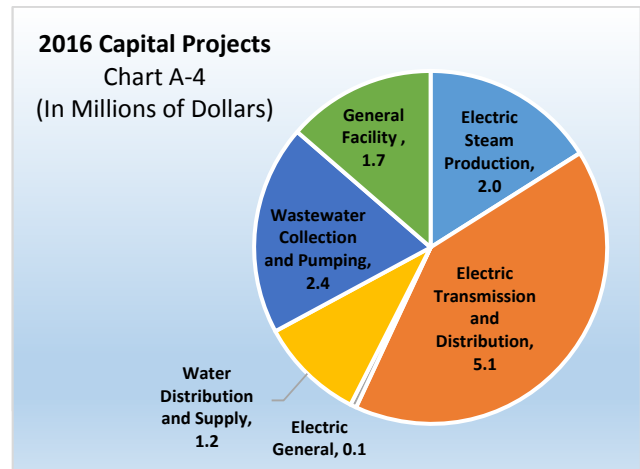
<u>Project Category:</u>	<u>2017</u>
Electric Steam Production	\$ 2.5
Electric Transmission and Distribution	3.2
Electric General	0.3
Water Distribution and Supply	2.4
Wastewater Collection and Pumping	3.2
General Facility	1.2

(Reported in millions of dollars)



<u>Project Category:</u>	<u>2016</u>
Electric Steam Production	\$ 2.0
Electric Transmission and Distribution	5.1
Electric General	0.1
Water Distribution and Supply	1.2
Wastewater Collection and Pumping	2.4
General Facility	1.7

(Reported in millions of dollars)



At September 30, 2017 and 2016, the Public Utilities Board had contractual obligations totaling approximately \$14,466,083 and \$13,236,008, respectively, for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board and restricted funds.

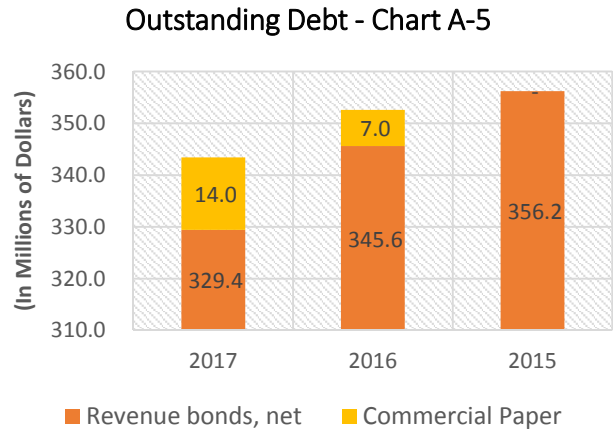
Additional information on the Public Utilities Board’s capital assets can be found in Note 3 to the financial statements on pages 36-37 of this report.

Debt Administration

The Public Utilities Board’s outstanding debt is summarized as follows:

TABLE A-4
OUTSTANDING DEBT
September 30, 2017, 2016 and 2015
(in millions of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue bonds, net	\$ 329.4	\$ 345.6	\$ 356.2
Commercial Paper	14.0	7.0	-
Total	<u>\$ 343.4</u>	<u>\$ 352.6</u>	<u>\$ 356.2</u>



Additional information on the Public Utilities Board’s debt can be found in Notes 5 and 6 on pages 38-46 of this report.

The Public Utilities Board continues to have insured bond ratings from the national rating agencies. Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., has assigned short term insured ratings of A-1+, and Fitch Ratings has assigned short term insured ratings of F1+. The Public Utilities Board underlying ratings on its senior lien debt are “A2”, “A+” and “A+” by Moody’s, Standard & Poor’s, and Fitch Ratings, respectively.

Revenue bonds outstanding at September 30, 2017 and 2016 were \$294,105,000 and \$308,804,000, respectively. Interest on bonds is due semi-annually on March 1 and September 1, and the principal is due annually on September 1. Revenue bond debt service coverage for the Public Utilities Board’s priority and second lien obligations was calculated at 3.00 and 2.40 times at September 30, 2017 and 2016, respectively.

On January 15, 2003, the Public Utilities Board sold \$76,400,000 variable rate demand bonds as series 2002A and 2002B Utility System Subordinate Lien Revenue and Refunding Bonds. The bonds’ variable rate was synthetically fixed at 2.576% until 2008 utilizing a swap financing strategy. The City Commission of the City of Brownsville, Texas, authorized the execution of a Rate Cap Agreement effective September 1, 2006, through September 1, 2011, to give an insurance against increasing short term rates. The Public Utilities Board executed an agreement with an eligible provider for a notional amount of \$41,880,000 with an interest rate cap of 4.50%. The notional amount of the original swap decreased to \$10,830,000 effective September 1, 2006, provided a synthetic fixed rate of 2.576%. Proceeds from the sale of the bonds were used to retire currently outstanding revenue bonds, to build, improve, extend, enlarge, and repair the system, and to pay costs of issuance of the bonds. On August 24, 2005, the Public Utilities Board sold \$163,725,000 in tax exempt bonds and \$56,855,000 in taxable bonds as part of a major debt restructuring. The tax exempt bonds, Series 2005A, provided proceeds to refund \$50,890,000 in Series 1995 outstanding obligations, \$50,000,000 in Series 2001A and \$50,000,000 in Series 2001B variable rate outstanding

obligations, and \$7,250,000 in outstanding commercial paper notes, and provided \$20,000,000 in new money bonds. The taxable bonds, Series 2005B, provided proceeds to defease \$27,420,000 in Series 1992 outstanding obligations and \$22,120,000 in Series 1995 outstanding obligations.

On December 1, 2006, the Public Utilities Board issued \$601,000 City of Brownsville, Texas Utilities System Junior Lien Revenue Bonds, Series 2007 for the purpose of building, improving, extending, enlarging, and repairing the City's utilities system and to pay costs of issuance of the bonds.

The Public Utilities Board issued \$77,805,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2008. The refunding bonds provided proceeds to defease \$40,000,000 of Commercial Paper Notes, Series 2004, \$32,285,000 of the Series 2002A Utility System Subordinate Lien Revenue and Refunding Bonds, and \$13,415,000 of the Series 2002B Utility System Subordinate Lien Revenue and Refunding Bonds.

On February 28, 2011, the Public Utilities Board issued \$12,305,000 in Utilities System Revenue Refunding Bonds, Series 2011. The refunding bonds provided proceeds to refund \$6,270,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005A and \$5,980,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005B.

On September 25, 2012, the Public Utilities Board issued \$20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus \$5,275,000 in issuer contributions were used to defease \$24,450,000 of Commercial Paper notes.

On October 1, 2012, the Public Utilities Board issued \$840,000 in Utility System Junior Lien Revenue Bonds, Series 2012. Proceeds from sale of the Obligations will be used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

On May 1, 2013, the Public Utilities Board issued \$118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bonds provided proceeds to refund \$109,985,000 of Utility System Improvement and Refunding Bonds, Series 2005A. In addition, the proceeds provided funds of \$11,818,500 to make a cash deposit into the Debt Service Reserve Fund.

On July 15, 2015, the Public Utilities Board issued \$94,770,000 in Utilities System Revenue Refunding Bonds, Series 2015. The bonds provided proceeds to refund \$49,060,000 of Series 2005A Revenue Improvement & Refunding Bonds, \$27,815,000 of Series 2005B Revenue Refunding Bonds and \$5,480,000 of Series 2011 Revenue Refunding Bonds. In addition, the proceeds provided funds to defease \$20,000,000 in outstanding Commercial Paper Notes.

On May 15, 2016, the Public Utilities Board issued \$39,410,000 in Utilities System Revenue Refunding Bonds, Series 2016. The bonds, plus a premium of \$7,705,681, provided proceeds to refund \$42,505,000 of the Series 2008 Revenue Refunding Bonds.

The Public Utilities Board's participation in the Southmost Regional Water Authority's (the Authority) desalination plant project was complete and operational during 2005. The Authority successfully issued \$30,975,000 in Water Supply Contract Revenue Bonds during fiscal year 2003 and has expended approximately 100.0% of bond proceeds in the construction of the desalination plant. The Series 2002 bonds were issued with insured ratings of "Aaa" and "AAA" by Moody's Investor Services and Fitch Ratings, respectively. The underlying ratings on the bonds are "A2" and "A" by Moody's and Fitch, respectively. The Public Utilities Board total interest in the project is 92.91%. The Authority is considered a blended component unit of the Public Utilities Board. As a participating owner, the Public Utilities Board is obligated to contribute its percentage allocation of the Authority's debt service obligations and annual system budget. The Public Utilities Board's total 2017 and 2016 contributions to the Authority were \$6,170,629 and \$6,155,725, respectively. The Public Utilities Board's participation in the Authority's desalination project provides the City with an alternate, long-term, drought-resistant source of drinking water.

The Authority issued \$9,950,000 in aggregate principal amount of Water Supply Contract Revenue Refunding Bonds, Series 2006. The refunding bonds provided proceeds to defease \$9,360,000 of the Series 2002 Revenue Bonds for the years 2019 and from 2028 through 2032.

On December 7, 2009, the Authority issued \$9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and \$3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the Texas Water Development Board Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment System. The objective of this project is to achieve compliance with both existing and future maximum contaminant levels for arsenic in public drinking water by constructing a full scale Micro Filtration Pretreatment System prior to entering the existing reverse osmosis treatment process. An additional need is to control and reduce iron levels to eliminate complaints of colored water. Project objectives also include an additional 1.0 million gallons per day of capacity through upgrading certain pumps within the existing well field and adding one additional reverse osmosis train.

On September 26, 2012, the Southmost Regional Water Authority issued \$13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus the bond premium were used to defease \$14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

On April 18, 2017, the Authority issued \$9,255,000 in Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bond proceeds plus the bond premium of \$725,245 were used to defease \$9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032.

Request For Information

This financial report is designed to provide the reader with a general overview of the Public Utilities Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, P.O. Box 3270, Brownsville, TX 78523-3270. This report is available on the Public Utilities Board's website – www.brownsville-pub.com.

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FINANCIAL STATEMENTS

- ❖ *Statements of Net Position*
- ❖ *Statements of Revenues, Expenses, and Changes in Net Position*
- ❖ *Statements of Cash Flows*

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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Net Position

September 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 17,780,938	\$ 13,866,339
Investments	34,478,780	32,902,513
Receivables:		
Fees and services, net of allowance for uncollectible accounts of \$1,099,311 and \$426,041 in 2017 and 2016, respectively	24,508,993	26,884,759
Intergovernmental	604,840	1,031,803
Accrued interest receivable	352,443	290,539
Inventories	9,298,749	10,722,092
Prepays	1,039,157	1,237,627
Total unrestricted current assets	<u>88,063,900</u>	<u>86,935,672</u>
Current restricted assets:		
Cash and cash equivalents	7,133,368	3,741,927
Investments	147,966,425	145,626,918
Total restricted current assets	<u>155,099,793</u>	<u>149,368,845</u>
Total current assets	<u>243,163,693</u>	<u>236,304,517</u>
Non-current assets:		
Capital assets, net of accumulated depreciation	634,289,707	641,099,073
Unamortized regulatory assets	2,443,254	2,532,550
Total non-current assets	<u>636,732,961</u>	<u>643,631,623</u>
Total assets	<u>879,896,654</u>	<u>879,936,140</u>
Deferred Outflows of Resources		
Deferred charge on refunding	19,852,284	20,993,617
Deferred charge - fuel cost under recovery	364,158	-
Unrealized contributions and losses related to pension	9,399,260	11,011,401
Total deferred outflows of resources	<u>29,615,702</u>	<u>32,005,018</u>
Total assets plus deferred outflows of resources	<u>\$ 909,512,356</u>	<u>\$ 911,941,158</u>

Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Net Position - Continued

September 30, 2017 and 2016

Liabilities	2017	2016
Current liabilities:		
Accounts payable	\$ 16,201,137	\$ 16,229,882
Accrued vacation and sick leave	6,830,450	6,140,311
Due to primary government	3,104,705	2,748,853
Self insurance worker's compensation claims	122,571	90,870
Total unrestricted current liabilities	<u>26,258,863</u>	<u>25,209,916</u>
Current liabilities payable from restricted assets:		
Accounts payable and accrued liabilities	343,629	503,649
Accrued interest	1,124,920	1,169,743
Customer deposits	4,013,140	3,863,989
Current portion of revenue bonds payable	14,806,000	14,239,000
Commercial paper	14,000,000	7,000,000
Total current liabilities payable from restricted assets	<u>34,287,689</u>	<u>26,776,381</u>
Total current liabilities	<u>60,546,552</u>	<u>51,986,297</u>
Non-current liabilities:		
Revenue bonds payable net of unamortized premium	314,612,871	331,348,392
Other post-employment benefits	9,506,413	8,674,722
Net pension liability	34,632,949	33,941,014
Self insurance worker's compensation claims	17,113	42,425
Total non-current liabilities	<u>358,769,346</u>	<u>374,006,553</u>
Total liabilities	<u>419,315,898</u>	<u>425,992,850</u>
Deferred Inflows of Resources		
Deferred credit - fuel cost over recovery	-	303,078
Unrealized contributions and losses related to pension	1,676,487	2,383,320
Total deferred inflows of resources	<u>1,676,487</u>	<u>2,686,398</u>
Total liabilities plus deferred inflows of resources	<u>420,992,385</u>	<u>428,679,248</u>
Net Position		
Net investment in capital assets	311,666,705	310,655,228
Restricted for:		
Debt service	3,544,986	3,576,530
Repair and replacement	121,093,500	110,290,480
Operating reserve	17,001,330	17,000,223
Fuel adjustment subaccount	6,275,000	11,475,000
Capital projects	1,492,311	1,454,010
Unrestricted	27,446,139	28,810,439
Total net position	<u>488,519,971</u>	<u>483,261,910</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u>909,512,356</u>	\$ <u>911,941,158</u>

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Revenues, Expenses, and Changes in Net Position

For the Fiscal Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Sales and service charges	\$ 220,877,502	\$ 207,550,223
Less utilities service to the City of Brownsville, Texas	<u>(4,629,113)</u>	<u>(4,804,112)</u>
Total operating revenues	<u>216,248,389</u>	<u>202,746,111</u>
Operating expenses:		
Purchased power and fuel	62,733,293	55,451,964
Personnel services	40,867,688	49,076,784
Materials and supplies	7,790,646	6,960,626
Repairs and maintenance	2,269,312	2,666,119
Contractual and other services	23,753,428	24,443,206
Rate stabilization	24,200,000	10,525,000
Depreciation	<u>30,193,819</u>	<u>29,063,661</u>
Total operating expenses	<u>191,808,186</u>	<u>178,187,360</u>
Operating income	<u>24,440,203</u>	<u>24,558,751</u>
Nonoperating revenues (expenses):		
Investment and interest income	1,703,055	1,202,314
Operating grant revenue	25,000	-
Interest expense	(13,811,909)	(14,743,208)
Loss on disposition of capital assets	(3,356,511)	(1,019,326)
Other	39,543	457,298
Payments to City of Brownsville	<u>(10,666,207)</u>	<u>(9,822,602)</u>
Net nonoperating revenues (expenses)	<u>(26,067,029)</u>	<u>(23,925,524)</u>
Income (loss) before capital contributions	(1,626,826)	633,227
Capital contributions	<u>6,884,887</u>	<u>6,528,237</u>
Change in net position	5,258,061	7,161,464
Net position, beginning of year	<u>483,261,910</u>	<u>476,100,446</u>
Net position, end of year	\$ <u>488,519,971</u>	\$ <u>483,261,910</u>

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Cash Flows

For the Fiscal Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 226,085,953	\$ 215,766,161
Cash payments to suppliers for goods and services	(128,473,687)	(94,997,366)
Cash payments to employees for services	<u>(39,966,423)</u>	<u>(49,153,373)</u>
Net cash provided by operating activities	<u>57,645,843</u>	<u>71,615,422</u>
Cash flows from non-capital financing activities:		
Payments to City of Brownsville	<u>(10,310,355)</u>	<u>(9,846,418)</u>
Net cash (used in) non-capital financing activities	<u>(10,310,355)</u>	<u>(9,846,418)</u>
Cash flows from capital and related financing activities:		
Commercial paper proceeds	7,000,000	7,000,000
Principal paid on capital debt - bond issues	(14,239,000)	(13,453,000)
Interest paid on capital debt	(13,856,732)	(14,836,393)
Capital contributions	3,053,068	5,885,230
Acquisition and construction of capital assets	<u>(19,712,162)</u>	<u>(24,628,606)</u>
Net cash (used in) capital and related financing activities	<u>(37,754,826)</u>	<u>(40,032,769)</u>
Cash flows from investing activities:		
Interest received	1,641,152	1,129,221
Purchases of investment securities	(394,557,987)	(642,385,368)
Proceeds from sales of investment securities	<u>390,642,213</u>	<u>618,053,410</u>
Net cash (used in) investing activities	<u>(2,274,622)</u>	<u>(23,202,737)</u>
Net increase (decrease) in cash and cash equivalents	7,306,040	(1,466,502)
Cash and cash equivalents, beginning of year	<u>17,608,266</u>	<u>19,074,768</u>
Cash and cash equivalents, end of year	\$ <u>24,914,306</u>	\$ <u>17,608,266</u>

Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Statements of Cash Flows - Continued

For the Fiscal Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 24,440,203	\$ 24,558,751
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,193,819	29,063,661
Non-operating expense	(3,831,333)	(906,655)
Provisions for uncollectible accounts	673,269	(321,490)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	1,702,497	457,969
(Increase) decrease in inventory	1,423,343	1,985,458
(Increase) decrease in prepaids	198,470	(418,895)
Increase (decrease) in accounts payable and accrued liabilities	1,914,263	20,194,001
Increase (decrease) in unearned revenues	(146,050)	138,463
Increase (decrease) in accrued vacation and sick leave	690,139	132,304
Increase (decrease) in deferred credit – fuel cost recovery	(667,236)	3,413,524
Increase (decrease) in customer deposits liability	149,151	100,915
Changes in deferred inflows of resources	(706,833)	374,166
Changes in deferred outflows of resources	1,612,141	(7,156,750)
Net cash provided by operating activities	\$ <u>57,645,843</u>	\$ <u>71,615,422</u>
Non-cash investing, capital, and financing activities:		
Contribution in aid of construction	\$ 6,884,887	\$ 643,007
Bond proceeds deposited into escrow for refunding long-term debt	9,804,338	46,901,527
Changes in fair value	1,566	36,639
Reconciliation of cash and cash equivalents per Statements of Cash Flows to the Balance Sheets:		
Cash and cash equivalents:		
Unrestricted	\$ 17,780,938	\$ 13,866,339
Restricted	7,133,368	3,741,927
Total Cash and Cash Equivalents	\$ <u>24,914,306</u>	\$ <u>17,608,266</u>

See accompanying notes to the financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies employed in the preparation of these financial statements.

(a) *The Reporting Entity*

The Public Utilities Board of the City of Brownsville, Texas (Public Utilities Board), a component unit of the City of Brownsville, Texas (City), was formed in 1960 to provide electric, water, and wastewater services to its customers in the Brownsville area. The financial statements of the Public Utilities Board have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Public Utilities Board is a component unit of the City of Brownsville, Texas, based upon the selection of the governing authority. It is a separate operating authority established by the City's charter. Its purpose is to own, operate, and maintain a combined utilities system which provides the City and certain adjacent unincorporated areas with electricity, water, and wastewater services. The specific elements of oversight responsibility of the Public Utilities Board is that the City Commission appoints six of the seven-member governing board and the Mayor of the City serves Ex-Officio as the seventh member. Each appointed board member serves a four-year term. The Public Utilities Board does not have the right to encumber, sell, or hypothecate the utilities system. The specific elements of accountability for fiscal matters are (1) the City Commission is vested with the right to set utility rates and approve the issuance of debt and (2) the City has the right to share in the surplus, if any, of the Public Utilities Board. Further, the Public Utilities Board is not required to pay any property taxes or franchise taxes to the City, and the City is not required to pay for the utility services furnished to the City by the Public Utilities Board. The financial statements presented here are also included in the Comprehensive Annual Financial Report of the City of Brownsville, Texas.

The reporting entity of the Public Utilities Board consists of the primary government (in this case, the Public Utilities Board) and a blended component unit, Southmost Regional Water Authority (the Authority). The Authority is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196. The Authority is reported as a blended component unit because the Public Utilities Board manages the day-to-day operations and owns 92.91% of the Authority entitling it to 92.91% of the total water allocation.

The Authority provides treated water to various areas of Cameron County. Essential disclosures related to the Authority are included in its complete financial statements. These statements may be obtained at P.O. Box 3270, Brownsville, Texas 78523-3270.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The financial statements are presented in accordance with accounting standards generally accepted in the United States of America for proprietary funds of governmental entities. The Public Utilities Board complies with all applicable pronouncements of the GASB. The Public Utilities Board is

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

accounted for as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is to recover the cost of operations through user charges. A proprietary fund is accounted for on the “economic resources” measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and liabilities are included on the statement of net position.

