

Final Official Statement Dated March 28, 2018

New Issue: Book-Entry-Only

Ratings: S&P Global Ratings: "AAA"

In the opinion of Bond Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance with certain representations and covenants relating to the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under existing law, (i) interest on the Bonds is not included in gross income for federal income tax purposes, and (ii) such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations; however, for taxable years that began before January 1, 2018 with respect to certain corporations (as defined for federal income tax purposes), such interest is taken into account in computing the corporation's federal alternative minimum tax liability. In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Exemption" herein.



\$10,000,000

City of Middletown, Connecticut

General Obligation Bonds, Issue of 2018

Dated: Date of Delivery

**Due: Serially April 1, 2020 - 2029
as detailed below**

The Bonds will be general obligations of the City of Middletown, secured by the pledge of the City's full faith and credit. (See "Security and Remedies" herein.)

Interest on the Bonds will be payable on October 1, 2018 and semiannually thereafter on April 1 and October 1 in each year until maturity. The Bonds will be issued in book-entry-only form whereby the beneficial owners of the Bonds will not receive physical delivery of bond certificates. Principal of and interest payments on the Bonds will be made to The Depository Trust Company, New York, New York ("DTC") or its nominee, Cede & Co., as registered owner of the Bonds. DTC will act as security depository for the Bonds. Ownership of the Bonds may be in principal amounts of \$5,000 or integral multiples thereof. So long as Cede & Co. is the Bondowner, as nominee for DTC, reference herein to the Bondowner or Owner shall mean Cede & Co. and shall not mean the Beneficial Owners (as described herein) of the Bonds. (See "Book-Entry-Only Transfer System" herein.)

The Registrar, Transfer Agent, Certifying Agent and Paying Agent for the Bonds will be U.S. Bank National Association, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103.

THE BONDS ARE NOT SUBJECT TO REDEMPTION PRIOR TO MATURITY.

| Year | Principal | Coupon | Yield | CUSIP | Year | Principal | Coupon | Yield | CUSIP |
|-------------|------------------|---------------|--------------|--------------|-------------|------------------|---------------|--------------|--------------|
| 2020 | \$1,000,000 | 5.000% | 1.600% | 596884WU6 | 2025 | \$1,000,000 | 5.000% | 2.140% | 596884WZ5 |
| 2021 | 1,000,000 | 5.000% | 1.700% | 596884WV4 | 2026 | 1,000,000 | 5.000% | 2.230% | 596884XA9 |
| 2022 | 1,000,000 | 5.000% | 1.840% | 596884WW2 | 2027 | 1,000,000 | 5.000% | 2.320% | 596884XB7 |
| 2023 | 1,000,000 | 5.000% | 1.970% | 596884WX0 | 2028 | 1,000,000 | 5.000% | 2.390% | 596884XC5 |
| 2024 | 1,000,000 | 5.000% | 2.050% | 596884WY8 | 2029 | 1,000,000 | 5.000% | 2.460% | 596884XD3 |

The Bonds are offered for delivery when, and if issued, subject to the approving opinion of Pullman & Comley, LLC, Bond Counsel of Bridgeport and Hartford, Connecticut. It is expected that delivery of the Bonds in book-entry-only form will be made to The Depository Trust Company in New York, New York, or its agents, on or about April 12, 2018.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations not contained in this Official Statement or any supplement, which may be issued hereto, and if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement has been prepared only in connection with the initial offering and sale of the Bonds and may not be reproduced or used in whole or in part for any other purpose. The information, estimates and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the City since the date of this Official Statement.

The independent auditors for the City are not passing upon and do not assume responsibility for the accuracy or completeness of the financial information presented in this Official Statement (other than matters expressly set forth in their opinion in Appendix A), and they make no representation that they have independently verified the same.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel is not passing on and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and makes no representation that it has independently verified the same.

The Bonds were purchased by J.P. Morgan Securities LLC through a competitive bid process.