(c) Current Year GASB Statement Implementations

In fiscal year 2017, the Public Utilities Board implemented the following GASB statements:

GASB Statement No. 77, *Tax Abatement Disclosures*, provides financial disclosure requirements for governments that enter into tax abatement agreements. This Statement indicates how disclosures for tax abatements should be organized and what descriptive information should be presented. As the Public Utilities Board is not a tax-levying government and is not party to tax abatement agreements, there was no impact on financial reporting.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, clarifies requirements for the application of GASB Statement No. 68 for certain governments whose employees receive pension benefits through a cost-sharing multiple-employer plan. As the Public Utilities Board does not sponsor benefits through the type of plan addressed by the Statement, the guidance is not applicable and has no impact on financial reporting.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, provides additional criterion for blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. As the component unit of the Public Utilities Board is not incorporated as a not-for-profit, there was no impact to the financial statements upon implementation of the Statement.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. This statement did not have a significant impact on financial reporting.

In fiscal year 2016, the Public Utilities Board implemented the following GASB statements:

GASB Statement No. 72, *Fair Value Measurement and Application*, addressed accounting and financial reporting issues related to fair value measurements. This Statement provided guidance for determining a fair value measurement for financial reporting purposes. This Statement also provided guidance for applying fair value to certain investments and disclosures related to all fair value measurements. New footnotes were added upon implementation of this Statement.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(c) Current Year GASB Statement Implementations - Continued

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, provided guidance for defined benefit pensions that are not within the scope of Statement No. 68, and for the assets accumulated for purposes of providing those pensions. There was no impact to the financial statements upon implementation of this Statement.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduced the GAAP hierarchy to two categories of authoritative GAAP and addressed the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no significant impact to the financial statements upon implementation of this Statement.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addressed how certain investment pool transactions are reported in response to anticipated changes in a U.S. SEC rule that was previously included in GASB literature. There was no significant impact to the financial statements upon implementation of this Statement.

(d) Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Public Utilities Board's principal ongoing operations. The principal operating revenues of the Public Utilities Board is charges to customers for sales and services. Operating expenses 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.

Operating revenue consists of cash receipts from quasi-external transactions with the City and other governments, and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investment activities.

The Public Utilities Board did not use any revenue received from fees collected from a water supply or sewer service constructed in whole or in part from funds from the economically distressed areas program account for purposes other than utility purposes.

(e) Utility Service Revenue and Electric Purchased Power Expense

Electric, water, and wastewater revenues are recognized as billed on a cycle basis with recognition of unbilled revenues at September 30, 2017 and 2016, based upon the meter reading dates for the unbilled portion of each cycle. Electric rate schedules include power cost adjustment clauses that permit recovery of purchased power costs, not included in base rates, and in the month after such costs are incurred. The Public Utilities Board charges to expense the cost of purchased power in the period of purchase.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(f) *Capital Assets*

Utility plant-in-service is stated at cost which generally includes the cost of contracted services and certain materials and labor. Maintenance and repairs of property and items determined to be less than units of property are charged to operating and maintenance expenses; major plant replacements are capitalized. Assets acquired through contributions, such as those from land developers, are capitalized at estimated fair value at the date contributed. Capital assets are defined by the Public Utilities Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of eighteen months. Meter and line transformer inventory have been included in utility plant to conform to Federal Energy Regulatory Commission guidelines.

Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used for depreciation purposes in 2017 and 2016:

<u>Classification</u>	<u>Range of lives</u>
Electric, Water & Wastewater plant-in-service	30 to 50 years
Buildings	30 to 50 years
Improvements other than buildings	25 to 50 years
Equipment	10 to 50 years
Vehicles	3 to 5 years

(g) *Investments*

The Public Utilities Board invests funds in accordance with its policy, bond indentures, and the Texas Public Funds Investment Act. Investments consist primarily of United States Treasury obligations and government-backed securities. Statutes authorize the Public Utilities Board to invest in obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies; obligations of states, agencies, counties, cities and other political subdivisions of any state rated not less than A or its equivalent; certificates of deposit; certain commercial paper; certain mutual funds; and fully collateralized repurchase agreements.

The Public Utilities Board follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 31, the Public Utilities Board's general policy is to report short-term investments at amortized cost. All other investments are reported at fair value. The term "short-term" refers to investments that have a remaining term to maturity of one year or less at time of purchase. Fair value determinations of all securities are made on a quarterly basis.

(h) *Inventories*

Materials and supplies inventories are stated at cost. Fuel and coal inventories are valued at cost using the last-in first-out method.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(i) Compensated Absences

The Public Utilities Board's annual vacation and sick leave policies allow employees to accumulate and vest in annual vacation and sick leave benefits up to specified limits. Upon termination, employees are paid for any unused vacation and sick leave with certain options available. The Public Utilities Board records its obligations for these unused benefits as they are earned by the employees.

(j) Regulatory Basis Assets

The Public Utilities Board elected to establish a regulatory asset for the debt issuance costs in accordance with regulated operations under GASB Statement No. 62. The debt issuance costs would otherwise have been expensed upon implementation of GASB Statement No. 65.

(k) Cash Equivalents

For purpose of the Statements of Cash Flows, the Public Utilities Board considers money market accounts, certificates of deposit, and investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

(l) Budgets and Budgetary Accounting

The Public Utilities Board is not legally required to adopt a budget; therefore, comparative statements of actual expenses to budget expenses are not included within the financial statements.

(m) Deferred Inflows of Resources

GASB Concept Statement No. 4, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, provided definitions for elements in the financial statements. Deferred inflows of resources are the acquisition of net assets applicable to a future reporting period. GASB Statement No. 63 establishes guidance for reporting this element on the statement of net position, and GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred inflows of resources, certain items that were previously reported as liabilities. Deferred inflows of resources related to recoverable fuel costs totaled \$0.3 million at September 30, 2016. Pursuant to GASB Statement No. 68 accounting methodologies adopted beginning in fiscal year 2015, recognition of deferred inflows of resources related to pension amounted to \$1.7 million as of September 30, 2017, and \$2.4 million as of September 30, 2016.

(n) Deferred Outflows of Resources

Deferred outflows of resources are the consumption of net assets applicable to a future reporting period, as defined in GASB Concept Statement No. 4. GASB Statement No. 63 establishes guidance for reporting this element on the statement of net position and GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, certain items that were previously reported as assets.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
 September 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(n) Deferred Outflows of Resources – Continued

For current and advance refunding of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of the remaining life of the refunding or the refunded debt. At September 30, 2017, and September 30, 2016, reacquisition costs totaled \$19.9 million and \$21.0 million, respectively. Pursuant to GASB Statement No. 68 accounting methodologies adopted beginning in fiscal year 2015, recognition of deferred outflows of resources related to pension amounted to \$9.4 million as of September 30, 2017, and \$11.0 million as of September 30, 2016. Deferred outflows of resources related to recoverable fuel costs totaled \$0.4 million at September 30, 2017.

(o) Contingent Liabilities

The Public Utilities Board provides for contingent liabilities when it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

(p) Recoverable Fuel Costs

Recoverable fuel costs represent fuel costs incurred by the Public Utilities Board which have not yet been billed to customers or which have been billed to customers based on estimated fuel costs and has not been incurred. The Public Utilities Board recovers these costs via the fuel adjustment charge assessed with the monthly utility bills. At September 30, 2017 and 2016, the Public Utilities Board had under collected \$364,158 and over collected \$303,078, respectively, in current recoverable fuel costs. These monies are considered either a liability or receivable as the amounts deferred are expected to be offset by October fuel charges.

(q) Grant Revenue

Revenue from state and federal grants is recognized as earned to the extent of incurred program expenses. Grant funds are considered to be earned when all eligibility requirements have been met. Accordingly, when such funds are received in advance, they are recorded as unearned revenue.

(r) Restricted Net Position

Net position is restricted for the following purposes at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Debt Service	\$ 3,544,986	\$ 3,576,530
Repair and replacement	121,093,500	110,290,480
Operating reserve	17,001,330	17,000,223
Fuel adjustment subaccount	6,275,000	11,475,000
Capital projects	1,492,311	1,454,010
Total restricted net position	<u>\$ 149,407,127</u>	<u>\$ 143,796,243</u>

The above restricted net position is all subject to restrictions externally imposed by creditors through bond covenants.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(r) *Restricted Net Position - Continued*

In accordance with bond covenants related to the funds and accounts and flow of funds, the Public Utilities Board is required to retain in the Plant Fund a reserve amount to pay operating and maintenance expenses of not less than two months of budgeted operating and maintenance expenses for the current fiscal year.

(s) *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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(t) *Comparative Data/Reclassifications*

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Public Utilities Board's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

(u) *Deferred Compensation Plan*

The Public Utilities Board offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Public Utilities Board employees, permits 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.

Amendments to the laws governing Section 457 deferred compensation plans substantially became effective January 1, 1997. The Public Utilities Board approved plan amendments such that plan assets are held in trust, with Nationwide Retirement Solutions, Inc. as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets cannot be diverted to any other purpose. The Public Utilities Board does not have legal access to the resources of the deferred compensation plan; as such the plan is not reported in the Public Utilities Board's financial statements.

(v) *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to the Financial Statements
 September 30, 2017 and 2016

(2) DEPOSITS AND INVESTMENTS

(a) Basis of Investments

On October 10, 2016, the Public Utilities Board approved a revised Investment Policy which included an “Investment Strategy Statement” that addressed the understanding of investment suitability, the preservation and safety of principal, liquidity, marketability of the investment prior to maturity, diversification, and yield of the investment portfolio. In regards to the safety and risk of investments, the Public Utilities Board abided by the Investment Policy that requires all available funds to be invested in conformance with state and federal regulations, applicable bond ordinance requirements, and GASB’s standards. Each investment transaction shall seek to first and foremost ensure that capital losses are avoided, whether they are from securities’ defaults or erosion of fair value.

The Public Utilities Board’s bank deposits and Certificates of Deposit investments were entirely covered by the Federal Deposit Insurance Corporation or by collateral held by a third-party safekeeping bank in the Public Utilities Board’s name.

The carrying value of deposits with financial institutions approximates fair value. As of September 30, 2017 and 2016, the Public Utilities Board had the following investments:

September 30, 2017				
Investment Type	Amount	Weighted Avg Maturity (Days)	Allocation	Rating
Money Market Mutual Funds	\$ 10,375,881	1	5.7%	AAAm
Certificates of Deposit	14,455,631	19	7.9%	A1P1
U.S. Agencies	33,453,092	42	18.3%	AA+
U.S Treasury Note	7,454,629	12	4.1%	AA+
Local Govt Investment Pools	<u>116,705,972</u>	32	<u>64.0%</u>	AAAm
Total	<u>\$ 182,445,205</u>		<u>100.0%</u>	

September 30, 2016				
Investment Type	Amount	Weighted Avg Maturity (Days)	Allocation	Rating
Money Market Mutual Funds	\$ 10,255,120	1	5.7%	AAAm
Certificates of Deposit	17,629,346	21	9.9%	A1P1
U.S. Agencies	24,397,360	50	13.7%	AA+
U.S Treasury Note	554,629	1	0.3%	AAA
Local Govt Investment Pools	<u>125,692,976</u>	47	<u>70.4%</u>	AAAm
Total	<u>\$ 178,529,431</u>		<u>100.0%</u>	

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to the Financial Statements
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(2) DEPOSITS AND INVESTMENTS - Continued

(a) Basis of Investments – Continued

Interest rate risk – In accordance with the Public Utilities Board’s Investment Policy the weighted average to maturity for the Public Utilities Board’s portfolio limits the maximum allowable maturity to two years by not exceeding the anticipated cash flow requirements. As of September 30, 2017 and 2016, the investment portfolio had maturities that met anticipated cash flow requirements.

The Public Utilities Board’s invests in TexPool, TexasDAILY, and TexStar to provide its liquidity needs. These pools are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. These pools are rated AAAM and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2017, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 34 days, 36 days, and 28 days, respectively. The Public Utilities Board invests in government investment pools with 100% overnight liquidity.

Credit risk – The Public Utilities Board identifies and manages credit risks by following the Investment Policy. The Public Utilities Board implements its investment strategy, establishes and monitors compliance with investment policies and procedures, and consistently monitors prudent risk controls. The Public Utilities Board will seek to control the risk of loss by monitoring the ratings of portfolio positions to assure compliance with the rating requirements imposed by the Public Funds Investment Act. The Public Utilities Board also manages exposure to credit risk by limiting its investments to a rating of “A” or better. As of September 30, 2017 and 2016, the Public Utilities Board’s security agencies investments had a rating of AA+ or above.

Custodial credit risk – In accordance with the Public Utilities Board’s Investment Policy, the financial institution must collateralize all funds with a minimum of 102% of the fair value of the principal portion. The Public Utilities Board seeks to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Investment Policy.

The Public Utilities Board signed an agreement with its financial institution pledging funds to 102% minimum of the fair value of the principal position. As of September 30, 2017 and 2016, the Public Utilities Board invested 18.3% and 13.67%, respectively, in U.S. Agencies (Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation), which hold high ratings by nationally recognized statistical rating organizations. Investments in U.S. Agencies are proven to be the safest investments with minimal risk of loss. All investments are insured, registered, or held by an agent in the Public Utilities Board’s name; therefore, the Public Utilities Board is not exposed to custodial credit risk.

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Notes to the Financial Statements
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(2) DEPOSITS AND INVESTMENTS - Continued

(a) Basis of Investments – Continued

Concentration of credit risk – In accordance with the Investment Policy, the Public Utilities Board manages its credit risk exposure through diversification, and limiting its investments in each government-sponsored security to 75%. As of September 30, 2017 and 2016, the portfolio was in compliance as noted above.

TexPool – The State of Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool, along with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and approves any fee increases. Finally, TexPool is rated AAAM by Standard & Poor's.

As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor's as well as the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

TexSTAR – Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool providing short-term liquidity requirements. JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators under an agreement with the TexSTAR Board of Directors to provide investment and participant services for this pool. JPMorgan Chase Bank or its subsidiary J.P. Morgan Investor Services Company provides the custodial, transfer agency, fund accounting, and depository services for this pool. At year end, TexSTAR was rated AAAM by Standard & Poor's. The Public Utilities Board reports its investment in TexSTAR at the fair value amount provided by TexSTAR, which is the same as the value of the pool share.

TexasTERM/TexasDaily – TexasTERM/TexasDaily is a local government investment pool. Administrative and investment services to the pool are provided by PFM Asset Management LLC, under an agreement with the TexasTERM Advisory Board and act on behalf of the pool participants. At year end, TexasTERM was rated AAAM by Standard & Poor's. The Public Utilities Board reports its investment in TexasTERM at the fair value amount provided by TexasTERM, which is the same as the value of the pool share.

Fair Value measurement – The Public Utilities Board records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. The Public Utilities Board's fair value measurements are performed on a recurring basis.

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Notes to the Financial Statements
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(2) DEPOSITS AND INVESTMENTS - Continued

(a) Basis of Investments – Continued

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.
- Level 2 – inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities and certificates of deposit are examples of Level 2 inputs.
- Level 3 – inputs are unobservable inputs that reflect the Authority’s own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

The valuation technique the Public Utilities Board uses to measure fair value is the market approach. This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities, and is applied consistently.

The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2017 and 2016. Investment balances presented exclude amounts related to money market mutual fund investments and 2a7-like external investment pools accounted for using amortized cost.

		September 30, 2017			
		Level 1	Level 2	Level 3	Total
Fair Value Investments					
U.S. Agencies					
	Federal Home Loan Mtg Corp	\$ -	\$ 6,598,614	\$ -	6,598,614
	Federal Home Loan Bank	-	26,854,478	-	26,854,478
	U.S. Treasury Note	7,454,629	-	-	7,454,629
	Certificates of Deposit	-	14,455,631	-	14,455,631
	Total fair value investments	<u>\$ 7,454,629</u>	<u>\$ 47,908,723</u>	<u>\$ -</u>	<u>\$ 55,363,352</u>
		September 30, 2016			
		Level 1	Level 2	Level 3	Total
Fair Value Investments					
U.S. Agencies					
	Federal Home Loan Mtg Corp	\$ -	\$ 18,398,614	\$ -	\$ 18,398,614
	Federal Farm Credit Bank	-	5,998,746	-	5,998,746
	Farmer Mac	554,629	-	-	554,629
	U.S. Treasury Note	-	17,629,346	-	17,629,346
	Total fair value investments	<u>\$ 554,629</u>	<u>\$ 42,026,706</u>	<u>\$ -</u>	<u>\$ 42,581,335</u>

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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(3) CAPITAL ASSETS

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2017, were as follows:

	Beginning Balance 10/01/2016	Additions	Deletions	Reclassifications	Ending Balance 09/30/2017
Capital assets, non-depreciable:					
Land	\$ 27,626,460	\$ 1,855,579	\$ (318)	\$ 35,650	\$ 29,517,371
Construction in progress	88,684,782	19,147,856		(12,855,084)	94,977,554
Total capital assets, non-depreciable	<u>116,311,242</u>	<u>21,003,435</u>	<u>(318)</u>	<u>(12,819,434)</u>	<u>124,494,925</u>
Capital assets, depreciable:					
Plant	746,264,666	3,514,015	(9,327,808)	10,879,664	751,330,537
Buildings and structures	91,860,806	95,608	(125,080)	398,621	92,229,955
Improvements other than buildings	48,635,028	-	(113,358)	-	48,521,670
Equipment	133,532,827	3,840,850	(8,789,561)	1,541,149	130,125,265
Total capital assets, depreciable	<u>1,020,293,327</u>	<u>7,450,473</u>	<u>(18,355,807)</u>	<u>12,819,434</u>	<u>1,022,207,427</u>
Less accumulated depreciation for:					
Plant	(366,018,396)	(21,686,939)	6,264,957		(381,440,378)
Buildings and structures	(38,353,883)	(2,104,060)	73,403		(40,384,540)
Improvements other than buildings	(24,538,492)	(1,309,507)	90,845		(25,757,154)
Equipment	(66,594,725)	(5,093,313)	6,857,465		(64,830,573)
Total accumulated depreciation	<u>(495,505,496)</u>	<u>(30,193,819)</u>	<u>13,286,670</u>	<u>-</u>	<u>(512,412,645)</u>
Capital assets, net	<u>\$ 641,099,073</u>	<u>\$ (1,739,911)</u>	<u>\$ (5,069,455)</u>	<u>\$ -</u>	<u>\$ 634,289,707</u>

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Notes to the Financial Statements
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(3) CAPITAL ASSETS - Continued

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2016, were as follows:

	Beginning Balance 2015	Additions	Deletions	Reclassifications	Ending Balance 2016
Capital assets, non-depreciable:					
Land	\$ 26,054,237	\$ -	\$ -	\$ 1,572,223	\$ 27,626,460
Construction in progress	91,255,816	23,525,605	-	(26,096,639)	88,684,782
Total capital assets, non-depreciable	<u>117,310,053</u>	<u>23,525,605</u>	<u>-</u>	<u>(24,524,416)</u>	<u>116,311,242</u>
Capital assets, depreciable:					
Plant	737,951,381	2,832,785	(2,903,038)	8,383,538	746,264,666
Buildings and structures	89,380,603	18,026	(330,200)	2,792,377	91,860,806
Improvements other than buildings	45,915,462	-	(21,857)	2,741,423	48,635,028
Equipment	125,570,210	2,098,088	(4,742,549)	10,607,078	133,532,827
Total capital assets, depreciable	<u>998,817,656</u>	<u>4,948,899</u>	<u>(7,997,644)</u>	<u>24,524,416</u>	<u>1,020,293,327</u>
Less accumulated depreciation for:					
Plant	(330,898,244)	(20,915,815)	617,584	(14,821,921)	(366,018,396)
Buildings and structures	(36,492,001)	(2,191,594)	274,589	55,123	(38,353,883)
Improvements other than buildings	(38,137,684)	(1,214,203)	19,918	14,793,477	(24,538,492)
Equipment	(65,708,658)	(4,742,049)	3,882,661	(26,679)	(66,594,725)
Total accumulated depreciation	<u>(471,236,587)</u>	<u>(29,063,661)</u>	<u>4,794,752</u>	<u>-</u>	<u>(495,505,496)</u>
Capital assets, net	<u>\$ 644,891,122</u>	<u>\$ (589,157)</u>	<u>\$ (3,202,892)</u>	<u>\$ -</u>	<u>\$ 641,099,073</u>

(4) JOINT OPERATIONS

(a) Oklaunion Project

In May 1986, the Public Utilities Board and Central Power & Light (CP&L), now known as AEP Texas Central Company (TCC), executed the Oklaunion Unit No. 1 Ownership Interest Assignment Agreement (Agreement). This Agreement allowed the Public Utilities Board to purchase an undivided 56.54% of TCC's undivided 17.97% ownership interest in the Oklaunion unit (10.16% of the project as a whole). This Agreement committed the Public Utilities Board to become a 10.16% participant in the Oklaunion unit and obligated the Public Utilities Board to contribute its 10.16% share of the Oklaunion unit's operating expenses. As a result of their participation, the Public Utilities Board is entitled to receive 10.16% of the total power generated by the plant.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

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Notes to the Financial Statements
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4) JOINT OPERATIONS - Continued

(a) Oklaunion Project – Continued

On February 5, 2004, TCC notified the Public Utilities Board that it had auctioned off and sold its ownership interest in Oklaunion Unit No. 1 to Golden Spread Electric Cooperative, Inc. for \$42,750,000, subject to the exercise by the Public Utilities Board refusal to purchase TCC's ownership interest under the Oklaunion Unit No. 1 Construction, Ownership and Operating Agreement dated May 26, 1985. Both the Public Utilities Board and OMPA exercised their rights of first refusal for the entire TCC interest in May 2004 and each deposited in escrow \$42,750,000, respectively. The Public Utilities Board funded its obligation through the sale of Commercial Paper Notes. In May 2006, the Dallas Court of Appeals issued an opinion upholding City of Brownsville's right to acquire an additional interest in Oklaunion Unit No 1.