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Bond Issue Summary

The information in this Bond Issue Summary and the front cover page is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. This Official Statement speaks only as of its date and the information herein is subject to change.

| | |
|--|---|
| Date of Sale: | Wednesday, March 28, 2018 at 11:30 A.M. (Eastern Time). |
| Location of Sale: | City of Middletown, City Hall, Second Floor, Conference Room 208, 245 deKoven Drive, Middletown, Connecticut 06457. |
| Issuer: | City of Middletown, Connecticut (the "City"). |
| Issue: | \$10,000,000 General Obligation Bonds, Issue of 2018 (the "Bonds"). |
| Dated Date: | April 12, 2018. |
| Interest Due: | Interest due October 1, 2018 and semiannually thereafter on April 1 and October 1 in each year until maturity. |
| Principal Due: | Principal due serially April 1, 2020 through April 1, 2029 as detailed on the cover of this Official Statement. |
| Purpose: | Proceeds of the Bonds will permanently finance various general public improvements and schools projects authorized by the City. |
| Redemption: | The Bonds are <u>NOT</u> subject to redemption prior to maturity. |
| Security: | The Bonds will be general obligations of the City, and the City will pledge its full faith and credit to the payment of principal of and interest on the Bonds when due. |
| Credit Rating: | The Bonds were rated "AAA" by S&P Global Ratings. |
| Bond Insurance: | The City does <u>NOT</u> expect to purchase a credit enhancement facility. |
| Basis of Award: | Lowest True Interest Cost ("TIC"), as of the dated date. |
| Tax Exemption: | See "Tax Exemption" herein. |
| Bank Qualification: | The Bonds <u>shall NOT be</u> designated by the City as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds. |
| Continuing Disclosure: | In accordance with the requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the City will agree to provide, or cause to be provided, annual financial information and operating data and notices of certain events with respect to the Bonds pursuant to a Continuing Disclosure Agreement to be executed by the City substantially in the form attached as Appendix C to this Official Statement. |
| Registrar, Transfer Agent, Certifying Agent and Paying Agent: | U.S. Bank National Association, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103 will act as Registrar, Transfer Agent, Certifying Agent and Paying Agent. |
| Municipal Advisor: | Phoenix Advisors, 53 River Street, Suite 1, Milford, Connecticut 06460 will act as Municipal Advisor. Telephone: (203) 878-4945. |
| Legal Opinion: | Pullman & Comley, LLC, of Bridgeport and Hartford, Connecticut will act as Bond Counsel. |
| Delivery and Payment: | It is expected that delivery of the Bonds in book-entry-only form will be made to The Depository Trust Company on or about April 12, 2018. Delivery of the Bonds will be made against payment in Federal Funds. |
| Issuer Official: | Questions concerning the City and the Official Statement should be addressed to Carl R. Erlacher, Director of Finance & Revenue Services, 245 deKoven Drive, Middletown, Connecticut 06457. Telephone: (860) 344-3435. |

I. Bond Information

Introduction

This Official Statement is provided for the purpose of presenting certain information relating to the City of Middletown, Connecticut (the "City") in connection with the original issuance and sale of \$10,000,000 General Obligation Bonds, Issue of 2018 (the "Bonds") of the City.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statement made in this Official Statement involving matters of opinion or estimates are not intended to be representations of fact, and no representation is made that any such opinion or estimate will be realized. No representation is made that past experience, as might be shown by financial or other information herein, will necessarily continue or be repeated in the future. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

All quotations from and summaries and explanations of provisions of statutes, charters, or other laws and acts and proceedings of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the original official documents; and all references to the Bonds and the proceedings of the City relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and such proceedings.

The City deems this Official Statement to be "final" for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), but it is subject to revision or amendment.

Bond Counsel is not passing on and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement other than matters expressly set forth as its opinion and makes no representation that it has independently verified the same.

The independent auditors for the City are not passing upon and do not assume responsibility for the accuracy or completeness of the financial information presented in this Official Statement (other than matters expressly set forth in their opinion in Appendix A), and they make no representation that they have independently verified the same.