Golden Spread Electric Cooperative had challenged the City of Brownsville's right to acquire the interest being sold by American Electric Power – Texas Central Company. Golden Spread Electric asked the Texas Supreme Court to overturn the Dallas Court of Appeals' ruling and allow it to buy Texas Central Company's interest instead of the City of Brownsville.

On December 15, 2006, the Texas Supreme Court declined to review a ruling by the Dallas Court of Appeals in favor of the City of Brownsville and the Public Utilities Board. Subsequently on February 14, 2007, the Public Utilities Board completed its purchase of the additional 54 megawatts (7.8%) of the Oklaunion Power System for \$51 million.

(b) Calpine/Hidalgo Project

On December 15, 1999, the Public Utilities Board purchased an undivided interest from Calpine Energy which entitles the Public Utilities Board to 105 MW of the 500 MW combined cycle plant located in Edinburg, Texas, approximately 56 miles from Brownsville, Texas. The unit consists of two gas turbines, a heat recovery steam generator and steam turbine.

(5) SHORT-TERM DEBT

(a) Commercial Paper

Commercial paper balances and activity as of and for the year ended September 30, are as follows:

	2017	2016
Beginning Balance	\$ 7,000,000	\$ -
Additions	7,000,000	7,000,000
Deletions	-	-
Ending Balance	<u>\$ 14,000,000</u>	<u>\$ 7,000,000</u>

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(5) SHORT-TERM DEBT – Continued

(a) Commercial Paper - Continued

The Public Utilities Board issued \$7,000,000 of Commercial Paper during fiscal year 2017 and \$7,000,000 of Commercial Paper during fiscal year 2016.

On September 25, 2012, the Public Utilities Board issued \$20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus \$5,275,000 in issuer contributions were used to defease \$24,450,000 of Commercial Paper Notes.

On April 20, 2004, the City Commission of the City of Brownsville, Texas, approved and authorized the issuance of short term obligations in an aggregate principal amount not to exceed \$50,000,000. A total of \$44,500,000 was issued in fiscal year 2004. The purpose of the Commercial Paper Program is to pay for additions, improvements, and extensions to the City's combined electric system, waterworks system and sewer system. The Commercial Paper was used to purchase an additional ownership interest in Oklaunion, an electric generating plant. The Reimbursement and Credit Agreement was executed between the City, acting through the Public Utilities Board, and State Street Bank and Trust Company, Credit and Liquidity Provider, for the Commercial Paper. In order to assure timely payment of the principal of and interest on the Commercial Paper Notes, a Letter of Credit was executed by the City and Deutsche Bank Trust, as beneficiary Issuing and Paying Agency. The stated amount of the Letter of Credit is \$50,000,000 (principal plus accrued interest cannot exceed \$50,000,000).

On September 17, 2013, the City Commission of the City of Brownsville adopted an Ordinance No. 2013-1582 authorizing the issuance of the City of Brownsville, Texas Utilities System Commercial Paper Notes, Series A in a maximum aggregate principal amount of \$100,000,000 outstanding at any time. Subsequently on September 20, 2016, the City Commission of the City of Brownsville adopted Ordinance No. 2016-1619 supplementing the Original Ordinance and authorizing the substitution of the Credit Facility. On November 1, 2016, the City of Brownsville and the Mitsubishi UFJ Financial Group (MUFG) entered into a Reimbursement Agreement related to the Commercial Paper Notes, Series A. The City of Brownsville requested that the Bank issue its Letter of Credit to secure certain payments to be made with respect to the Commercial Paper Notes in the amount of \$111,095,891, of which \$100,000,000 will be available to pay principal of the Commercial Paper Notes upon maturity thereof, and of which \$11,095,891 will be available to pay accrued interest on the Commercial paper Notes at maturity.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to the Financial Statements
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(6) LONG-TERM DEBT

(a) Revenue Bonds

Revenue bond balances and activity as of and for the year ended September 30, 2017, are as follows:

	Balance at 10/1/2016	Additions	Reductions	Balance at 9/30/2017	Due within one year
Public Utilities Board:					
\$163,725,000 utilities system revenue improvement and refunding bonds, Series 2005A; due in annual installments ranging from \$880,000 to \$16,600,000 through 2031 with interest rates from 3.5% to 5.0%	\$ 100,000	\$ -	\$ -	\$ 100,000	\$ -
\$601,000 utilities system junior lien revenue bonds, Series 2007; due in annual installments ranging from 29,000 to \$46,000 through 2026 with interest rates from 3.24% to 5.740%	369,000	-	(29,000)	340,000	31,000
\$77,805,000 utilities system revenue refunding bonds, Series 2008; due in annual installments ranging from \$1,220,000 to \$2,700,000 through 2033 with interest rates from 4.00% to 5.00%	16,065,000	-	(3,110,000)	12,955,000	3,270,000
\$20,690,000 utilities system revenue refunding bonds, Series 2012; due in annual installments ranging from \$580,000 to \$1,210,000 through 2037 with interest rates from 2.00% to 4.00%	18,380,000	-	(605,000)	17,775,000	615,000
\$840,000 utilities system junior lien revenue bonds, Series 2012; due in annual installments ranging from 30,000 to \$60,000 through 2032 with interest rates ranging from .270% to 3.490%	720,000	-	(35,000)	685,000	35,000
\$118,185,000 utilities system revenue refunding bonds, Series 2013; due in annual installments ranging from \$430,000 to \$11,820,000 through 2031 with interest rates from 2.00% to 4.00%	116,340,000	-	(950,000)	115,390,000	935,000
\$94,770,000 utilities system revenue refunding bonds, Series 2015; due in annual installments ranging from \$2,950,000 to \$8,995,000 through 2045 with interest rates from 4.00% to 5.00%	87,180,000	-	(8,185,000)	78,995,000	8,570,000
\$39,410,000 utilities system revenue refunding bonds series 2016; due in annual installments ranging from \$1,720,000 to \$4,125,000 through 2033 with interest rates at 5.00%	39,410,000	-	-	39,410,000	-
Total Public Utilities Board	278,564,000	-	(12,914,000)	265,650,000	13,456,000

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to the Financial Statements
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(6) LONG-TERM DEBT - Continued

(a) Revenue Bonds - Continued

Revenue bond balances and activity as of and for the year ended September 30, 2017 - continued:

	Balance at 10/01/2016	Additions	Reductions	Balance at 09/30/2017	Due within one year
Southmost Regional Water Authority:					
\$9,950,000 water supply contract and refunding bonds, Series 2006; due in remaining annual installments of \$25,000 through 2018 with interest rates from 3.7% to 5.50%	\$ 9,765,000	\$ -	\$ (9,740,000)	\$ 25,000	\$ 25,000
\$9,295,000 revenue bonds, Series 2009A; due in remaining annual installments from \$305,000 to \$310,000 through 2039 with interest rates at 0%	7,125,000	-	(310,000)	6,815,000	310,000
\$3,795,000 revenue bonds, Series 2009B; due in remaining annual installments from \$125,000 to \$270,000 through 2029 with interest rates from 0.10% to 4.25%	2,790,000	-	(165,000)	2,625,000	175,000
\$13,530,000 water supply contract revenue refunding bonds, Series 2012; due in remaining annual installments from \$700,000 to \$1,285,000 through 2027 with interest rates from 3.0% to 5.0%	10,560,000	-	(825,000)	9,735,000	840,000
\$9,255,000 water supply contract revenue refunding bonds, Series 2017; due in annual installments from \$935,000 to \$1,795,000 through 2032 with interest rates from 4.125% to 5.50%.		9,255,000	-	9,255,000	-
Total Southmost Regional Water Authority	30,240,000	9,255,000	(11,040,000)	28,455,000	1,350,000
Total Public Utilities Board and Southmost Regional Water Authority					
	308,804,000	9,255,000	(23,954,000)	294,105,000	14,806,000
Plus:					
Unamortized Premium	38,680,381	725,245	(2,278,264)	37,127,362	-
Less:					
Unamortized original issue discount	(1,896,989)	(58,354)	141,852	(1,813,491)	-
	<u>\$ 345,587,392</u>	<u>\$ 9,921,891</u>	<u>\$ (26,090,412)</u>	<u>\$ 329,418,871</u>	<u>\$ 14,806,000</u>

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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to the Financial Statements
September 30, 2017 and 2016

(6) LONG-TERM DEBT - Continued

(b) Revenue Bonds

Revenue bond balances and activity as of and for the year ended September 30, 2016, are as follows:

	<u>Balance at</u> 10/1/2015	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> 9/30/2016	<u>Due within</u> one year
Public Utilities Board:					
\$163,725,000 utilities system revenue improvement and refunding bonds, Series 2005A; due in annual installments ranging from \$880,000 to \$16,600,000 through 2031 with interest rates from 3.5% to 5.0%	\$ 100,000	\$ -	\$ -	\$ 100,000	\$ -
\$601,000 utilities system junior lien revenue bonds, Series 2007; due in annual installments ranging from 29,000 to \$46,000 through 2026 with interest rates from 3.24% to 5.740%	397,000	-	(28,000)	369,000	29,000
\$77,805,000 utilities system revenue refunding bonds, Series 2008; due in annual installments ranging from \$1,220,000 to \$2,700,000 through 2033 with interest rates from 4.00% to 5.00%	61,530,000	-	(45,465,000)	16,065,000	3,110,000
\$20,690,000 utilities system revenue refunding bonds, Series 2012; due in annual installments ranging from \$580,000 to \$1,210,000 through 2037 with interest rates from 2.00% to 4.00%	18,970,000	-	(590,000)	18,380,000	605,000
\$840,000 utilities system junior lien revenue bonds, Series 2012; due in annual installments ranging from 30,000 to \$60,000 through 2032 with interest rates ranging from .270% to 3.490%	750,000	-	(30,000)	720,000	35,000
\$118,185,000 utilities system revenue refunding bonds, Series 2013; due in annual installments ranging from \$430,000 to \$11,820,000 through 2031 with interest rates from 2.00% to 4.00%	117,315,000	-	(975,000)	116,340,000	950,000
\$94,770,000 utilities system revenue refunding bonds, Series 2015; due in annual installments ranging from \$2,950,000 to \$8,995,000 through 2045 with interest rates from 4.00% to 5.00%	94,770,000	-	(7,590,000)	87,180,000	8,185,000
\$39,410,000 utilities system revenue refunding bonds series 2016; due in annual installments ranging from \$1,720,000 to \$4,125,000 through 2033 with interest rates at 5.00%	-	39,410,000	-	39,410,000	-
Total Public Utilities Board	293,832,000	39,410,000	(54,678,000)	278,564,000	12,914,000

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
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Notes to the Financial Statements
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(6) LONG-TERM DEBT - Continued

(c) Revenue Bonds – Continued

Revenue bond balances and activity as of and for the year ended September 30, 2016 - continued:

	<u>Balance at</u> <u>10/01/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>09/30/2016</u>	<u>Due within</u> <u>one year</u>
Southmost Regional Water Authority:					
\$9,950,000 water supply contract and refunding bonds, Series 2006; due in remaining annual installments of \$25,000 through 2032 with interest rates from 3.7% to 5.50%	\$ 9,790,000	\$ -	\$ (25,000)	\$ 9,765,000	\$ 25,000
\$9,295,000 revenue bonds, Series 2009A; due in remaining annual installments from \$305,000 to \$310,000 through 2039 with interest rates at 0%	7,435,000	-	(310,000)	7,125,000	310,000
\$3,795,000 revenue bonds, Series 2009B; due in remaining annual installments from \$125,000 to \$270,000 through 2029 with interest rates from 0.10% to 4.25%	2,950,000	-	(160,000)	2,790,000	165,000
\$13,530,000 water supply contract revenue refunding bonds, Series 2012; due in remaining annual installments from \$700,000 to \$1,285,000 through 2027 with interest rates from 3.0% to 5.0%	11,345,000	-	(785,000)	10,560,000	825,000
Total Southmost Regional Water Authority	<u>31,520,000</u>	<u>-</u>	<u>(1,280,000)</u>	<u>30,240,000</u>	<u>1,325,000</u>
Total Public Utilities Board and Southmost Regional Water Authority	325,352,000	39,410,000	(55,958,000)	308,804,000	14,239,000
Plus:					
Unamortized Premium	32,891,962	7,705,681	(1,917,262)	38,680,381	-
Less:					
Unamortized original issue discount	(1,994,155)	(250,392)	347,558	(1,896,989)	-
	<u>\$ 356,249,807</u>	<u>\$ 46,865,289</u>	<u>\$(57,527,704)</u>	<u>\$345,587,392</u>	<u>\$14,239,000</u>

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(6) LONG-TERM DEBT - Continued

(a) Revenue Bonds – Continued

Principal and interest amounts due for each of the next five years and thereafter to maturity are:

Year Ending September 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 14,806,000	\$ 13,139,173	\$ 27,945,173
2019	15,337,000	12,435,154	27,772,154
2020	16,029,000	11,722,963	27,751,963
2021	16,716,000	10,967,591	27,683,591
2022	17,397,000	10,235,697	27,632,697
2023-2027	99,195,000	38,058,436	137,253,436
2028-2032	92,725,000	14,641,435	107,366,435
2033-2037	13,345,000	2,875,144	16,220,144
2038-2042	5,265,000	1,301,582	6,566,582
2043-2045	3,290,000	283,688	3,573,688
	<u>\$ 294,105,000</u>	<u>\$ 115,660,863</u>	<u>\$ 409,765,863</u>

The Public Utilities Board is required by various debt agreements to comply with various financial statements and other covenants including maintaining required debt service coverage ratios. No non-compliance with covenants was noted which constitutes an “event of default” under these agreements.

On December 7, 2009, the Authority issued \$9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and \$3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the TWDB Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment System. The Series 2009A bonds were issued at 0.0% interest with annual installments ranging from \$305,000 to \$310,000 through maturity in 2039. The Series 2009B bonds bear interest at a range from 0.10% to 4.25% with annual installments ranging from \$125,000 to \$270,000 through maturity in 2029.

On February 28, 2011, the Public Utilities Board issued \$12,305,000 in Utilities System Revenue Refunding Bonds, Series 2011. The refunding bonds provided proceeds to refund \$6,270,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005A and \$5,980,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005B.

On October 1, 2012, the Public Utilities Board issued \$840,000 in Utility System Junior Lien Revenue Bonds, Series 2012. Proceeds from the sale of the Obligations were used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

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(6) LONG-TERM DEBT - Continued

(a) Revenue Bonds – Continued

On September 25, 2012, the Public Utilities Board issued \$20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012 and the proceeds plus \$5,275,000 in issuer contributions were used to defease \$24,450,000 of Commercial Paper notes.

On September 26, 2012, the Authority issued \$13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus the bond premium were used to defease \$14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

On May 1, 2013, the Public Utilities Board issued \$118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bond proceeds plus a bond premium of \$16,723,650 were used to defease \$109,985,000 of the Series 2005A Utilities System Revenue Improvement and Refunding Bonds which are callable on September 1, 2015, and funded \$11,818,500 of Public Utilities Board Senior Lien Reserve Fund.

On October 18, 2012, the Public Utilities Board issued \$20,690,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2012. The proceeds of the refunding bonds plus \$5,275,000 in issuer contributions were used for a current refunding of \$24,450,000 of Commercial Paper Notes. As a result, the refunded commercial paper notes are considered to be defeased and the liability was removed from long-term debt.

On July 15, 2015, the Public Utilities Board issued \$94,770,000 in Utilities System Revenue Refunding Bonds, Series 2015. The refunding bond proceeds plus a bond premium of \$8,945,752 were used to defease \$49,060,000 of the Series 2005A Utility System Revenue Improvement and Refunding Bonds; \$27,815,000 of the Series 2005B Utility System Revenue Refunding Bonds; \$5,480,000 of the Series 2011 Utility System Revenue Refunding Bonds; and \$20,000,000 of the Utilities System Commercial Paper Notes.

On May 15, 2016, the Public Utilities Board issued \$39,410,000 in Utilities System Revenue Refunding Bonds, Series 2016. The refunding bond proceeds plus a bond premium of \$7,705,681 were used to defease \$42,505,000 of the Series 2008 Utility System Revenue Refunding Bonds. As a result, the refunded debt is considered to be defeased and the liability was removed from long-term debt.

On April 18, 2017, the Authority issued \$9,255,000 in Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bond proceeds plus the bond premium of \$725,245 were used to defease \$9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032.

(b) Advance Refunding

During fiscal year 2017, the Southmost Regional Water Authority issued \$9,255,000 in aggregate principal amount of Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding

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(6) LONG-TERM DEBT – Continued

(b) Advance Refunding - Continued

bonds were issued to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt. The reacquisition price exceeded the net carrying amount of the old debt by \$154,884. This amount together with \$492,816 unamortized deferred amount from the prior refunding is being netted against the new debt and amortized through the year 2032. The Public Utilities Board completed the advance refunding to reduce its total debt service payments over the next 16 years by \$898,007 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$692,682.

During fiscal year 2016, the Public Utilities Board issued \$39,410,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2016. The refunding bonds were issued to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$42,505,000 of the Series 2008 Utilities System Revenue Refunding Bonds for the years 2019 through 2033. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt. The reacquisition price exceeded the net carrying amount of the old debt by \$4,956,383. This amount together with \$576,913 of unamortized deferred amount from the prior refunding is being netted against the new debt and amortized through the year 2033. The Public Utilities Board completed the advance refunding to reduce its total debt service payments over the next 18 years by \$6,380,112 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,282,797.

(c) Prior Year Defeasance of Debt

In prior years, the Public Utilities Board has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or it matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from long-term debt. As of September 30, 2017 and 2016, the amount of defeased debt outstanding but removed from long-term debt amounted to \$51,880,000 and \$54,620,000, respectively.

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(7) RISK MANAGEMENT

The Public Utilities Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the entity carries commercial insurance. The Public Utilities Board has established a limited risk management program for employee health and workers' compensation for which the Public Utilities Board retained risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically. The estimate of the claims liability also includes amounts for claim incremental adjustment expenses. Estimated recoveries from third parties are another component of claims expense. Excess coverage insurance policies cover individual claims in excess of \$145,000 and \$350,000 (each Accident) / \$1,050,000 (Aggregate) for health and workers' compensation, respectively. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(a) Workers' Compensation Program

The Public Utilities Board has a workers' compensation self-insurance plan for the purpose of providing medical and indemnity payments as required by law for on-the-job related injuries. The plan is administered by a service agent. The Public Utilities Board has an excess workers' compensation insurance contract with an insurance carrier coverage which provides Texas statutory limits for claims in excess of \$350,000 for any one accident or occurrence. The aggregate deductible under this policy is \$1,050,000. Management feels that the contributions made during the year for workers' compensation will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such.

(b) Health Insurance Program

The Public Utilities Board has a group health self-insurance plan for the purpose of providing health insurance for the employees and their dependents. The plan is administered by a service agreement. The Public Utilities Board has a stop loss insurance contract with an insurance carrier covering claims in excess of \$145,000 per individual. The Public Utilities Board also has aggregate limits, which fluctuate based on enrollment but that are currently set at \$8,012,614. This figure would be the Board's maximum liability, including claims and fixed cost for the 2018 Plan Year.

The following is a summary of changes in claims liability for the Workers' Compensation and Health Insurance programs, which is included in accounts payable and accrued liabilities payable from restricted assets, for the years ended September 30, 2017 and 2016:

	Beginning Balance 2016	Claims and Adjustments	Claims Payments	Ending Balance 2017	Amounts Due Within One Year
Workers' Compensation	\$ 133,295	\$ 789,779	\$ (783,390)	\$ 139,684	\$ 122,571
Health Insurance	\$ 134,672	\$ 6,074,824	\$ (6,052,285)	\$ 157,211	\$ 157,211

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(7) RISK MANAGEMENT – Continued

(b) Health Insurance Program - Continued

	Beginning Balance 2015	Claims and Adjustments	Claims Payments	Ending Balance 2016	Amounts Due Within One Year
Workers' Compensation	\$ 212,734	\$ 745,618	\$ (825,057)	\$ 133,295	\$ 90,870
Health Insurance	\$ 114,663	\$ 5,447,108	\$ (5,427,099)	\$ 134,672	\$ 134,672

(8) TEXAS MUNICIPAL RETIREMENT SYSTEM

(a) Plan Description

The Public Utilities Board participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

The plan provisions are adopted by the governing body of the Public Utilities Board, within the options available in the state statutes governing TMRS and within the actuarial constraints in the statutes. All eligible employees of the Public Utilities Board are required to participate in the TMRS.