In accordance with the requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the City will agree to provide, or cause to be provided, annual financial information and operating data and notices of certain events with respect to the Bonds pursuant to a Continuing Disclosure Agreement to be executed substantially in the form of Appendix C to this Official Statement.

U.S. Bank National Association will act as the Registrar, Transfer Agent, Paying Agent and Certifying Agent for the Bonds.

Municipal Advisor

Phoenix Advisors, LLC, of Milford, Connecticut has served as Municipal Advisor to the City with respect to the issuance of the Bonds (the "Municipal Advisor"). The Municipal Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement and the appendices hereto.

The Municipal Advisor is an independent firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

Description of the Bonds

The Bonds mature on April 1 in each of the years as set forth on the front cover of this Official Statement. The Bonds will be dated April 12, 2018 and will bear interest at the rate or rates per annum specified by the successful bidder, payable on October 1, 2018 and semiannually thereafter on April 1 and October 1 in each year until maturity as set forth on the cover of this Official Statement. Interest will be calculated on the basis of twelve thirty-day months and a 360-day year. Interest is payable to the registered owner as of the close of business on the fifteenth day of March and September in each year, or the preceding business day if such fifteenth day is not a business day, by check mailed to the registered owner or, so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, by such other means as DTC, the Paying Agent and the City shall agree.

Authorization and Purpose

The Bonds are issued pursuant to Title 7, Chapter 109, Sections 7-369 et seq. of the Connecticut General Statutes, as amended, the Charter of the City, and bond ordinances approved by the City’s Common Council and City Referendum (if applicable). (See “Use of Bond Proceeds” herein.)

Use of Bond Proceeds

Subject to the City’s election to reallocate proceeds among its authorized projects to meet its capital cash flow needs, the proceeds of this issue are expected to be used to finance the projects listed below:

| Project | Original Amount Authorized | Bonds: This Issue |
|---|---------------------------------------|------------------------------|
| Road Improvements 2005 | \$ 9,850,000 | \$ 36,300 |
| Eckersely Hall Building..... | 750,000 | 7,100 |
| Various Tech Improvements-Chambers | 625,000 | 17,150 |
| Revaluation..... | 750,000 | 76,600 |
| Senior Center | 4,850,000 | 110,800 |
| City Public Parking | 599,000 | 77,500 |
| Parking Security..... | 600,000 | 264,000 |
| Street lights..... | 1,150,000 | 5,050 |
| Road Bond-2013..... | 15,200,000 | 1,007,500 |
| WWMS track & tennis..... | 749,000 | 302,250 |
| BOE MHS wired/wireless..... | 343,000 | 35,250 |
| City security..... | 750,000 | 100,750 |
| Parks - 2015 | 33,450,000 | 4,436,050 |
| Central Communications system-2016..... | 12,100,000 | 2,519,000 |
| Police cruisers-2016..... | 657,000 | 156,000 |
| Public Works Capital Non-recurring-2016..... | 750,000 | 496,000 |
| Military Museum | 300,000 | 151,200 |
| Public Works Capital Non-recurring-2017 | 746,000 | 201,500 |
| Total..... | \$ 84,219,000 | \$ 10,000,000 |

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School Projects

Pursuant to Section 10-287i of the Connecticut General Statutes, the State of Connecticut provides proportional progress payments for eligible school construction expenses on projects approved after July 1, 1996 (the “Current Program”).

For all projects approved prior to July 1, 1996, a municipality issues bonds for the entire amount of the school construction project and the State of Connecticut reimburses the municipality for the portion of principal and interest costs representing grant eligible school construction project costs.