Plan provisions for the Public Utilities Board were as follows:

Employee deposit rate:	7%
Matching ratio (PUB to employee):	2 to 1
Years required for vesting:	5 years
Members can retire at certain ages, based on the years of service with the Public Utilities Board. The Service Retirement Eligibilities for the Public Utilities Board are:	5 years/age 60 20 years/any age
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating
Supplemental Death Benefit to Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

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(8) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

(b) *Benefits Provided*

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Public Utilities Board, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the Public Utilities Board-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the date the plan began, the Public Utilities Board 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 percentage (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the Public Utilities Board 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 the Public Utilities Board 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 the December 31 valuation and measurement date, the following employees were covered by the benefit terms:

	December 31,	
	2016	2015
Active employees	571	570
Inactive employees or beneficiaries currently receiving benefits	251	240
Inactive employees entitled to but not yet receiving benefits	107	99
Total Plan Participants	929	909

(c) *Contributions*

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Public Utilities Board matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Public Utilities Board. Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

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(8) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

(c) Contributions - Continued

Employees of the Public Utilities Board were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Public Utilities Board were 17.54% and 17.57% for calendar years 2017 and 2016, respectively. The Public Utilities Board's contributions to TMRS in the fiscal year ended September 30, 2017, were \$5,074,953, and \$4,399,539 for fiscal year ended September 30, 2016, and equaled the required contributions.

(d) Net Pension Liability

The Public Utilities Board's net pension liability (NPL) was measured as of December 31, 2016, and total pension liability (TPL) used to calculate the net pension liability was determined by actuarial valuations as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010, through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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(8) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

(d) Net Pension Liability - Continued

Actuarial assumptions – Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, actuaries focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	7.75%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

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(8) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

(d) Net Pension Liability – Continued

The Public Utilities Board’s changes in net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 154,341,638	\$ 120,400,624	\$ 33,941,014
Changes for the year:			
Service cost	4,650,032	-	4,650,032
Interest	10,390,015	-	10,390,015
Change of benefit terms	-	-	-
Difference between expected and actual experience	263,997	-	263,997
Changes in assumptions	-	-	-
Contributions - employer	-	4,685,031	(4,685,031)
Contributions - employee	-	1,884,784	(1,884,784)
Net investment income	-	8,139,141	(8,139,141)
Benefit payments, including refunds of employee contributions	(5,481,024)	(5,481,024)	-
Administrative expense	-	(91,896)	91,896
Other changes	-	(4,951)	4,951
Net changes	9,823,020	9,131,085	691,935
Balance at 12/31/2016	\$ 164,164,658	\$ 129,531,709	\$ 34,632,949

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Public Utilities Board, calculated using the discount rate of 6.75%, as well as what the Public Utilities Board’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate 6.75%	1% Increase 7.75%
\$ 58,728,512	\$ 34,632,949	\$ 14,891,122

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

(e) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The Public Utilities Board recognized \$6,618,993 in pension expense for the fiscal year ended September 30, 2017, and \$17,681,051 in pension expense for the fiscal year ended September 30, 2016.

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(8) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

(e) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

At September 30, 2017, the Public Utilities Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>Deferred outflows of resources</u>		
Differences between projected and actual earnings on pension assets	\$ 5,501,800	\$ 7,465,604
Employer's contributions to the Plan subsequent to the measurement of total pension liability	3,897,460	3,545,797
Total deferred outflows of resources	<u>\$ 9,399,260</u>	<u>\$ 11,011,401</u>
<u>Deferred inflows of resources</u>		
Differences between projected and actual earnings on pension assets	\$ (1,676,487)	\$ (2,484,829)
Changes in assumptions	-	101,509
Total deferred inflows of resources	<u>\$ (1,676,487)</u>	<u>\$ (2,383,320)</u>

The amount reported as deferred outflows of resources, \$3,897,460, related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended <u>September 30,</u>	Net deferred outflows (inflows) of resources:
2018	\$ 1,493,925
2019	1,493,924
2020	1,202,806
2021	(325,915)
2022	(47,022)
Thereafter	22,539
Total	<u>\$ 3,840,257</u>

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(9) OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the Public Utilities Board provides post-retirement health care benefits and supplemental death benefits to its employees.

POST-RETIREMENT HEALTH CARE BENEFITS

(a) Plan Description

The Public Utilities Board provides post-retirement health care benefits for employees retiring and receiving annuities from the Texas Municipal Retirement System, through a single-employer plan, who are (1) at least age 60 and have completed 10 consecutive years of active service with the Public Utilities Board immediately prior to retirement, (2) at least age 55 and have completed 25 consecutive years of active service with the Public Utilities Board immediately prior to retirement, or (3) at any age having completed 30 consecutive years of active service with the Public Utilities Board immediately prior to retirement. Prior to age 65, the Public Utilities Board will pay 100% of the cost of the Group Health Insurance Program for the retirees. Spouses and dependents are also eligible for coverage, but the retiree must pay the premiums. No coverage is available after the retiree reaches age 65, including coverage for spouses and dependents. The above eligibility and coverage requirements do not apply to retirees that retired under Retiree Package I (1999) and Retiree Package II (2005). The Retiree Package I plan results from a special offer made in fiscal year 1999 to all employees with 25 years or more of credited service or eligible for retirement under TMRS guidelines who elected to voluntarily resign or retire during the offer period. The plan provides coverage for the employees and the employees' dependent (spouse) under the Public Utilities Board's group medical plan until such time as the employee becomes 65 years of age, dies, or elects to receive coverage from another source. Under Retiree Package I, 34 retirees met these eligibility requirements. The Retiree Package II plan provides post-retirement benefits to all employees who retire from the Public Utilities Board after attaining 10 years of service and 60 years of age, 25 years of service and 55 years of age or 30 years of service regardless of age. Under the Retiree Package II plan, retirees may pay to provide spousal and dependent coverage.

Under Retiree Package II, 24 retirees met these eligibility requirements. The Public Utilities Board provides 100% of the cost of retirees to participate in this plan. Expenses for post-retirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported. Expenses related to provision of these post-employment benefits cannot be reasonably estimated.

(b) Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions as to rates of interest, mortality, and turnover. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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(9) OTHER POST-EMPLOYMENT BENEFITS – Continued

POST-RETIREMENT HEALTH CARE BENEFITS – Continued

(b) Actuarial Methods and Assumptions – Continued

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective.

The actuarial methods and significant assumptions used to determine the Annual Required Contribution (ARC) for the current year are as follows:

- 1) Measurement date is as of October 1, 2015.
- 2) The actuarial cost method used is the projected unit credit cost method.
- 3) As of this valuation date, there are no assets, hence no need for an actuarial value of assets.
- 4) The amortization method is level percent of payroll. The amortization period is 30 years. The period is open.
- 5) See below for a disclosure of the significant actuarial assumptions.
 - Discount Rate for Valuing Liabilities
 - Without prefunding: 3.50% per annum, compounded annually
 - Inflation Rate
 - 2.30% per annum, compounded annually
 - Payroll Growth
 - 2.10% per annum, compounded annually
 - Mortality Rates
 - Pre-retirement: Sex Distinct RP-2014 Mortality Table adjusted to 2006 with Projection Scale MP-2016
 - Post-retirement: Sex Distinct RP-2014 Mortality Table adjusted to 2006 with Projection Scale MP-2016
 - Disability Rates
 - From December 31, 2015, TMRS report:

Age	Male	Female
35	0.0259%	0.0259%
40	0.0494%	0.0494%
45	0.0804%	0.0804%
50	0.1188%	0.1188%
55	0.1647%	0.1647%
60	0.2180%	0.2180%

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
 September 30, 2017 and 2016

(9) OTHER POST-EMPLOYMENT BENEFITS – Continued

POST-RETIREMENT HEALTH CARE BENEFITS – Continued

(b) Actuarial Methods and Assumptions – Continued

- Withdrawal Rates
 - 2003 SOA Pension Plan Turnover Study adjusted by 60.3%:

Age	Male	Female
25	11.2%	11.2%
30	7.4%	7.4%
35	5.3%	5.3%
40	4.2%	4.2%
45	3.7%	3.7%
50	3.4%	3.4%
55	1.8%	1.8%
60	1.3%	1.3%

- Retirement Rates
 - From December 31, 2015, TMRS report for entry ages 32 & under:

Ages	Male	Female
40-44	6%	6%
45-49	6%	6%
50-53	8%	8%
54	8%	11%
55-59	14%	11%
60	20%	14%
61	25%	28%
62	32%	28%
63	32%	28%
64	32%	28%
65	32%	28%
66-69	22%	22%
70-74	20%	22%
75+	100%	100%

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
 September 30, 2017 and 2016

(9) OTHER POST-EMPLOYMENT BENEFITS – Continued

POST-RETIREMENT HEALTH CARE BENEFITS – Continued

(b) Actuarial Methods and Assumptions – Continued

- Participation Assumption
 - 100% of active employees are assumed to elect coverage at retirement.
- Marriage Assumption
 - For actives it is assumed that husbands are three years older than their wives. 50% of active participants making it to retirement are assumed to be married and elect spouse coverage.
- Claims Costs at Sample Ages – Annual

Age	Retiree		Spouse	
	Male	Female	Male	Female
45	10,091	11,588	7,011	8,349
50	8,864	10,002	7,868	9,096
55	9,352	9,819	9,051	9,929
60	11,399	11,142	10,826	11,114
64	14,218	12,843	13,119	12,445
65+	0	0	0	0

- Medical Inflation (Trend Assumption)
 - The trend assumptions for medical and pharmacy costs and retiree premiums are summarized below:

Year	Trend
2015	6.00%
2016	6.00%
2017	5.80%
2018	5.60%
2019	5.30%
2020-2021	5.20%
2022	5.10%
2023-2024	5.00%
2025-2029	4.90%
2030-2032	5.00%
2033-2036	5.20%
2037-2038	5.30%

Year	Trend
2039	5.20%
2040-2041	5.10%
2042	5.30%
2043-2046	5.60%
2046-2048	5.50%
2049-2050	5.40%
2051-2055	5.30%
2056-2060	5.20%
2061-2063	5.10%
...	...
2073-2076	4.20%
2077+	4.10%

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
 September 30, 2017 and 2016

(9) OTHER POST-EMPLOYMENT BENEFITS – Continued

POST-RETIREMENT HEALTH CARE BENEFITS – Continued

(c) Annual OPEB Cost and Net OPEB Obligation

The Public Utilities Board’s annual other post-employment benefit (OPEB) cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost consists of the ARC, interest on the net OPEB obligation, and adjustments to the ARC. The September 30, 2017, and September 30, 2016, actuarial valuations are the basis for the annual OPEB cost of \$1.6 million and \$1.6 million, respectively.

The following table shows the components of the Public Utilities Board’s annual OPEB cost for FY 2017 and FY 2016, the contributions in relation to the ARC, and changes in the net OPEB obligation. The net OPEB obligation may be either positive, reflecting a liability, or negative, reflecting an asset. The term net OPEB obligation, as used in this note, refers to either situation.

<u>Determination of Annual Required Contribution</u>	<u>09/30/2017</u>	<u>09/30/2016</u>
Normal Cost at fiscal year end	\$ 934,587	\$ 934,587
Amortization of UAAL	676,825	676,825
Annual Required Contribution (ARC)	<u>\$ 1,611,412</u>	<u>\$ 1,611,412</u>
<u>Determination of Net OPEB Obligation</u>	<u>09/30/2017</u>	<u>09/30/2016</u>
Net OPEB Obligation - beginning of year	\$ 8,674,722	\$ 7,866,350
Annual Required Contribution	1,611,412	1,611,412
Interest on prior year Net OPEB Obligation	303,615	275,322
Adjustment to ARC	<u>(362,096)</u>	<u>(328,353)</u>
Annual OPEB Cost	1,552,931	1,558,381
Contributions in relation to ARC	<u>(721,240)</u>	<u>(750,009)</u>
Increase in Net OPEB Obligation	831,691	808,372
Net OPEB Obligation - end of year	<u>\$ 9,506,413</u>	<u>\$ 8,674,722</u>

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
 September 30, 2017 and 2016

(9) OTHER POST-EMPLOYMENT BENEFITS – Continued

POST-RETIREMENT HEALTH CARE BENEFITS – Continued

(c) Annual OPEB Cost and Net OPEB Obligation – Continued

The following table shows the estimated annual OPEB cost and net OPEB obligation for the prior three years under a plan which is not prefunded:

	Fiscal Year Ended		
	09/30/2017	09/30/2016	09/30/2015
Discount Rate	3.50%	3.50%	3.50%
Annual OPEB Cost	\$ 1,552,931	\$ 1,558,381	\$ 1,221,396
Employer Contributions	\$ 721,240	\$ 750,009	\$ 325,753
Percentage of OPEB Cost Contributed	46.44%	48.13%	26.67%
Net OPEB Obligation	\$ 9,506,413	\$ 8,674,722	\$ 7,866,350

(d) Funded Status and Funding Progress

As of October 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$16.2 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$16.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$26.3 million, and the ratio of the UAAL to the covered payroll was 61.7 percent.

	Actuarial Valuation Date		
	10/01/2016	10/01/2015	10/01/2014
Actuarial Value of Assets	\$ -	\$ -	\$ -
Discount Rate	3.5%	3.5%	3.5%
Actuarial Accrued Liabilities (AAL) ¹	N/A	\$ 16,214,696	N/A
Unfunded Actuarial Accrued Liabilities (UAAL) ²	N/A	\$ 16,214,696	N/A
Funded Ratio ³	0.0%	0.0%	0.0%
Covered Payroll	N/A	\$ 26,289,939	N/A
UAAL as a % of Covered Payroll	N/A	61.7%	N/A

(1) Actuarial Accrued Liability determined under the projected unit credit cost.

(2) Actuarial Accrued Liability less Actuarial Value of Assets.

(3) The Public Utilities Board sets aside the net OPEB obligation at the end of each year in an unrestricted fund for the purpose of this liability.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
 September 30, 2017 and 2016

(9) OTHER POST-EMPLOYMENT BENEFITS – Continued

POST-RETIREMENT HEALTH CARE BENEFITS – Continued

(d) Funded Status and Funding Progress – Continued

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Management feels that the contributions made during the year to other post-employment benefits will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such. All assumptions for the postretirement benefits valuation as of October 1, 2015, are contained in the Public Utilities Board Actuarial Valuation Report, a copy of which may be obtained by writing to P.O. Box 3270, Brownsville, Texas 78523-3270.

SUPPLEMENTAL DEATH BENEFIT PLAN

(a) Plan Description

The Public Utilities Board also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The Public Utilities Board elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Public Utilities Board may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employees' annual salary (calculated based on the employees actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

(b) Contributions

The Public Utilities Board contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers.

**Schedule of Contribution Rates
 (RETIREE-only portion of the rate)**

Plan/ Calendar Year	Annual Req'd Contribution (Rate)	Actual Contribution (Rate)	Percentage of ARC Contributed
2017	0.06%	0.06%	100%
2016	0.05%	0.05%	100%
2015	0.06%	0.06%	100%

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
 September 30, 2017 and 2016

(9) OTHER POST-EMPLOYMENT BENEFITS – Continued

SUPPLEMENTAL DEATH BENEFIT PLAN – Continued

(c) Actuarial Cost Method and Assumptions

Actuarial information under this plan is as follows:

Valuation date	12/31/2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Amortization period	25 years – open period
Asset valuation method	Fund value
Assumptions	
Investment return	4.25%
Projected salary increases	None
Inflation	3.0%
Cost-of-living adjustments	None

Three-year trend information follows:

	Calendar Year Ending		
	12/31/2014	12/31/2015	12/31/2016
Employer Contributions	\$ 46,253	\$ 47,322	\$ 45,773
Percentage of OPEB Cost Contributed	100.0%	100.0%	100.0%
Net OPEB Obligation	\$ -	\$ -	\$ -

The Public Utilities Board has the benefit plan administered by TMRS. The Public Utilities Board has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2016 valuations are contained in the 2016 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or may be obtained from TMRS' website at www.tmrs.com.

(10) RELATED PARTY TRANSACTION

The Public Utilities Board supplies electric, water, and wastewater services to the City without charge; this is in compliance with the provisions of the City charter. These services are accounted for in accordance with the Public Utilities Board's municipal rate schedules. Utilities service provided to the City for the years ended September 30, 2017 and 2016 were \$4,629,113 and \$4,804,112, respectively.

The Public Utilities Board also bills and collects the City's fees for garbage collection services, garbage tax, EPA fees, and maintenance services, and receives a 3% administrative fee for these services except garbage tax. The Public Utilities Board charged \$795,304 and \$775,830 to the City for these collection services in 2017 and 2016, respectively.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(11) TRANSFERS TO THE CITY

The issuance of the 2005A and 2005B refunding bonds modified certain existing covenants which included the calculation of the transfers to the City. Beginning fiscal year 2006 the transfers to the City are being made on a quarterly basis calculated at ten percent (10%) of the gross revenues received for the preceding fiscal year quarter, as adjusted in accordance with the following: (1) prior to applying the percentage set forth above to determine the amount to be transferred to the City, the amount of gross revenues for a fiscal year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Public Utilities Board during such fiscal year quarter as well as funding requirements for the Southmost Regional Water Authority; and (2) the amount of funds to be transferred to the City shall be reduced by any amounts owed by the City to the Public Utilities Board for utility services. Prior to fiscal year 2006 Article VI of the Charter provided for the transfer to the City's general fund by the Public Utilities Board from "Surplus Funds" available at the close of each fiscal year (after retaining in the Plant Fund an amount deemed by the Public Utilities Board to be sufficient to pay system operation and maintenance expenses for the next 60 days), to the extent available, the greater of \$400,000 or 50% of such surplus funds. Surplus funds, as defined in the Charter, are amounts remaining in the Plant Fund at the close of each fiscal year after all Charter requirements and after all payments have been fully and timely made into funds created by ordinances authorizing outstanding bonds secured by a pledge of the system's net revenues.

Required payments to the City for the years ended September 30, 2017 and 2016, totaled \$10,666,207 and \$9,822,602, respectively, of which \$3,104,705 and \$2,748,853, respectively, was payable at September 30, 2017 and 2016.

(12) COMMITMENTS AND CONTINGENCIES

The Public Utilities Board is currently involved in various claims and litigation. It is the opinion of management and counsel that potential claims against the Public Utilities Board not covered by insurance resulting from litigation would not materially affect the financial position or operations of the Public Utilities Board.

At September 30, 2017, the Public Utilities Board had committed approximately \$14,466,083 for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board and restricted funds.

(13) RATE STABILIZATION

The Public Utilities Board analyzes and adjusts the fuel and purchased energy charge (FPEC) on a monthly basis. Beginning in April 2016, the Public Utilities Board implemented a bill reduction plan which set the FPEC at a rate that maintains an average residential electric bill at \$102.00 based on 1,000 kWh of electric consumption. The plan was implemented to maintain a competitive alignment with other local providers. The Public Utilities Board utilized rate stabilization funds of \$24,200,000 and \$10,525,000 in fiscal years ending September 30, 2017 and 2016 respectively, to supplement actual FPEC collections.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Notes to the Financial Statements
September 30, 2017 and 2016

(14) PENDING GASBs

As of September 30, 2017, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Public Utilities Board. The statements being evaluated for financial statement impact are as follows:

- GASB Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*;
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*;
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*;
- GASB Statement No. 83, *Certain Asset Retirement Obligations*;
- GASB Statement No. 84, *Fiduciary Activities*;
- GASB Statement No. 85, *Omnibus 2017*;
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*;
- GASB Statement No. 87, *Leases*.

Management is currently evaluating these pending GASB statements to determine the financial statement impact to the Public Utilities Board, if any.

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REQUIRED SUPPLEMENTARY INFORMATION

- ❖ *Texas Municipal Retirement System – Schedule of Changes in Net Pension Liability and Related Ratios*
- ❖ *Texas Municipal Retirement System – Schedule of Contributions*
- ❖ *Post-Retirement Health Care Benefits – Schedule of Funding Progress*

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Texas Municipal Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios

	2017	2016	2015
Total Pension Liability			
Service Cost	\$ 4,650,032	\$ 3,748,945	\$ 3,426,900
Interest (on the Total Pension Liability)	10,390,015	10,202,003	8,988,969
Changes of benefit terms	-	12,418,650	-
Difference between expected and actual experience	263,997	(976,625)	(2,363,903)
Changes of assumption	-	119,380	-
Benefit payments, including refunds of employee contributions	(5,481,024)	(5,240,997)	(5,364,164)
Net change in Total Pension Liability	9,823,020	20,271,356	4,687,802
Total Pension Liability - Beginning	154,341,638	134,070,282	129,382,480
Total Pension Liability - Ending (a)	<u>\$ 164,164,658</u>	<u>\$ 154,341,638</u>	<u>\$ 134,070,282</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 4,685,031	\$ 3,483,411	\$ 3,597,481
Contributions - Employee	1,884,784	1,840,296	1,798,743
Net investment income	8,139,141	177,458	6,509,426
Benefit payments, including refunds of employee contributions	(5,481,024)	(5,240,997)	(5,364,164)
Administrative expense	(91,896)	(108,080)	(67,960)
Other	(4,951)	(5,338)	(5,587)
Net change in Plan Fiduciary Net Position	9,131,085	146,750	6,467,939
Plan Fiduciary Net Position - Beginning	120,400,624	120,253,874	113,785,935
Plan Fiduciary Net Position - Ending (b)	<u>\$ 129,531,709</u>	<u>\$ 120,400,624</u>	<u>\$ 120,253,874</u>
Net Pension Liability - Ending (a) - (b)	\$ 34,632,949	\$ 33,941,014	\$ 13,816,408
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.90%	78.01%	89.69%
Covered Employee Payroll	\$ 26,925,490	\$ 26,289,939	\$ 25,696,323
Net Pension Liability as a Percentage of Covered Employee Payroll	128.63%	129.10%	53.77%

Notes to Schedule: Schedule is intended to show 10 years. Additional years will be presented as the information becomes available.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Texas Municipal Retirement System

Schedule of Contributions

Last Ten Fiscal Years

Year Ended <u>September 30</u>	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2008	\$ 2,323,198	\$ 2,323,198	\$ -	\$ 19,569,746	11.87%
2009	3,218,218	3,218,218	-	20,181,674	15.95%
2010	3,826,042	3,826,042	-	20,998,159	18.22%
2011	3,828,971	3,828,971	-	22,827,689	16.77%
2012	3,332,195	3,332,195	-	24,493,130	13.60%
2013	3,352,889	3,352,889	-	22,850,044	14.67%
2014	3,672,318	3,672,318	-	26,079,664	14.08%
2015	3,534,419	3,534,419	-	26,333,524	13.42%
2016	4,399,028	4,399,028	-	26,450,688	16.63%
2017	5,074,953	5,074,953	-	28,681,837	17.69%

Notes to Schedule of Contributions on the following page.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

(A Component Unit of the City of Brownsville, Texas)

Texas Municipal Retirement System
Schedule of Contributions - Continued

Notes to Schedule of Contributions

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the Public Utilities Board's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes	Increased municipal matching ratio from 1.5-1 to 2-1 in fiscal year 2016. There were no benefit changes during the year. Schedule is intended to show 10 years. Additional years will be presented as the information becomes available.
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PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)

Post-Retirement Health Care Benefits
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) ⁽¹⁾	Unfunded Actuarial Accrued Liabilities (UAAL) ⁽²⁾	Funded ratio ⁽³⁾	Covered payroll	UAAL as a Percentage of Covered Payroll
10/01/2014	\$ -	N/A	N/A	0.0%	N/A	N/A
10/01/2015	\$ -	\$ 16,214,696	\$ 16,214,696	0.0%	\$ 26,289,939	61.7%
10/01/2016	\$ -	N/A	N/A	0.0%	N/A	N/A

(1) Actuarial Accrued Liability determined under the projected unit credit cost method. A valuation was not performed for the fiscal year beginning October 1, 2014 and 2016. Liabilities from October 1, 2015 will be carried forward to the October 1, 2017 valuation.

(2) Actuarial Accrued Liability less Actuarial Value of Assets.

(3) The Public Utilities Board sets aside the net OPEB obligation at the end of each year in an unrestricted fund for the purpose of this liability.

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Statistical Section

This part of the Public Utilities Board's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosure, and required supplementary information says about the Public Utilities Board's overall financial health.

Contents	Page
Financial Trends	73-74
These schedules contain trend information to help the reader understand how the Public Utilities Board's financial performance and well being has changed over time.	
Revenue Capacity	77-82
These schedules contain information to help the reader assess the Public Utilities Board's local revenue source.	
Debt Capacity	84-86
These schedules present information to help the reader assess the Public Utilities Board's debt burden and its ability to issue additional debt in the future.	
Demographic and Economic Information	88-92
This schedule offers demographic and economic indicators to help the reader understand the environment in which the Public Utilities Board's financial activities take place.	
Operating Information	94-109
These schedules contain service and infrastructure data to help the reader understand how the information in the Public Utilities Board's financial report relates to the services Public Utilities Board provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules was obtained from the basic financial statements for the relevant years. Public Utilities Board implemented GASB Statement 34 in 2002.

FINANCIAL TRENDS

- *Net Position by Component*
- *Statements of Revenues,
Expenses, and Changes in Net
Position*

FINANCIAL TRENDS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Dollars in Thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net position:										
Net investment in capital assets	\$311,667	\$310,655	\$308,013	\$297,472	\$271,662	\$244,561	\$221,978	\$211,960	\$194,919	\$183,307
Restricted	149,407	143,796	117,120	103,988	101,291	111,401	102,698	90,119	85,620	89,398
Unrestricted	27,446	28,810	50,967	56,130	59,163	54,463	59,245	55,182	46,713	44,984
Total net position	\$488,520	\$483,262	\$476,100	\$457,590	\$432,116	\$410,425	\$383,921	\$357,261	\$327,253	\$317,689

FINANCIAL TRENDS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Dollars In Thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating revenues:										
Sales and services charges	\$220,878	\$207,550	\$207,767	\$192,061	\$170,446	\$169,799	\$172,361	\$158,868	\$168,185	\$213,610
Less utilities service to the City of Brownsville, Texas	(4,629)	(4,804)	(4,810)	(4,840)	(4,274)	(4,228)	(4,278)	(4,069)	(4,228)	(4,605)
Total operating revenues	216,248	202,746	202,958	187,222	166,172	165,571	168,083	154,799	163,957	209,005
Operating expenses:										
Purchased power and fuel	62,733	55,452	65,221	66,942	53,915	48,039	52,503	53,527	58,654	88,279
Personnel services	40,868	49,077	33,303	32,822	30,616	27,962	27,388	26,025	25,136	24,187
Materials and supplies	7,791	6,961	7,347	7,376	7,433	7,276	7,161	6,444	6,537	6,881
Repairs and maintenance	2,269	2,666	2,983	3,688	2,030	2,794	3,235	3,106	1,346	834
Contractual and other services	23,753	24,443	21,522	19,153	19,319	18,972	18,166	19,570	21,065	23,407
Rate Stabilization	24,200	10,525	-	-	-	-	-	-	-	-
Depreciation	30,194	29,064	29,507	28,409	27,366	23,602	28,270	25,555	24,663	23,691
Total operating expenses	191,808	178,187	159,883	158,390	140,678	128,646	136,723	134,227	137,402	167,278
Operating income	24,440	24,559	43,075	28,832	25,494	36,926	31,360	20,572	26,556	41,727
Nonoperating revenues (expenses):										
Investment and interest income	1,703	1,202	841	533	564	672	629	841	1,812	4,142
Interest expense	(13,812)	(14,743)	(14,509)	(15,109)	(15,654)	(15,580)	(16,131)	(16,515)	(16,819)	(15,864)
Operating grant revenues	25	-	-	-	-	-	-	-	-	1,250
Loss on disposition of capital assets	(3,357)	(1,019)	(3,578)	(1,028)	(116)	(1,417)	(359)	(140)	(157)	(762)
Other	40	457	1,599	1,213	(1,484)	(582)	(2,157)	11,086	523	(1,183)
Payments to City of Brownsville	(10,666)	(9,823)	(9,040)	(7,614)	(7,189)	(7,738)	(7,488)	(7,570)	(6,381)	(7,390)
Net nonoperating revenues (expenses)	(26,067)	(23,926)	(24,687)	(22,006)	(23,878)	(24,645)	(25,507)	(12,298)	(21,023)	(19,806)
Income (Loss) before capital contributions	(1,627)	633	18,388	6,826	1,616	12,280	5,853	8,274	5,533	21,921
Capital contributions	6,885	6,528	12,965	18,648	20,075	14,224	20,807	21,735	4,804	12,752
Change in net position	5,258	7,161	31,353	25,474	21,691	26,504	26,660	30,009	10,337	34,673
Net position, beginning of year	483,262	476,100	457,590	432,116	410,425	383,921	357,261	327,253	317,689	280,106
Prior Period Adjustment	-	-	(12,843)	-	-	-	-	-	(773)	2,909
Net position, beginning of year as restated	483,262	476,100	444,747	432,116	410,425	383,921	357,261	327,253	316,916	283,016
Net position, end of year	\$488,520	\$483,262	\$476,100	\$457,590	\$432,116	\$410,425	\$383,921	\$357,261	\$327,253	\$317,689

REVENUE

CAPACITY

- *Average Number of Services Billed by Utility*
- *Revenues by Utility*
- *Unit Sales by Utility*
- *Ten Year Rate Analysis – Residential Rates*
- *System Rate Increases*
- *Total Average Residential Monthly Charges*

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**REVENUE CAPACITY
AVERAGE NUMBER OF SERVICES BILLED BY UTILITY¹
LAST TEN YEARS**

FY	ELECTRIC	% CHANGE	WATER	% CHANGE	WASTEWATER	% CHANGE
2017	48,726	1.10%	50,153	1.12%	50,329	1.28%
2016	48,196	1.10%	49,598	1.23%	49,693	1.33%
2015	47,671	0.91%	48,997	1.00%	49,041	1.06%
2014	47,242	1.10%	48,510	1.11%	48,528	1.16%
2013	46,730	1.37%	47,976	1.06%	47,972	1.09%
2012	46,102	1.32%	47,477	1.76%	47,456	1.83%
2011	45,500	1.19%	46,656	1.51%	46,605	1.79%
2010	44,965	1.57%	45,963	1.82%	45,784	2.11%
2009	44,268	1.19%	45,143	1.06%	44,840	1.42%
2008	43,749	2.07%	44,670	2.19%	44,211	2.98%

¹Municipal customers not included in average number of services billed

**REVENUE CAPACITY
REVENUES BY UTILITY - LAST TEN YEARS**

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
ELECTRIC					
Residential	\$ 71,288,035	\$ 63,681,205	\$ 64,980,210	\$ 63,035,376	\$ 51,861,710
Commercial	74,770,246	68,559,278	71,696,062	68,505,305	59,576,916
Municipal	3,630,779	3,846,235	4,035,358	3,916,022	3,336,413
Wholesale sales	9,348,488	16,397,987	12,182,728	921,782	237,173
Other	11,593,857	7,458,124	9,325,630	9,792,100	8,925,031
<i>Total Electric Operating Revenues</i>	<u>\$ 170,631,405</u>	<u>\$ 159,942,829</u>	<u>\$ 162,219,988</u>	<u>\$ 146,170,585</u>	<u>\$ 123,937,243</u>
WATER					
Inside city	\$ 23,879,301	\$ 21,796,229	\$ 20,340,255	\$ 20,594,551	\$ 20,333,223
Outside city	873,877	811,938	777,023	766,496	735,224
Municipal	668,247	624,615	514,875	618,616	617,202
Other	1,029,823	1,111,918	1,342,068	1,162,867	1,054,328
Southmost Regional Water Authority	480,808	466,928	447,797	488,079	1,023,081
<i>Total Water Operating Revenues</i>	<u>\$ 26,932,056</u>	<u>\$ 24,811,628</u>	<u>\$ 23,422,018</u>	<u>\$ 23,630,609</u>	<u>\$ 23,763,058</u>
WASTEWATER					
Residential	\$ 14,021,992	\$ 13,728,898	\$ 13,251,741	\$ 13,578,070	\$ 14,135,642
Commercial	7,141,687	6,949,099	6,841,017	6,712,829	6,734,506
Municipal	330,087	333,262	259,508	304,992	320,569
Outside city	1,258,935	1,208,890	1,181,106	1,087,237	1,050,009
Other	561,340	575,617	592,120	577,059	505,472
<i>Total Wastewater Operating Revenues</i>	<u>\$ 23,314,041</u>	<u>\$ 22,795,766</u>	<u>\$ 22,125,492</u>	<u>\$ 22,260,187</u>	<u>\$ 22,746,198</u>
TOTAL SALES AND SERVICE CHARGES	<u><u>\$ 220,877,502</u></u>	<u><u>\$ 207,550,223</u></u>	<u><u>\$ 207,767,498</u></u>	<u><u>\$ 192,061,381</u></u>	<u><u>\$ 170,446,499</u></u>
ELECTRIC					
Residential	\$ 48,562,146	\$ 50,187,194	\$ 47,971,715	\$ 46,515,011	\$ 53,591,810
Commercial	54,952,907	55,235,857	55,336,855	55,839,361	68,404,294
Municipal	3,157,165	3,454,302	3,420,281	3,551,221	3,953,891
Wholesale sales	605,125	3,124,675	5,532,956	6,268,813	19,172,024
Other	16,626,285	15,491,119	7,008,117	14,114,934	28,262,591
<i>Total Electric Operating Revenues</i>	<u>\$ 123,903,628</u>	<u>\$ 127,493,147</u>	<u>\$ 119,269,924</u>	<u>\$ 126,289,340</u>	<u>\$ 173,384,610</u>
WATER					
Inside city	\$ 20,389,340	\$ 19,901,457	\$ 17,448,496	\$ 18,909,283	\$ 18,031,651
Outside city	699,401	675,821	581,350	419,261	616,728
Municipal	686,274	587,860	464,828	487,526	464,790
Other	1,032,247	1,140,972	971,331	771,705	810,382
Southmost Regional Water Authority	428,572	367,143	469,462	355,486	325,247
<i>Total Water Operating Revenues</i>	<u>\$ 23,235,834</u>	<u>\$ 22,673,253</u>	<u>\$ 19,935,467</u>	<u>\$ 20,943,261</u>	<u>\$ 20,248,798</u>
WASTEWATER					
Residential	\$ 14,128,726	\$ 13,858,701	\$ 12,002,652	\$ 13,046,933	\$ 12,292,537
Commercial	6,713,307	6,565,949	6,171,734	6,384,964	6,222,760
Municipal	384,562	236,123	184,228	188,825	186,470
Outside city	984,754	1,042,823	908,149	933,894	847,091
Other	448,444	490,847	396,032	397,741	427,688
<i>Total Wastewater Operating Revenues</i>	<u>\$ 22,659,793</u>	<u>\$ 22,194,443</u>	<u>\$ 19,662,795</u>	<u>\$ 20,952,357</u>	<u>\$ 19,976,546</u>
TOTAL SALES AND SERVICES CHARGES	<u><u>\$ 169,799,255</u></u>	<u><u>\$ 172,360,843</u></u>	<u><u>\$ 158,868,186</u></u>	<u><u>\$ 168,184,958</u></u>	<u><u>\$ 213,609,954</u></u>

REVENUE CAPACITY
UNIT SALES BY UTILITY - LAST TEN YEARS ¹

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
ELECTRIC SERVICE (kWh)					
Residential	578,938,532	564,931,382	551,304,652	567,334,136	533,303,461
Commercial Non-Demand	139,381,802	135,844,893	128,892,385	132,918,707	134,939,048
Municipal	39,785,043	39,500,507	38,995,522	39,371,016	38,895,227
Commercial Demand	560,113,317	557,349,627	554,994,514	558,708,943	570,125,749
Other	2,478,672	2,403,423	2,227,059	2,226,006	2,232,972
<i>Total Electric Unit Sales</i>	<u>1,320,697,366</u>	<u>1,300,029,832</u>	<u>1,276,414,132</u>	<u>1,300,558,808</u>	<u>1,279,496,457</u>

WATER SERVICE - 1,000 GALLONS					
Inside City	5,832,446	5,560,741	5,281,931	5,753,783	6,294,433
Outside City	157,297	155,104	148,956	155,398	161,450
Municipal	167,724	158,741	122,006	176,477	189,804
Other	525,154	465,077	461,178	506,676	555,452
<i>Total Water Unit Sales</i>	<u>6,682,621</u>	<u>6,339,663</u>	<u>6,014,071</u>	<u>6,592,334</u>	<u>7,201,139</u>

WASTEWATER SERVICE - 1,000 GALLONS					
Residential	2,804,793	2,709,033	2,554,154	2,795,399	3,036,404
Commercial	1,662,288	1,601,296	1,560,177	1,604,591	1,677,306
Municipal	77,545	78,448	58,998	74,464	80,169
Outside City	123,065	111,277	106,175	118,228	122,924
Other	-	-	-	-	3,671
<i>Total Wastewater Unit Sales</i>	<u>4,667,691</u>	<u>4,500,054</u>	<u>4,279,504</u>	<u>4,592,682</u>	<u>4,920,474</u>

	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
ELECTRIC SERVICE					
Residential	550,169,186	550,421,195	528,459,863	500,830,035	492,440,123
Commercial Non-Demand	136,833,986	136,117,506	131,502,719	131,592,355	151,550,919
Municipal	38,876,114	39,038,235	38,912,608	38,693,875	37,337,658
Commercial Demand	577,866,685	552,274,846	547,906,595	538,603,116	553,765,276
Other	2,234,448	2,188,674	2,183,004	2,156,058	2,210,427
<i>Total Electric Unit Sales</i>	<u>1,305,980,419</u>	<u>1,280,040,456</u>	<u>1,248,964,789</u>	<u>1,211,875,439</u>	<u>1,237,304,403</u>

WATER SERVICE					
Inside City	6,269,037	6,431,432	5,488,648	6,117,159	5,802,459
Outside City	150,957	159,187	138,846	147,236	127,173
Municipal	223,176	190,732	129,757	153,402	130,520
Other	582,502	576,616	524,299	581,193	491,686
<i>Total Water Unit Sales</i>	<u>7,225,672</u>	<u>7,357,967</u>	<u>6,281,550</u>	<u>6,998,990</u>	<u>6,551,838</u>

WASTEWATER SERVICE					
Residential	3,024,487	3,102,690	2,605,256	2,930,048	2,770,296
Commercial	1,659,010	1,703,770	1,597,067	1,654,968	1,600,161
Municipal	98,579	60,720	45,905	47,571	48,953
Outside City	118,546	125,817	107,481	117,281	103,510
Other	6,197	6,861	8,248	8,579	7,333
<i>Total Wastewater Unit Sales</i>	<u>4,906,819</u>	<u>4,999,858</u>	<u>4,363,957</u>	<u>4,758,447</u>	<u>4,530,253</u>

¹ Excludes Public Utilities Board's usage

**REVENUE CAPACITY
TEN YEAR RATE ANALYSIS
RESIDENTIAL RATES**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
ELECTRIC ¹										
Customer Service Charge	\$ 6.94	\$ 6.49	\$ 6.01	\$ 5.62	\$ 5.25	\$ 3.53	\$ 3.53	\$ 2.53	\$ 2.53	\$ 2.53
Energy Charge										
First 500 kWh	0.05420	0.05241	0.05022	0.04862	0.04708	0.04708	0.04708	0.04708	0.04708	0.04708
Over 500 kWh	0.07688	0.07058	0.06458	0.05964	0.05479	0.05152	0.04708	0.04708	0.04708	0.04708
Fuel & Purchased Power	0.02952	0.03401	0.04500	0.05096	0.04000	0.03200	0.04200	0.03500	0.04000	0.07000
WATER (Inside City) ²										
0-3,000 gallons	1.98	1.87	1.80	1.73	1.63	1.63	1.55	1.55	1.55	1.55
4,000-9,000 gallons	2.19	2.07	1.99	1.91	1.80	1.80	1.71	1.71	1.71	1.71
10,000 to 16,000 gallons	2.70	2.55	2.45	2.36	2.23	2.23	2.12	2.12	2.12	2.12
Over 16,000 gallons	4.08	3.85	3.70	3.56	3.36	3.36	3.20	3.20	3.20	3.20
Customer Service Charge										
5/8 x 3/4 Water Meter Size	12.06	11.38	10.94	10.52	9.93	9.93	9.47	9.47	9.47	9.47
WATER (Outside City) ²										
0-3,000 gallons	2.97	2.81	2.70	2.68	2.65	2.65	2.52	2.52	2.52	2.52
4,000-9,000 gallons	3.29	3.11	2.98	2.95	2.93	2.93	2.79	2.79	2.79	2.79
10,000 to 16,000 gallons	4.05	3.83	3.68	3.10	3.05	3.05	2.90	2.90	2.90	2.90
Over 16,000 gallons	6.12	5.78	5.55	4.60	4.56	4.56	4.34	4.34	4.34	4.34
Customer Service Charge										
5/8 x 3/4 Water Meter Size	18.12	17.09	16.43	15.8	14.90	14.90	14.21	14.21	14.21	14.21
SEWER (Inside City) ³										
0-7,000 gallons	3.43	3.43	3.43	3.30	3.29	3.29	3.13	3.13	3.13	3.13
over 7,000 gallons	3.76	3.76	3.76	3.62	3.57	3.57	3.40	3.40	3.40	3.40
Customer Service Charge										
5/8 x 3/4 Water Meter Size	7.48	7.48	7.48	7.19	7.17	7.17	6.84	6.84	6.84	6.84
SEWER (Outside City)										
Rate per 1,000 gallons	\$ 5.65	\$ 5.65	\$ 5.65	\$ 5.43	\$ 5.36	\$ 5.36	\$ 5.10	\$ 5.10	\$ 5.10	\$ 5.10
Customer Service Charge										
5/8 x 3/4 Water Meter Size	11.22	11.22	11.22	10.79	10.75	10.75	10.26	10.26	10.26	10.26

¹ Electric rates were tiered effective fiscal year 2012.

² Water rates were tiered effective fiscal year 2006.

³ Wastewater rates were tiered effective March 2007.

Note: The City Commission of the City of Brownsville, Texas is vested with the right to set utility rates.

**REVENUE CAPACITY
SYSTEM RATE INCREASES - LAST TEN YEARS**

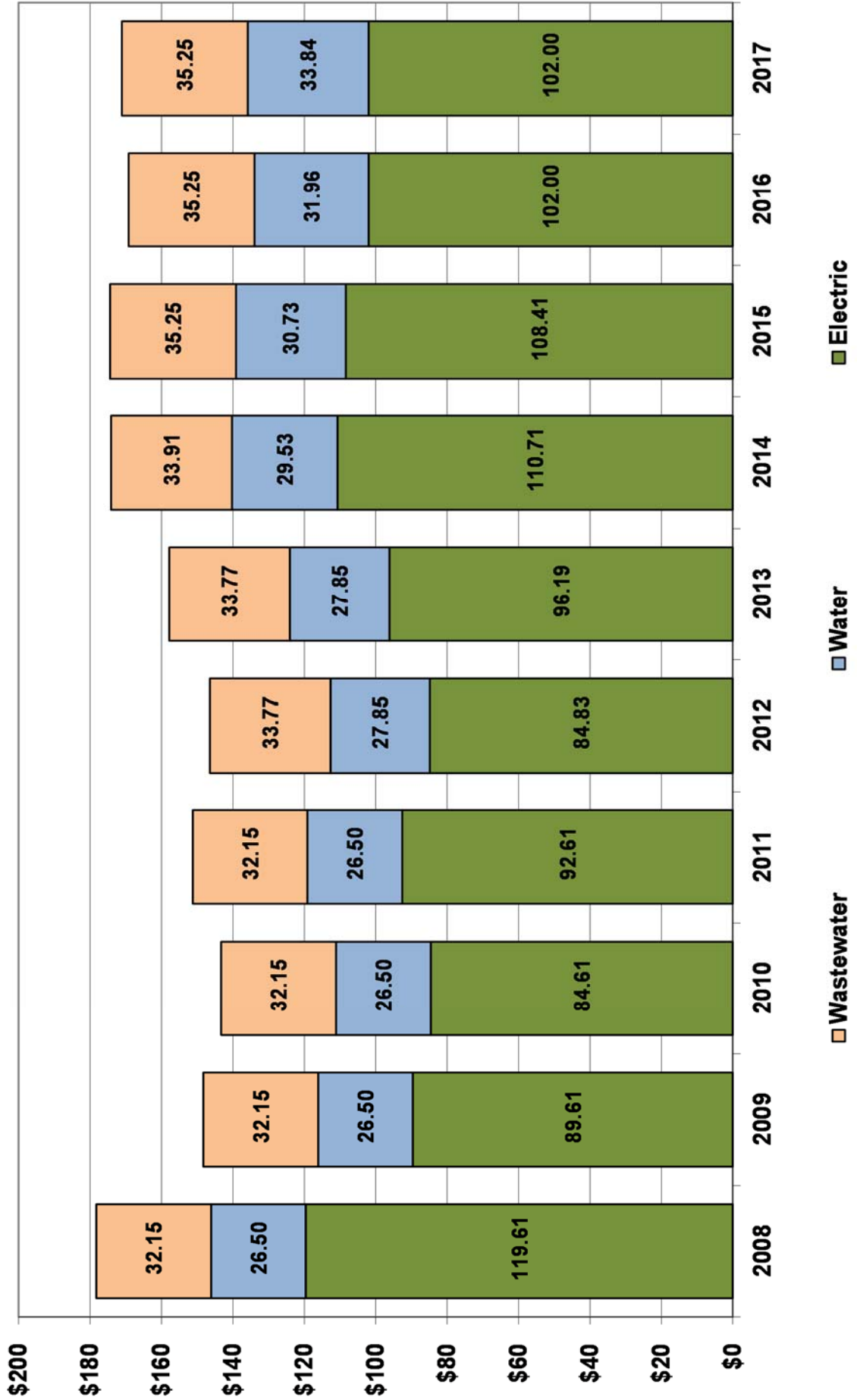
	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>
2017	7.0%	6.0%	-
2016	8.0%	4.0%	-
2015	7.0%	4.0%	4.0%
2014	7.0%	6.0%	2.0%
2013	7.0%	-	-
2012	5.0%	5.0%	5.0%
2011	-	-	-
2010	-	-	-
2009	-	-	-
2008	-	-	-



BROWN SVILLE
PUBLIC UTILITIES BOARD

REVENUE CAPACITY Total Average Residential Monthly Charges For the Month Ending September 30

Based on 1,000 kWh of electric, 10,000 gallons of water,
and 8,000 gallons of wastewater consumption
(Inside City Limits)



DEBT CAPACITY

- *Computation of Debt Service Coverage*
- *Principal Payments Payable on All Debt Issues Through FY 2045*
- *Ratios of Outstanding Debt by Type*

DEBT CAPACITY
COMPUTATION OF DEBT SERVICE COVERAGE - LAST TEN YEARS¹

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
OPERATING INCOME	\$46,967,688	\$33,093,794	\$41,883,847	\$27,256,483	\$21,947,648
ADD:					
Depreciation Expense	28,949,302	28,132,537	28,642,402	27,544,181	26,503,185
Investment & Other Income	1,639,117	1,163,964	815,942	504,537	546,098
LESS:					
Interest on Construction Funds	(178,972)	(193,527)	(128,019)	(94,376)	(8,823)
NET AVAILABLE INCOME	\$77,377,135	\$62,196,768	\$71,214,172	\$55,210,825	\$48,988,108
DEBT SERVICE:					
Revenue Bonds Payable Current	\$12,914,000	\$12,173,000	\$12,066,000	\$10,100,000	\$8,649,000
Total Interest Expense	12,808,172	13,747,956	13,538,613	14,275,285	15,310,103
Operating Reserve	-	-	-	-	-
Commercial Paper Interest Expense	55,636	17,902	13,671	5,929	14,359
Capital Improvement Charges	-	-	-	-	-
NET CASH DEBT SERVICE	\$25,777,808	\$25,938,858	\$25,618,284	\$24,381,214	\$23,973,462
DEBT SERVICE COVERAGE (TIMES)	3.00	2.40	2.78	2.26	2.04
	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
OPERATING INCOME	\$32,747,013	\$27,225,798	\$31,287,495	\$22,931,849	\$27,381,991
ADD:					
Depreciation Expense	22,739,173	27,407,627	24,695,565	23,805,841	21,902,616
Investment & Other Income	654,057	611,866	829,400	1,789,499	6,732,065
LESS:					
Interest on Construction Funds	(13,501)	(41,141)	(54,790)	(211,610)	(2,436,113)
NET AVAILABLE INCOME	\$56,126,742	\$55,204,150	\$56,757,670	\$48,315,579	\$53,580,559
DEBT SERVICE:					
Revenue Bonds Payable Current	\$8,277,000	\$7,856,000	\$7,530,000	\$6,779,000	\$8,099,000
Total Interest Expense	14,399,174	14,829,065	15,186,316	15,216,696	13,468,041
Operating Reserve	-	-	-	-	-
Commercial Paper Interest Expense	39,891	36,668	34,755	-	1,520,835
Capital Improvement Charges	-	-	-	-	-
NET CASH DEBT SERVICE	\$22,716,065	\$22,721,733	\$22,751,071	\$21,995,696	\$23,087,876
DEBT SERVICE COVERAGE (TIMES)	2.47	2.43	2.49	2.20	2.32

¹Excludes Southmost Regional Water Authority and fuel supplement paid from restricted fuel adjustment subaccount.

**DEBT CAPACITY
PRINCIPAL PAYMENTS PAYABLE ON ALL DEBT ISSUES
THROUGH FY 2045**

Year End	2005A		2008		2012		2013		2015		2016		2007		2012		2006		2009A		2009B		2012		2017		Total
	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	Pub Revenue Refunding Bonds	
2018	\$ -	\$ -	\$ 3,270,000	\$ 615,000	\$ 935,000	\$ 8,570,000	\$ -	\$ 31,000	\$ 35,000	\$ 25,000	\$ 310,000	\$ 175,000	\$ 840,000	\$ -	\$ -	\$ 14,806,000											
2019	-	-	635,000	640,000	910,000	8,995,000	2,665,000	32,000	35,000	310,000	180,000	840,000	-	-	15,337,000												
2020	-	-	670,000	665,000	7,445,000	2,950,000	2,790,000	34,000	40,000	310,000	190,000	935,000	-	-	16,029,000												
2021	-	-	705,000	690,000	7,750,000	3,075,000	2,935,000	36,000	40,000	310,000	195,000	980,000	-	-	16,716,000												
2022	-	-	735,000	720,000	8,020,000	3,215,000	3,085,000	37,000	40,000	310,000	205,000	1,030,000	-	-	17,397,000												
2023	-	-	775,000	750,000	8,380,000	3,355,000	3,230,000	39,000	40,000	310,000	210,000	1,085,000	-	-	18,174,000												
2024	-	-	810,000	780,000	8,755,000	3,500,000	3,395,000	41,000	45,000	310,000	220,000	1,135,000	-	-	18,991,000												
2025	-	-	855,000	810,000	9,150,000	3,655,000	3,565,000	44,000	45,000	310,000	230,000	1,190,000	-	-	19,854,000												
2026	-	-	895,000	840,000	9,565,000	3,765,000	3,745,000	46,000	45,000	310,000	240,000	1,255,000	-	-	20,706,000												
2027	-	-	940,000	865,000	9,970,000	3,970,000	3,930,000	-	50,000	310,000	250,000	1,285,000	-	-	21,470,000												
2028	-	-	995,000	895,000	10,450,000	5,045,000	1,515,000	-	50,000	310,000	260,000	-	-	-	20,460,000												
2029	-	-	410,000	920,000	10,920,000	5,280,000	1,580,000	-	50,000	310,000	270,000	-	-	-	21,340,000												
2030	-	-	430,000	950,000	11,420,000	5,520,000	1,645,000	-	55,000	310,000	-	-	-	-	21,990,000												
2031	100,000	-	455,000	985,000	11,820,000	5,675,000	1,705,000	-	55,000	310,000	-	-	-	-	22,830,000												
2032	-	-	475,000	1,015,000	-	675,000	1,775,000	-	60,000	310,000	-	-	-	-	6,105,000												
2033	-	-	500,000	1,050,000	-	705,000	1,850,000	-	-	310,000	-	-	-	-	4,415,000												
2034	-	-	-	1,085,000	-	730,000	-	-	-	310,000	-	-	-	-	2,125,000												
2035	-	-	-	1,125,000	-	760,000	-	-	-	310,000	-	-	-	-	2,195,000												
2036	-	-	-	1,165,000	-	790,000	-	-	-	310,000	-	-	-	-	2,265,000												
2037	-	-	-	1,210,000	-	825,000	-	-	-	310,000	-	-	-	-	2,345,000												
2038	-	-	-	-	-	855,000	-	-	-	310,000	-	-	-	-	1,165,000												
2039	-	-	-	-	-	890,000	-	-	-	305,000	-	-	-	-	1,195,000												
2040	-	-	-	-	-	930,000	-	-	-	-	-	-	-	-	930,000												
2041	-	-	-	-	-	965,000	-	-	-	-	-	-	-	-	965,000												
2042	-	-	-	-	-	1,010,000	-	-	-	-	-	-	-	-	1,010,000												
2043	-	-	-	-	-	1,050,000	-	-	-	-	-	-	-	-	1,050,000												
2044	-	-	-	-	-	1,095,000	-	-	-	-	-	-	-	-	1,095,000												
2045	-	-	-	-	-	1,145,000	-	-	-	-	-	-	-	-	1,145,000												
	\$ 100,000	\$ 12,955,000	\$ 17,775,000	\$ 17,775,000	\$ 115,390,000	\$ 78,995,000	\$ 39,410,000	\$ 340,000	\$ 685,000	\$ 25,000	\$ 6,815,000	\$ 2,625,000	\$ 9,735,000	\$ 9,255,000	\$ 294,105,000												

Debt Allocation By Utility

Electric	\$ 178,801,504
Water	63,543,982
Wastewater	51,759,515
Total Debt Capacity	\$ 294,105,000

Debt per Rate Payer

Electric	\$ 3,628
Water	\$ 1,258
Wastewater	\$ 1,026

**DEBT CAPACITY
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Revenue		Capital Leases	Total Outstanding Debt		Percentage of Personal Income (2)		Debt Per Capita	
	Bonds (1)				Debt	Income (2)	Population (3)	Capita	
2017	\$ 329,418,871	\$ -	\$ -	\$ 329,418,871	12.10%	185,349	\$ 1,777		
2016	\$ 345,587,392	\$ -	\$ -	\$ 345,587,392	12.90%	184,865	\$ 1,869		
2015	\$ 356,249,806	\$ -	\$ -	\$ 356,249,806	13.78%	183,046	\$ 1,946		
2014	\$ 349,829,002	\$ -	\$ -	\$ 349,829,002	13.58%	181,860	\$ 1,924		
2013	\$ 362,485,617	\$ -	\$ -	\$ 362,485,617	14.85%	180,097	\$ 2,013		
2012	\$ 327,549,164	\$ -	\$ -	\$ 327,549,164	14.51%	175,023	\$ 1,871		
2011	\$ 337,425,844	\$ -	\$ -	\$ 337,425,844	14.93%	175,023	\$ 1,928		
2010	\$ 346,587,814	\$ -	\$ -	\$ 346,587,814	16.75%	175,023	\$ 1,980		
2009	\$ 342,824,099	\$ -	\$ -	\$ 342,824,099	16.68%	176,859	\$ 1,938		
2008	\$ 350,659,585	\$ -	\$ -	\$ 350,659,585	17.37%	172,806	\$ 2,029		

(1) Presented net of original issuance discounts and premiums

(2) Personal income is disclosed on page 89

(3) Population estimates U.S. Census Bureau

DEMOGRAPHIC AND ECONOMIC INFORMATION

- *Demographic Statistics*
- *Principal Employers*

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**DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	Population*	Per Capita Income	(Thousand's of Dollars) Personal Income	Median Age	Education Level in Years of Formal Schooling	Public School Enrollment	Unemployment Rate
2017	185,349	\$ 14,683	\$ 2,721,479	30.7	63.8%-High School 18.0%-Bachelor's Degree	46,880	5.80%
2016	184,865	\$ 14,489	\$ 2,678,509	30.6	64.1%-High School 17.5%-Bachelor's Degree	47,749	6.60%
2015	183,046	\$ 14,124	\$ 2,585,342	29.8	63.1%-High School 17.2%-Bachelor's Degree	47,717	6.50%
2014	181,860	\$ 14,167	\$ 2,576,411	29.3	64.3%-High School 18.4%-Bachelor's Degree	48,248	8.10%
2013	180,097	\$ 13,556	\$ 2,441,395	29.5	61.8%-High School 15.7%-Bachelor's Degree	49,247	10.30%
2012	175,023	\$ 12,900	\$ 2,257,797	29.5	60.3%-High School 15.0%-Bachelor's Degree	49,271	10.50%
2011	175,023	\$ 12,917	\$ 2,260,772	29.5	60.2%-High School 15.6%-Bachelor's Degree	49,587	12.40%
2010	175,023	\$ 11,824	\$ 2,069,472	27.0	58.5%-High School 15.2%-Bachelor's Degree	49,835	11.60%
2009	176,859	\$ 11,623	\$ 2,055,632	27.6	58.5%-High School 15.8%-Bachelor's Degree	49,605	10.90%
2008	172,806	\$ 11,685	\$ 2,019,238	26.9	57.9%-High School 15.2%-Bachelor's Degree	49,082	7.50%

*Population Estimates U.S. Census Bureau

SOURCES:

Brownsville Independent School District

U.S. Census Bureau

U.S. Bureau of Labor Statistics

City of Brownsville, Texas
Principal Employers,
Current Year and Last Nine Years

Employer	2017			2016			2015		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Brownsville I.S.D.	7,214	1	4.35%	7,670	1	4.57%	7,200	1	4.33%
Keppel Amfels	1,650	4	1.00%	1,650	4	0.98%	1,200	6	0.72%
University of Texas RGV	1,734	3	1.05%	1,734	3	1.03%	-	-	-
Cameron County	1,950	2	1.18%	1,950	2	1.16%	1,952	2	1.17%
Wal-Mart	1,413	5	0.85%	1,413	5	0.84%	1,413	3	0.85%
City of Brownsville	1,230	7	0.74%	1,227	7	0.73%	1,230	5	0.74%
Convergys Corp.	-	-	-	-	-	-	-	-	-
H.E.B. Food Stores	975	9	0.59%	975	9	0.58%	970	8	0.58%
Valley Regional Medical Center	-	-	-	-	-	-	923	9	0.56%
Caring For You Home Health	1,200	8	0.72%	1,200	8	0.71%	1,150	7	0.69%
Abundant Life Home Health	1,300	6	0.78%	1,300	6	0.77%	1,300	4	0.78%
Maximus	950	10	0.57%	950	10	0.57%	-	-	-
Valley Baptist Medical Center	-	-	-	-	-	-	850	10	0.51%
Total	19,616		11.83%	20,069		11.95%	18,188		10.95%

Source:

Brownsville Economic Development Council
City of Brownsville

- Continued

City of Brownsville, Texas
Principal Employers, - Continued
Current Year and Last Nine Years

2014			2013			2012			2011		
Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	
7,708	1	4.64%	7,708	1	4.82%	7,708	1	5.14%	7,708	1	6.25%
2,900	2	1.75%	2,900	2	1.81%	2,900	2	1.93%	1,600	4	1.30%
2,343	4	1.41%	2,343	4	1.46%	2,343	4	1.56%	2,343	2	1.90%
2,040	5	1.23%	2,040	5	1.28%	2,040	5	1.36%	2,040	3	1.65%
1,055	8	0.63%	1,055	8	0.66%	1,055	8	0.70%	1,174	6	0.95%
1,200	6	0.72%	1,200	6	0.75%	1,200	6	0.80%	1,200	5	0.97%
-	-	-	-	-	-	-	-	-	623	7	0.51%
975	9	0.59%	975	9	0.61%	975	9	0.65%	975	8	0.79%
786	10	0.47%	786	10	0.49%	786	10	0.52%	786	9	0.64%
2,635	3	1.59%	2,635	3	1.65%	2,635	3	1.76%	-	-	-
1,200	7	0.72%	1,200	7	0.75%	1,200	7	0.80%	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	738	10	0.60%
<u>22,842</u>		<u>13.75%</u>	<u>22,842</u>		<u>14.28%</u>	<u>22,842</u>		<u>15.23%</u>	<u>19,187</u>		<u>15.56%</u>

Source:
Brownsville Economic Development Council
City of Brownsville

- Continued

City of Brownsville, Texas
Principal Employers, - Continued
Current Year and Last Nine Years

Employer	2010			2009			2008		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Brownsville I.S.D.	7,434	1	5.98%	7,080	1	5.61%	7,080	1	5.71%
Keppel Amfels	1,695	4	1.36%	2,273	2	1.80%	2,273	2	1.83%
University of Texas RGV	2,386	2	1.92%	2,077	3	1.64%	2,077	3	1.67%
Cameron County	2,076	3	1.67%	1,838	4	1.46%	1,838	4	1.48%
Wal-Mart	1,174	6	0.94%	1,174	5	0.93%	1,174	5	0.95%
City of Brownsville	1,178	5	0.95%	1,114	6	0.88%	1,114	6	0.90%
Convergys Corp.	1,000	7	0.80%	800	7	0.63%	800	7	0.64%
H.E.B. Food Stores	975	8	0.78%	760	8	0.60%	760	8	0.61%
Valley Regional Medical Center	757	9	0.61%	757	9	0.60%	757	9	0.61%
Caring For You Home Health	-	-	-	-	-	-	-	-	-
Abundant Life Home Health	-	-	-	-	-	-	-	-	-
Maximus	-	-	-	-	-	-	-	-	-
Valley Baptist Medical Center	717	10	0.58%	717	10	0.57%	717	10	0.58%
	<u>19,392</u>		<u>15.59%</u>	<u>18,590</u>		<u>14.72%</u>	<u>18,590</u>		<u>14.98%</u>

Source:

Brownsville Economic Development Council
City of Brownsville

OPERATING INFORMATION

- *Expenses by Utility*
- *Electric Energy Sources,
Water and Wastewater
Statistics*
- *Authorized Full Time
Positions by Department and
Utility*
- *Ten Largest Customers*
- *Capital Assets Statistics by
Utility*

OPERATING INFORMATION
EXPENSES BY UTILITY - LAST TEN YEARS

	FY 2017	FY 2016	FY 2015	FY 2014
ELECTRIC				
Generation and Purchases for Resale	\$ 70,496,415	\$ 63,120,545	\$ 72,523,667	\$ 73,010,092
Transmission and Distribution	6,965,840	6,912,082	6,499,004	6,284,873
Administrative and General	29,431,623	34,583,521	21,524,432	20,437,763
Depreciation	15,986,715	15,069,917	14,887,881	14,768,870
Total Electric Operating Expenses	<u>\$ 122,880,593</u>	<u>\$ 119,686,065</u>	<u>\$ 115,434,984</u>	<u>\$ 114,501,598</u>
WATER				
Plant Operations	\$ 4,427,577	\$ 5,129,025	\$ 5,581,020	\$ 6,397,130
Transmission and Distribution	3,260,832	3,082,104	2,901,226	2,743,060
Administrative and General	6,126,023	7,250,855	5,141,431	5,325,225
Depreciation	4,894,699	5,116,669	5,622,967	5,543,534
Total Water Operating Expenses	<u>\$ 18,709,131</u>	<u>\$ 20,578,653</u>	<u>\$ 19,246,644</u>	<u>\$ 20,008,949</u>
WASTEWATER				
Plant Operations	\$ 6,530,394	\$ 6,526,539	\$ 6,417,406	\$ 6,656,181
Transmission and Distribution	772,747	837,287	1,160,632	920,364
Administrative and General	6,051,881	7,667,223	5,502,973	5,431,148
Depreciation	8,067,888	7,945,949	8,131,553	7,231,777
Total Wastewater Operating Expenses	<u>\$ 21,422,910</u>	<u>\$ 22,976,998</u>	<u>\$ 21,212,564</u>	<u>\$ 20,239,470</u>
SOUTHMOST REGIONAL WATER AUTHORITY				
Administration and General	\$ 3,351,035	\$ 3,489,520	\$ 3,123,518	\$ 2,775,244
Depreciation	1,244,517	931,124	864,865	864,865
Total SRWA Operating Expenses	<u>\$ 4,595,552</u>	<u>\$ 4,420,644</u>	<u>\$ 3,988,383</u>	<u>\$ 3,640,109</u>
TOTAL OPERATING EXPENSES	<u>\$ 167,608,186</u>	<u>\$ 167,662,360</u>	<u>\$ 159,882,575</u>	<u>\$ 158,390,126</u>
OTHER NONOPERATING REVENUES (EXPENSES)¹	<u>\$ (39,600,822)</u>	<u>\$ (24,627,923)</u>	<u>\$ (15,646,848)</u>	<u>\$ (14,391,847)</u>

¹ Excludes payments to City of Brownsville

FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
\$ 58,343,217	\$ 54,353,235	\$ 60,519,100	\$ 64,165,188	\$ 67,454,789	\$ 101,176,542
6,305,706	6,347,120	5,464,375	4,624,680	4,611,675	3,920,988
20,656,916	18,697,201	16,918,463	16,366,264	16,376,681	13,236,701
14,793,412	13,373,507	16,331,733	14,662,285	13,961,232	13,622,466
<u>\$ 100,099,251</u>	<u>\$ 92,771,063</u>	<u>\$ 99,233,671</u>	<u>\$ 99,818,417</u>	<u>\$ 102,404,377</u>	<u>\$ 131,956,697</u>
\$ 5,649,170	\$ 4,993,739	\$ 4,707,258	\$ 3,432,591	\$ 3,870,958	\$ 3,122,381
2,565,614	2,514,676	2,655,300	2,426,368	2,584,580	2,110,791
4,748,131	4,081,484	3,961,827	3,875,983	3,916,202	5,438,548
5,345,962	3,766,336	3,941,128	4,286,330	4,420,121	4,138,811
<u>\$ 18,308,877</u>	<u>\$ 15,356,235</u>	<u>\$ 15,265,513</u>	<u>\$ 14,021,272</u>	<u>\$ 14,791,861</u>	<u>\$ 14,810,531</u>
\$ 6,138,037	\$ 5,967,684	\$ 6,117,905	\$ 5,539,157	\$ 5,586,811	\$ 5,039,214
764,006	804,846	967,001	1,382,386	1,103,481	1,117,675
5,171,407	4,696,229	4,703,383	4,536,291	4,505,516	5,962,321
6,363,811	5,599,330	7,134,766	5,746,950	5,424,488	5,071,678
<u>\$ 18,437,261</u>	<u>\$ 17,068,089</u>	<u>\$ 18,923,055</u>	<u>\$ 17,204,784</u>	<u>\$ 16,620,296</u>	<u>\$ 17,190,888</u>
\$ 2,970,231	\$ 2,587,656	\$ 2,437,963	\$ 2,322,669	\$ 2,727,667	\$ 2,461,614
862,860	862,649	862,355	859,740	857,645	858,151
<u>\$ 3,833,091</u>	<u>\$ 3,450,305</u>	<u>\$ 3,300,318</u>	<u>\$ 3,182,409</u>	<u>\$ 3,585,312</u>	<u>\$ 3,319,765</u>
<u>\$ 140,678,480</u>	<u>\$ 128,645,692</u>	<u>\$ 136,722,557</u>	<u>\$ 134,226,882</u>	<u>\$ 137,401,846</u>	<u>\$ 167,277,881</u>
<u>\$ (16,689,611)</u>	<u>\$ (16,906,771)</u>	<u>\$ (18,019,030)</u>	<u>\$ (4,728,236)</u>	<u>\$ (14,641,424)</u>	<u>\$ (12,416,165)</u>

OPERATING INFORMATION
ELECTRIC ENERGY SOURCES, WATER AND WASTEWATER STATISTICS
LAST TEN YEARS

	FY 2017	FY 2016	FY 2015	FY 2014
SOURCES OF ENERGY (kWh)				
Total Net Energy Generated	1,202,079,235	1,231,840,523	806,397,153	921,011,194
Total Energy Purchased	328,964,400	428,953,100	690,167,500	578,306,000
TOTAL SOURCES OF ENERGY	1,531,043,635	1,660,793,623	1,496,564,653	1,499,317,194
Less: System Losses and Inadvertent Energy (kWh)	(24,589,310)	(22,449,897)	(25,996,837)	(27,903,614)
Net Available for Sale (kWh)	1,506,454,325	1,638,343,726	1,470,567,816	1,471,413,580
Sales for Resale (kWh)	(177,000,430)	(316,499,025)	(70,155,740)	(12,239,700)
NET ENERGY FOR LOAD	1,329,453,895	1,321,844,701	1,400,412,076	1,459,173,880
WATER STATISTICS				
Water Production - 1,000 Gallons				
Raw Water Treated	5,579,560	5,301,156	5,216,966	5,888,490
Raw Water Used in Plant	(119,670)	(160,738)	(235,716)	(54,450)
Surface Water Treated	5,459,890	5,140,418	4,981,250	5,834,040
SRWA (Purchased Water)*	2,440,611	2,317,634	2,092,497	1,816,125
Water Pumped to City	7,900,501	7,458,052	7,073,747	7,650,165
Water Sales	6,732,120	6,392,340	6,055,349	6,636,736
Other Unmetered Usage	155,286	130,685	89,772	208,500
Losses and Unaccounted for Gallonage	1,013,095	935,027	928,626	804,929
Thousand Gallons to System	7,900,501	7,458,052	7,073,747	7,650,165
Unaccounted For	12.82%	12.54%	13.13%	10.52%
Average Daily Consumption	18,444	17,465	22,253	21,078
Peak Maximum Demand (MG)	34	29	27	29
Date	5/23/2017	8/10/2016	8/11/2015	8/21/2014
WASTEWATER STATISTICS				
Annual Demand (1,000 Gals.)	5,370,043	5,580,261	5,916,884	5,047,953
Maximum Day (MG)	21.2	32.6	36.2	32.2

* FY 2008 through FY 2017 Water Production includes Southmost Regional Water Authority Production.

FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
924,212,443	830,108,370	1,353,750,565	1,577,510,000	1,120,083,000	1,304,850,000
508,341,700	704,742,700	429,383,640	378,317,000	528,558,000	181,698,000
1,432,554,143	1,534,851,070	1,783,134,205	1,955,827,000	1,648,641,000	1,486,548,000
(27,070,226)	-	-	(69,693,000)	(82,039,000)	(67,321,000)
1,405,483,917	1,534,851,070	1,783,134,205	1,886,134,000	1,566,602,000	1,419,227,000
(5,915,000)	(48,313,210)	(245,366,425)	(366,669,000)	(250,127,000)	(84,279,000)
1,399,568,917	1,486,537,860	1,537,767,779	1,519,465,000	1,316,475,000	1,334,948,000
6,611,306	6,742,810	7,502,790	7,073,522	8,217,557	7,427,578
(398,363)	(515,470)	(791,199)	(845,261)	(439,663)	(290,178)
6,212,943	6,227,340	6,711,591	6,228,261	7,777,894	7,137,400
1,963,421	2,025,507	1,929,481	1,947,011	1,617,101	1,649,267
8,176,364	8,252,847	8,641,072	8,175,272	9,394,995	8,786,667
7,251,194	7,259,778	7,417,175	6,321,717	7,062,104	6,624,490
227,400	98,519	68,577	88,719	44,915	21,809
697,770	894,550	1,155,320	1,764,836	2,287,976	2,140,368
8,176,364	8,252,847	8,641,072	8,175,272	9,394,995	8,786,667
11.32%	10.84%	13.37%	21.59%	24.35%	24.61%
22,334	22,541	23,674	22,398	25,740	24,007
30	29	30	29	39	33
7/3/2013	6/18/2012	6/17/2011	4/5/2010	6/16/2009	6/19/2008
4,799,312	4,885,625	4,992,236	5,522,605	5,052,595	5,154,241
29.1	25.9	32.6	38.5	25.5	19.7

OPERATING INFORMATION
AUTHORIZED FULL TIME POSITIONS BY DEPARTMENT AND UTILITY
LAST TEN YEARS

		Budget										
DEPARTMENT		FY 2018	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
1110	General Manager	3	3	3	3	5	4	5	4	4	5	4
1120	Internal Audit	3	3	3	3	3	3	3	3	2	3	1
1125	Key Account Marketing	4	5	5	6	6	3	3	3	3	3	3
1130	Communications & Adm. Services	2	2	2	2	2	2	4	3	3	4	3
1135	Communications & Public Relations	4	4	4	4	4	3	3	2	2	2	1
1140	Organizational Development	3	3	3	3	3	3	3	3	3	4	3
1145	Electrical Systems ⁴	0	0	0	2	2	1	1	1	1	1	1
1150	Board of Directors ³	0	0	0	0	0	0	0	0	0	0	0
1165	Records Management	3	2	2	2	2	2	0	0	0	0	0
1410	Environmental Services	5	5	4	4	4	3	6	6	6	8	5
1440	Health & Safety	6	6	6	6	6	6	5	4	4	4	3
4105	Operations	2	2	2	0	0	0	0	0	0	0	0
4310	Operational Support Services	2	2	2	0	0	0	0	0	0	0	0
5110	Finance	7	7	8	6	6	7	6	6	6	5	5
5120	Accounting	16	16	15	14	14	12	12	11	11	12	11
5130	Purchasing	7	7	7	6	6	6	6	6	6	6	12
5140	Revenue Recovery	3	3	3	3	3	3	3	2	2	1	0
6105	Customer & Information Services	3	3	3	3	3	3	3	4	4	4	4
6110	Customer Service	13	14	14	11	11	10	11	10	10	9	10
6115	Collections	4	4	4	4	4	4	4	4	4	4	4
6120	Billing	8	7	8	7	7	7	7	6	6	7	9
6125	Call Center	12	11	11	10	10	11	10	8	8	7	7
6130	Meter Services	10	10	9	9	9	9	9	9	9	10	9
6135	CIS Support	3	3	3	3	3	3	3	3	3	3	3
6145	Energy Efficiency & Conservation	1	1	1	1	1	1	1	1	1	1	1
6150	Meter Reading	14	15	15	15	15	15	15	15	15	15	15
6160	Cashiers	9	9	9	9	9	7	8	8	8	9	8
7110	Administrative Services ³	0	0	0	1	1	0	0	0	0	0	0
7120	Risk/Insurance Management	2	2	2	2	2	2	2	1	1	2	1
7130	Information Services	18	17	17	18	18	16	16	16	16	14	14
7135	GIS	10	11	11	13	13	12	11	8	8	9	8
7140	Human Resources	2	2	6	9	9	8	7	5	5	5	5
7145	Talent Acquisition & Staffing	4	3	3	0	0	0	0	0	0	0	0
7150	Fleet Management	10	10	10	10	10	9	9	8	7	8	7
7155	Compensation & Benefits ²	4	4	0	0	0	0	0	0	0	0	0
7160	Facility Maintenance	4	4	4	4	4	4	4	4	4	5	4
7170	Warehouse	6	6	6	6	6	6	6	6	6	7	0
9110	Company-wide Expenses	0	0	0	3	3	0	0	0	0	0	0
TOTAL ADMINISTRATIVE		207	206	205	202	204	185	183	170	168	177	161
1145	Electrical Systems	3	3	3	0	0	0	0	0	0	0	0
1420	Environmental Compliance	6	6	6	6	6	6	6	3	3	3	3
2110	Electrical Trans & Dist Support Svcs ³	0	0	0	1	1	0	0	0	0	0	0
2120	Substations & Relaying	24	24	24	12	12	11	9	9	9	9	9
2130	Elec Trans & Dist New Const	28	28	28	31	31	29	30	29	29	31	28
2140	Elec Trans & Dist Maintenance	22	22	22	31	31	28	28	27	27	29	26
2150	Energy Control Center Operations	15	15	15	14	14	13	13	13	13	12	12
2210	SCADA & Electrical Support Svc.	22	19	19	17	17	23	23	20	19	19	16
2220	Power Production	27	27	27	28	28	25	25	23	23	23	24
2310	Electric Meter Shop	8	8	8	8	8	7	7	7	7	9	7
2410	Electric Engineering	14	14	14	14	14	13	15	16	16	17	17
4105	Operations ³	0	0	0	3	3	0	0	0	0	0	0
4110	Energy Risk Management	1	1	1	1	1	0	0	0	0	0	0
4210	NERC Compliance	5	5	5	3	3	0	0	0	0	0	0
4220	Fuel & Purchased Energy Supply	2	2	2	2	2	0	0	0	0	0	0
4230	Natural Gas Utility Management ³	0	0	0	0	0	0	0	0	0	0	0
4310	Operational Support Services	0	0	0	1	1	0	0	0	0	0	0
TOTAL ELECTRIC		177	174	174	172	172	155	156	147	146	152	142
1422	Analytical Lab	16	16	16	16	16	13	14	12	12	13	13
1430	Pre-treatment	8	11	12	10	10	9	9	9	9	11	11
1435	Cross Connection Control ¹	3	0	0	0	0	0	0	0	0	0	0
3110	W & WW Eng. Planning & Operations	2	2	2	2	2	4	4	4	4	4	4
3120	Water Plant I	10	10	10	9	9	8	9	8	9	9	9
3130	Water Plant II	8	8	8	9	9	9	8	8	8	9	8
3135	Resaca Maintenance	9	17	17	20	20	11	1	0	0	0	0
3140	Raw Water Supply	4	4	4	3	3	3	3	2	2	3	14
3145	W/WW Plant Maintenance	13	13	13	13	13	13	15	12	12	13	0
3150	W/WW Operations & Const.	67	67	67	68	68	63	64	58	58	82	69
3210	South WW Treat Plant	10	10	10	9	9	9	9	11	11	9	8
3220	Robindale WW Treat Plant	17	11	11	12	12	12	13	8	9	10	9
3230	Wastewater Lift Stations	34	35	35	35	35	30	28	23	23	14	12
3310	Water & WW Engineering	16	16	16	21	21	23	22	22	21	15	14
4310	Operational Support Services	2	2	2	1	1	0	0	0	0	0	0
9110	Company-wide Expenses	1	2	0	0	0	0	0	0	0	0	0
TOTAL WATER/WASTEWATER		220	224	223	228	228	207	199	177	178	192	171
OVERALL TOTAL NO. OF POSITIONS		604	604	602	602	604	547	538	494	492	521	474

Note

¹ Denotes new department for 2018.

² Denotes new department for 2017.

³ Denotes departments with no personnel.

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS**

Electric Services Customer Name	FY 2017		
	Annual Consumption (kWh)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. Brownsville I S D	82,869,447	\$ 7,685,118	6.22%
2. Texas Southmost College	29,326,056	1,970,682	1.59%
3. Trico Technologies Corp.	25,325,540	1,754,972	1.42%
4. H E B Stores	18,646,601	1,377,868	1.12%
5. Rich Product Corp	16,468,800	1,118,128	0.90%
6. Valley Baptist Medical Center	14,924,070	1,070,339	0.87%
7. Cameron County	13,098,169	1,066,846	0.86%
8. University of Texas at Brownsville	14,841,611	1,058,388	0.86%
9. Stripes Stores	11,963,289	975,566	0.79%
10. Brownsville Sunrise Development	11,046,188	927,299	0.75%
TOTAL	238,509,771	\$ 19,005,206	15.38%

Water Services Customer Name	FY 2017		
	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. El Jardin Water Supply Corp.	366,180	\$ 988,686	3.97%
2. Brownsville I S D	216,341	768,937	3.08%
3. Brownsville Navigation District	182,173	436,519	1.75%
4. Texas Southmost College	76,321	249,166	1.00%
5. Cameron County	75,639	212,899	0.85%
6. University of Texas Rio Grande Valley	41,834	151,562	0.61%
7. Rich Products Corp.	47,820	130,410	0.52%
8. Valley Regional Medical Center	43,914	123,876	0.50%
9. Posada D L P LLC	38,580	103,925	0.42%
10. Valley Baptist Medical Center	35,065	102,122	0.41%
TOTAL	1,123,867	\$ 3,268,103	13.11%

Wastewater Services Customer Name	FY 2017		
	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. Brownsville I S D	153,415	\$ 671,359	2.97%
2. Cameron County	58,639	227,249	1.01%
3. Texas Southmost College	43,689	184,038	0.81%
4. Valley Regional Medical Center	35,831	137,582	0.61%
5. Valley Baptist Medical Center	34,158	132,993	0.59%
6. Rich Products Corp.	33,125	125,523	0.56%
7. University of Texas Rio Grande Valley	27,802	123,091	0.54%
8. Posada D L P LLC	29,947	94,661	0.42%
9. Brownsville TX East Price Big 22 LLC	21,939	83,765	0.37%
10. Trico Technologies Corp.	19,643	76,779	0.34%
TOTAL	458,188	\$ 1,857,042	8.22%

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

Electric Services Customer Name	FY 2016		
	Annual Consumption (kWh)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. Brownsville I S D	82,930,679	\$ 8,074,400	6.34%
2. Texas Southmost College	29,685,682	2,243,917	1.76%
3. Trico Technologies Corp.	26,339,400	1,987,780	1.56%
4. H E B Stores	18,545,047	1,499,772	1.18%
5. Amfels Inc.	10,550,400	1,174,572	0.92%
6. Rich Product Corp	14,882,400	1,155,770	0.91%
7. Valley Baptist Medical Center	14,595,274	1,152,813	0.90%
8. Stripes Stores	12,643,537	1,097,611	0.86%
9. Cameron County	12,530,913	1,097,204	0.86%
10. University of Texas at Brownsville	14,055,966	1,078,717	0.85%
TOTAL	236,759,298	\$ 20,562,556	16.13%
Water Services			
Customer Name	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. El Jardin Water Supply Corp.	324,858	\$ 828,388	3.67%
2. Brownsville I S D	192,589	665,860	2.95%
3. Brownsville Navigation District	170,012	385,419	1.71%
4. Texas Southmost College	71,190	222,688	0.99%
5. Cameron County	71,303	190,391	0.84%
6. Rich Products Corp.	52,502	135,318	0.60%
7. University of Texas Rio Grande Valley	36,629	130,460	0.58%
8. Valley Baptist Medical Center	39,080	105,642	0.47%
9. Valley Regional Medical Center	37,229	100,320	0.44%
10. Trico Technologies Corp.	25,897	72,011	0.32%
TOTAL	1,021,289	\$ 2,836,497	12.57%
Wastewater Services			
Customer Name	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. Brownsville I S D	143,912	\$ 635,825	2.90%
2. Cameron County	56,619	219,711	1.00%
3. Texas Southmost College	35,284	152,573	0.70%
4. Valley Baptist Medical Center	38,162	147,839	0.67%
5. Rich Products Corp.	31,135	132,865	0.61%
6. Valley Regional Medical Center	30,399	117,158	0.53%
7. University of Texas Rio Grande Valley	25,232	113,631	0.52%
8. Trico Technologies Corp.	24,869	96,703	0.44%
9. Brownsville TX East Price Big 22 LLC	20,875	79,739	0.36%
10. Stripes Stores	17,793	73,838	0.34%
TOTAL	424,280	\$ 1,769,882	8.07%

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

Electric Services Customer Name	FY 2015		
	Annual Consumption (kWh)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. Brownsville I S D	79,800,779	\$ 8,228,510	6.26%
2. Texas Southmost College	28,612,106	2,341,473	1.78%
3. Trico Technologies Corp.	26,987,335	2,214,664	1.68%
4. Amfels Inc.	16,940,352	1,671,712	1.27%
5. H E B Stores	17,993,346	1,534,814	1.17%
6. Rich Product Corp	15,367,200	1,278,590	0.97%
7. Valley Baptist Medical Center	14,314,379	1,211,397	0.92%
8. University of Texas at Brownsville	14,053,305	1,206,786	0.92%
9. Cameron County	12,558,665	1,160,804	0.88%
10. Stripes Stores	12,390,231	1,158,672	0.88%
TOTAL	<u>239,017,698</u>	<u>\$ 22,007,422</u>	<u>16.74%</u>

Water Services Customer Name	Annual	Annual	Percent of
	Consumption (1,000 Gallons)	Sales Revenue	Annual Sales Revenue
1. El Jardin Water Supply Corp.	308,395	\$ 755,567	3.61%
2. Brownsville I S D	183,543	618,630	2.95%
3. Brownsville Navigation District	154,754	337,321	1.61%
4. Texas Southmost College	85,917	249,331	1.19%
5. Cameron County	66,011	169,046	0.81%
6. Rich Products Corp.	47,415	117,453	0.56%
7. Valley Baptist Medical Center	35,889	94,196	0.45%
8. Valley Regional Medical Center	31,089	82,082	0.39%
9. Trico Technologies Corp.	23,245	62,580	0.30%
10. Stripes Stores	18,416	60,127	0.29%
TOTAL	<u>954,674</u>	<u>\$ 2,546,333</u>	<u>12.15%</u>

Wastewater Services Customer Name	Annual	Annual	Percent of
	Consumption (1,000 Gallons)	Sales Revenue	Annual Sales Revenue
1. Brownsville I S D	137,202	\$ 610,011	2.89%
2. Cameron County	56,252	217,681	1.03%
3. Rich Products Corp.	36,347	137,635	0.65%
4. Valley Baptist Medical Center	35,273	136,981	0.65%
5. Texas Southmost College	24,651	112,574	0.53%
6. Valley Regional Medical Center	25,962	100,475	0.48%
7. Trico Technologies Corp.	22,679	88,193	0.42%
8. Brownsville Housing Authority	17,780	72,258	0.34%
9. Brownsville TX East Price Big 22 LLC	18,300	70,084	0.33%
10. Stripes Stores	16,079	69,692	0.33%
TOTAL	<u>390,525</u>	<u>\$ 1,615,584</u>	<u>7.64%</u>

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2014			
Electric Services	Annual	Annual	Percent of
Customer Name	Consumption	Sales	Annual Sales
	(kWh)	Revenue	Revenue
1. Brownsville I S D	81,394,677	\$ 7,982,880	6.18%
2. Texas Southmost College	29,757,202	2,364,225	1.83%
3. Trico Technologies Corp.	26,076,882	2,042,632	1.58%
4. Amfels Inc.	14,654,796	1,456,034	1.13%
5. H E B Stores	17,981,768	1,445,433	1.12%
6. Rich Product Corp	16,072,800	1,262,227	0.98%
7. Stripes Stores	13,051,210	1,174,860	0.91%
8. Cameron County	12,889,301	1,152,045	0.89%
9. Valley Baptist Medical Center	14,100,834	1,135,557	0.88%
10. University of Texas at Brownsville	12,710,117	1,083,818	0.84%
TOTAL	238,689,587	\$ 21,099,711	16.33%

Water Services	Annual	Annual	Percent of
Customer Name	Consumption	Revenue	Annual Sales
			Revenue
1. El Jardin Water Supply Corp.	343,059	\$ 809,619	3.81%
2. Brownsville I S D	215,999	668,450	3.15%
3. Brownsville Navigation District	163,617	342,517	1.61%
4. Texas Southmost College	75,695	218,096	1.03%
5. Cameron County	72,941	178,458	0.84%
6. Rich Products Corp.	52,280	124,082	0.58%
7. University of Texas at Brownsville	37,468	126,380	0.60%
8. Brownsville Housing Authority	34,667	96,588	0.45%
9. Valley Baptist Medical Center	37,303	93,379	0.44%
10. Valley Regional Medical Center	35,392	89,149	0.42%
TOTAL	1,068,421	\$ 2,746,718	12.93%

Wastewater Services	Annual	Annual	Percent of
Customer Name	Consumption	Revenue	Annual Sales
			Revenue
1. Brownsville I S D	143,655	\$ 610,610	2.87%
2. Cameron County	64,848	246,499	1.16%
3. Rich Products Corp.	40,161	146,318	0.69%
4. Valley Baptist Medical Center	36,864	137,433	0.65%
5. Brownsville Housing Authority	28,230	112,858	0.53%
6. University of Texas at Brownsville	24,501	108,638	0.51%
7. Valley Regional Medical Center	26,892	100,326	0.47%
8. Texas Southmost College	21,672	98,314	0.46%
9. Stripes Stores	18,529	75,777	0.36%
10. T L G La Residencia LLC	18,689	68,892	0.32%
TOTAL	424,041	\$ 1,705,666	8.02%

Continued

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

Electric Services Customer Name	FY 2013		
	Annual Consumption (kWh)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. Brownsville I S D	83,302,903	\$ 6,919,824	6.30%
2. UTB/TSC	43,208,401	2,914,118	2.65%
3. Amfels	22,049,568	1,720,293	1.57%
4. Trico	24,558,061	1,631,879	1.49%
5. H E B Stores	18,892,417	1,282,293	1.17%
6. Stripes Stores	14,315,711	1,095,914	1.00%
7. Rich Products Corp.	16,252,800	1,078,502	0.98%
8. Cameron County	12,842,582	978,448	0.89%
9. Valley Baptist Medical Center	14,294,152	975,292	0.89%
10. Sunrise Mall	12,281,459	933,284	0.85%
TOTAL	261,998,054	\$ 19,529,847	17.78%

Water Services Customer Name	Percent of		
	Annual Consumption	Annual Revenue	Annual Sales Revenue
1. El Jardin Water Supply Corp.	350,432	\$ 704,368	3.33%
2. Brownsville I S D	219,760	625,415	2.96%
3. UTB/TSC	144,053	376,537	1.78%
4. Brownsville Navigation District	156,639	311,286	1.47%
5. Cameron County	60,746	140,713	0.66%
6. Rich Sea Pak Corp.	48,173	107,795	0.51%
7. Brownsville Housing Authority	36,650	93,905	0.44%
8. Buena Vista Burial Park	36,412	82,016	0.39%
9. Valley Regional Medical Center	33,946	79,969	0.38%
10. Valley Baptist Medical Center	26,656	64,512	0.30%
TOTAL	1,113,467	\$ 2,586,516	12.23%

Wastewater Services Customer Name	Percent of		
	Annual Consumption	Annual Revenue	Annual Sales Revenue
1. Brownsville I S D	134,666	\$ 560,837	2.54%
2. UTB/TSC	64,993	263,633	1.19%
3. Rich Sea Pak Corp.	40,782	259,183	1.17%
4. Cameron County	54,089	198,761	0.90%
5. Brownsville Housing Authority	30,654	118,962	0.54%
6. Valley Baptist Medical Center	26,205	96,934	0.44%
7. Valley Regional Medical Center	25,919	95,006	0.43%
8. Stripes Stores	18,139	72,265	0.33%
9. Paseo Plaza	17,925	69,661	0.32%
10. T L G La Residencia LLC	16,513	60,167	0.27%
TOTAL	429,885	\$ 1,795,409	8.12%

Continued

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

Electric Services Customer Name	FY 2012		
	Annual Consumption (kWh)	Annual Sales Revenue	Percent of Annual Sales Revenue
1. Brownsville I S D	84,437,519	\$ 6,412,786	6.14%
2. UTB/TSC	42,911,014	2,731,048	2.62%
3. Amfels	25,044,732	1,729,705	1.66%
4. Trico	22,499,526	1,395,598	1.34%
5. H E B Stores	18,144,373	1,171,458	1.12%
6. Stripes Stores	14,276,015	1,018,981	0.98%
7. Rich Products Corp.	16,137,600	1,005,032	0.96%
8. Cameron County	13,965,074	973,977	0.93%
9. Valley Baptist Medical Center	14,147,915	910,455	0.87%
10. Sunrise Mall	12,225,321	856,978	0.82%
TOTAL	263,789,089	\$ 18,206,018	17.44%

Water Services Customer Name	Percent of		
	Annual Consumption	Annual Revenue	Annual Sales Revenue
1. El Jardin Water Supply Corp.	407,024	\$ 818,118	3.88%
2. Brownsville I S D	248,038	690,560	3.27%
3. Brownsville Navigation District	203,932	405,008	1.92%
4. UTB/TSC	151,023	397,108	1.88%
5. Cameron County	68,298	157,869	0.75%
6. Rich Products Corp.	51,542	115,807	0.55%
7. Valley Regional Medical Center	40,653	95,024	0.45%
8. Brownsville Housing Authority	35,050	90,882	0.43%
9. Valley Baptist Medical Center	32,077	77,689	0.37%
10. Stripes Stores	24,235	66,747	0.32%
TOTAL	1,261,872	\$ 2,914,812	13.83%

Wastewater Services Customer Name	Percent of		
	Annual Consumption	Annual Revenue	Annual Sales Revenue
1. Brownsville I S D	157,256	\$ 644,602	2.96%
2. UTB/TSC	67,283	274,534	1.26%
3. Cameron County	61,182	224,599	1.03%
4. Rich Products Corp.	35,938	202,831	0.93%
5. Valley Baptist Medical Center	31,103	115,102	0.53%
6. Brownsville Housing Authority	29,537	114,780	0.53%
7. Valley Regional Medical Center	29,067	106,470	0.49%
8. Stripes Stores	18,960	75,490	0.35%
9. T L G La Residencia LLC	19,266	69,993	0.32%
10. Paseo Plaza	16,213	63,294	0.29%
TOTAL	465,804	\$ 1,891,695	8.69%

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2011			
Electric Services	Annual	Annual	Percent of
Customer Name	Consumption	Sales	Annual Sales
<u>Customer Name</u>	<u>(kWh)</u>	<u>Revenue</u>	<u>Revenue</u>
1. Brownsville I S D	90,352,681	\$ 7,339,653	6.77%
2. UTB/TSC	46,307,157	3,105,266	2.86%
3. Trico	21,754,007	1,496,666	1.38%
4. H E B Stores	17,883,919	1,238,615	1.14%
5. Amfels	13,031,820	1,154,460	1.06%
6. Stripes Stores	14,178,707	1,084,417	1.00%
7. Rich Product Corp	15,801,600	1,069,155	0.99%
8. Cameron County	14,129,270	1,063,077	0.98%
9. Valley Baptist Medical Center	14,120,585	980,478	0.90%
10. Sunrise Mall	12,088,615	920,866	0.85%
TOTAL	259,648,361	\$ 19,452,653	17.94%

Water Services	Annual	Annual	Percent of
Customer Name	Consumption	Revenue	Annual Sales
<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue</u>
1. El Jardin Water Supply Corp.	413,737	\$ 789,665	3.87%
2. Brownsville I S D	297,748	766,040	3.76%
3. Brownsville Navigation Distri	168,179	318,771	1.56%
4. UTB/TSC	123,436	315,195	1.55%
5. Cameron County	65,095	143,949	0.71%
6. Rich Sea Pak Corp.	58,572	125,927	0.62%
7. Brownsville Housing Authority	50,898	120,336	0.59%
8. Valley Regional Medical Cente	40,055	89,370	0.44%
9. Posada De Las Palmas	39,693	83,902	0.41%
10. Brownsville Housing Authority	32,772	77,555	0.38%
TOTAL	1,290,185	\$ 2,830,710	13.89%

Wastewater Services	Annual	Annual	Percent of
Customer Name	Consumption	Revenue	Annual Sales
<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue</u>
1. Brownsville I S D	180,764	\$ 708,349	3.32%
2. UTB/TSC	69,409	265,606	1.25%
3. Cameron County	58,586	205,084	0.96%
4. Brownsville Housing Authority	42,710	151,217	0.71%
5. Rich Sea Pak Corp.	37,105	127,038	0.60%
6. Posada De Las Palmas	35,939	77,844	0.37%
7. T L G La Residencia LLC	20,208	68,865	0.32%
8. Valley Regional Medical Cente	18,473	66,329	0.31%
9. Trico Technologies	16,494	58,612	0.27%
10. Rancho Del Cielo Townhomes	16,677	57,474	0.27%
TOTAL	496,365	\$ 1,786,418	8.38%

Continued

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

Electric Services Customer Name	FY 2010		
	Annual Consumption	Annual Sales	Percent of Annual Sales
	(kWh)	Revenue	Revenue
1. Brownsville I S D	77,585,754	\$ 6,423,373	6.15%
2. University of Texas at Brownsville/TSC	43,733,114	2,955,062	2.83%
3. Trico Technologies Corporation	24,573,894	1,642,113	1.57%
4. Amfels	17,001,900	1,466,243	1.40%
5. H E B Stores	18,450,423	1,270,378	1.22%
6. Rich Sea Pak Corporation	15,417,600	1,038,765	0.99%
7. Cameron County	14,061,942	999,134	0.96%
8. Stripes Stores	13,674,493	947,901	0.91%
9. Sunrise Mall	12,650,159	946,451	0.91%
10. Valley Baptist Medical Center	12,042,184	914,143	0.88%
TOTAL	249,191,463	\$ 18,603,563	17.82%

Water Services Customer Name			
	Annual Consumption	Annual Revenue	Percent of Annual Sales
			Revenue
1. El Jardin Water Supply Corp.	365,968	\$ 698,988	3.87%
2. Brownsville I S D	193,782	545,473	3.02%
3. University of Texas at Brownsville/TSC	158,331	300,651	1.66%
4. Brownsville Navigation District	116,777	300,164	1.66%
5. Cameron County	71,284	162,110	0.90%
6. Rich Sea Pak Corporation	48,664	104,149	0.58%
7. Brownsville Housing Authority	34,041	81,882	0.45%
8. Valley Baptist Medical Center	34,378	77,683	0.43%
9. Valley Regional Medical Center	31,708	72,205	0.40%
10. H E B Stores	25,716	59,316	0.33%
TOTAL	1,080,649	\$ 2,402,621	13.30%

Wastewater Services Customer Name			
	Annual Consumption	Annual Revenue	Percent of Annual Sales
			Revenue
1. Brownsville I S D	143,618	\$ 582,475	3.05%
2. Rich Sea Pak Corporation	65,658	232,266	1.21%
3. University of Texas at Brownsville/TSC	40,735	221,020	1.16%
4. Cameron County	55,274	216,770	1.13%
5. Valley Baptist Medical Center	30,253	106,381	0.56%
6. Valley Regional Medical Center	28,366	103,923	0.54%
7. Trico Technologies Corporation	28,673	100,064	0.52%
8. Skill Care of America	21,543	75,779	0.40%
9. Sunrise Mall	18,440	63,084	0.33%
10. Stripes Stores	14,958	57,530	0.30%
TOTAL	447,518	\$ 1,759,292	9.20%

Continued

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

Electric Services	FY 2009		
	Annual	Annual	Percent of
	Consumption	Sales	Annual Sales
<u>Customer Name</u>	<u>(kWh)</u>	<u>Revenue</u>	<u>Revenue</u>
1. Brownsville I S D	62,944,497	\$ 5,646,038	5.33%
2. University of Texas at Brownsville/TSC	39,383,714	2,823,929	2.66%
3. Trico Technologies Corporation	26,090,987	1,852,516	1.75%
4. Amfels	20,688,792	1,703,691	1.61%
5. H E B Stores	18,285,563	1,368,088	1.29%
6. Rich Sea Pak Corporation	15,240,000	1,093,928	1.03%
7. Cameron County	12,912,796	1,035,349	0.98%
8. Stripes Stores	13,385,749	1,008,156	0.95%
9. Sunrise Mall	12,297,166	982,571	0.93%
10. Valley Baptist Medical Center	13,023,639	980,843	0.93%
TOTAL	234,252,903	\$ 18,495,109	17.45%

Water Services			
	Annual	Annual	Percent of
	Consumption	Revenue	Annual Sales
<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue</u>
1. El Jardin Water Supply Corp.	467,463	\$ 896,238	4.58%
2. Brownsville I S D	226,752	600,783	3.07%
3. University of Texas at Brownsville/TSC	129,053	314,805	1.61%
4. Brownsville Navigation District	136,800	261,034	1.33%
5. Cameron County	64,165	141,437	0.72%
6. Rich Sea Pak Corporation	54,938	117,377	0.60%
7. Brownsville Housing Authority	36,880	87,866	0.45%
8. Valley Baptist Medical Center	43,436	86,382	0.44%
9. Valley Regional Medical Center	37,822	84,900	0.43%
10. H E B Stores	26,876	64,790	0.33%
TOTAL	1,224,185	\$ 2,655,612	13.57%

Wastewater Services			
	Annual	Annual	Percent of
	Consumption	Revenue	Annual Sales
<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue</u>
1. Brownsville I S D	180,188	\$ 710,138	3.50%
2. Rich Sea Pak Corporation	700,956	291,695	1.44%
3. University of Texas at Brownsville/TSC	57,034	219,035	1.08%
4. Cameron County	57,680	201,585	0.99%
5. Valley Baptist Medical Center	40,882	142,522	0.70%
6. Valley Regional Medical Center	29,579	103,144	0.51%
7. Trico Technologies Corporation	23,938	83,923	0.41%
8. Skill Care of America	15,453	52,929	0.26%
9. Sunrise Mall	14,144	50,896	0.25%
10. Stripes Stores	12,712	49,009	0.24%
TOTAL	1,132,566	\$ 1,904,876	9.39%

Continued

**OPERATING INFORMATION
TEN LARGEST CUSTOMERS
LAST TEN YEARS - continued**

FY 2008			
Electric Services	Annual Consumption	Annual Sales Revenue	Percent of Annual Sales Revenue
<u>Customer Name</u>	<u>(kWh)</u>	<u>Revenue</u>	<u>Revenue</u>
1. Brownsville I S D	67,726,085	\$ 7,215,316	5.78%
2. University of Texas at Brownsville/TSC	43,455,340	3,797,925	3.04%
3. Trico	31,835,551	2,735,142	2.19%
4. Amfels	26,377,018	2,477,832	1.98%
5. H E B Stores	18,723,400	1,602,207	1.28%
6. Sunrise Mall	13,913,263	1,322,048	1.06%
7. Rich Sea-Pak Corporation	14,827,200	1,297,420	1.04%
8. Cameron County	13,217,779	1,266,588	1.01%
9. Valley Baptist Medical Center	13,103,033	1,134,766	0.91%
10. Stripes Stores	13,337,357	1,217,241	0.97%
TOTAL	<u>256,516,026</u>	<u>\$ 24,066,483</u>	<u>19.27%</u>
Water Services	Annual Consumption	Annual Sales Revenue	Percent of Annual Sales Revenue
<u>Customer Name</u>	<u>(1,000 Gallons)</u>	<u>Revenue</u>	<u>Revenue</u>
1. El Jardin Water Supply Corp.	394,698	\$ 753,873	4.03%
2. Brownsville I S D	189,262	512,461	2.74%
3. Brownsville Navigation District	176,364	333,832	1.78%
4. University of Texas at Brownsville/TSC	100,521	240,266	1.28%
5. Rich Sea-Pak Corporation	62,689	134,363	0.72%
6. Cameron County	45,007	101,163	0.54%
7. Valley Regional Medical Center	42,189	93,479	0.50%
8. Valley Baptist Medical Center	36,481	81,643	0.44%
9. Brownsville Housing Authority	34,301	82,415	0.44%
10. Trico Technologies Corp	33,218	76,410	0.41%
TOTAL	<u>1,114,730</u>	<u>\$ 2,409,905</u>	<u>12.88%</u>
Wastewater Services	Annual Treatment	Annual Sales Revenue	Percent of Annual Sales Revenues
<u>Customer Name</u>	<u>(1,000 Gallons)</u>	<u>Revenue</u>	<u>Revenues</u>
1. Brownsville I S D	150,403	\$ 601,834	3.10%
2. Rich Sea-Pak Corporation	31,101	325,342	1.67%
3. University of Texas at Brownsville/TSC	49,182	183,531	0.94%
4. Cameron County	38,090	134,137	0.69%
5. Valley Baptist Medical Center	33,389	116,801	0.60%
6. Trico Technologies Corp	31,757	110,619	0.57%
7. Valley Regional Medical Center	31,332	109,105	0.56%
8. Brownsville Housing Authority	28,467	104,724	0.54%
9. The Border Apartments	26,110	90,149	0.46%
10. Stripes Stores	14,704	55,994	0.29%
TOTAL	<u>434,535</u>	<u>\$ 1,832,236</u>	<u>9.43%</u>

**OPERATING INFORMATION
CAPITAL ASSETS STATISTICS BY UTILITY
LAST TEN FISCAL YEARS**

Electric	FISCAL YEAR									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Number of Power Plants	3	3	3	3	3	3	3	3	3	3
Vehicles	144	128	117	127	125	128	115	114	108	98
Transmission Miles	329	329	328	336	336	328	328	328	320	308
Distribution Miles	3,844	3,815	3,592	3,555	3,518	3,484	3,408	3,408	3,361	3,239
Poles	113,126	113,039	112,690	112,664	112,528	112,298	112,001	111,706	111,158	110,369
Transformers	34,924	34,792	34,843	36,448	36,413	36,348	36,186	36,097	35,078	34,558
Substations	14	14	17	15	15	15	15	15	15	15
Meters	54,970	55,992	59,939	57,525	56,538	55,853	54,978	59,752	59,035	57,992
Water										
Vehicles	96	92	98	86	83	76	74	81	73	69
Water Treatment Plants	3	3	3	3	3	3	3	3	3	3
Miles of water mains	2,873	2,866	2,863	2,843	2,842	2,840	2,834	2,827	2,823	2,812
Meters	70,134	74,031	72,737	69,542	60,040	60,235	49,944	49,217	48,483	46,946
Fire Hydrants	4,453	4,394	4,363	36,195	36,159	37,695	37,664	37,524	37,475	37,360
Wastewater										
Vehicles	98	91	84	80	75	76	61	54	53	49
Wastewater Treatment Plants	2	2	2	2	2	2	2	2	2	2
Lift Stations	173	174	183	172	158	158	168	168	163	163
Miles of wastewater mains	855	852	825	830	827	802	799	797	793	787
General										
Vehicles	68	68	66	70	66	67	62	58	47	45

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Public Utilities Board of the City of Brownsville, Texas

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Public Utilities Board of the City of Brownsville, Texas, a component unit of the City of Brownsville, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Public Utilities Board of the City of Brownsville, Texas's basic financial statements and have issued our report thereon dated March 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Public Utilities Board of the City of Brownsville, Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Public Utilities Board of the City of Brownsville, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the Public Utilities Board of the City of Brownsville, Texas's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Public Utilities Board of the City of Brownsville, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas
March 12, 2018



B R O W N S V I L L E
PUBLIC UTILITIES BOARD

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