Under the Current Program, the State of Connecticut makes proportional progress payments for eligible construction costs during project construction. The State grant is paid directly to the municipality after it submits its request for progress payments, and accordingly, the municipality will issue its bonds only for its share of project costs, as detailed below:

| <i>Projects Approved After July 1, 1996</i> | <i>Total Project Costs Authorized</i> | <i>State Reimbursement Rate</i> | <i>Grants for Eligible Costs (estimated)</i> |
|---|---------------------------------------|---------------------------------|--|
| Middletown High School | \$ 106,650,000 | 65.07% | \$ 69,397,155 |

Book-Entry-Only Transfer System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Redemption proceeds, distributions, and dividend payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

DTC Practices

The City can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

Replacement Bonds

In the event that: (a) DTC determines not to continue to act as securities depository for the Bonds, and the City fails to identify another qualified securities depository for the Bonds to replace DTC; or (b) the City determines to discontinue the book-entry system of evidence and transfer of ownership of the Bonds, the City will issue fully registered Bond certificates directly to the Beneficial Owner. A Beneficial Owner of the Bonds, upon registration of certificates held in such Beneficial Owner's name, will become the registered owner of the Bonds.

Security and Remedies

The Bonds will be general obligations of the City and the City will pledge its full faith and credit to pay the principal of and interest on the Bonds when due.

Unless paid from other sources, the Bonds are payable from general property tax revenues. The City has the power under Connecticut statutes to levy ad valorem taxes on all taxable property in the City without limit as to rate or amount, except as to certain classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts.

Payment of the Bonds is not limited to property tax revenues or any other revenue source, but certain revenues of the City may be restricted as to use and therefore may not be available to pay debt service on the Bonds.

There are no statutory provisions for priorities in the payment of general obligations of the City. There are no statutory provisions for a lien on any portion of the tax levy or other revenues to secure the Bonds, or judgments thereon, in priority to other claims.

The City is subject to suit on its general obligation debt (hereafter "debt") and a court of competent jurisdiction has power in appropriate proceedings to render a judgment against the City. Courts of competent jurisdiction also have power in appropriate proceedings to order a payment of a judgment on such debt from funds lawfully available therefore or, in the absence thereof, to order the City to take all lawful action to obtain the same, including the raising of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts may take into account all relevant factors including the current operating needs of the City and the availability and adequacy of other remedies.

Enforcement of a claim for payment of principal of or interest on such debt would also be subject to the applicable provisions of federal bankruptcy laws as well as other bankruptcy, insolvency, moratorium and other similar laws affecting creditors rights hereto for or hereafter enacted by the Congress or the Connecticut General Assembly extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied.

Under the federal bankruptcy code, the City may seek relief only, among other requirements, if it is specifically authorized, in its capacity as a municipality or by name, to be a debtor under Chapter 9, Title II of the United States Code, or by state law or a governmental officer or organization empowered by state law to authorize such entity to become a debtor under such Chapter. Section 7-566 of the Connecticut General Statutes provides that no Connecticut municipality shall file a petition in bankruptcy without the express prior written consent of the Governor. This prohibition applies to any town, city, borough, metropolitan district and any other political subdivision of the State having the power to levy taxes and issue bonds or other obligations.

***THE CITY OF MIDDLETOWN, CONNECTICUT HAS NEVER DEFAULTED IN THE
PAYMENT OF PRINCIPAL OR INTEREST ON ITS BONDS OR NOTES.***

Availability of Continuing Disclosure Information

The City prepares, in accordance with State law, annual audited financial statements and files such annual audits with the State Office of Policy and Management on an annual basis. The City provides, and will continue to provide to the rating agencies ongoing disclosure in the form of the annual financial reports, recommended and adopted budgets, and other materials relating to its management and financial condition, as may be necessary or requested.

The City will enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the form attached as Appendix C to this Official Statement (the “Continuing Disclosure Agreement”), to provide or cause to be provided, in accordance with the requirements of the SEC Rule 15c2-12(b)(5) (the “Rule”), (i) annual financial information and operating data, (ii) a notice of the occurrence of certain events within 10 business days of the occurrence of such events, and (iii) timely notice of failure by the City to provide the required annual financial information and operating data on or before the date specified in the Continuing Disclosure Agreement. The winning bidder’s obligation to purchase the Bonds shall be conditioned upon it receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement.

The City has previously undertaken in continuing disclosure agreements entered into for the benefit of holders of certain of its general obligation bonds to provide certain annual financial information and event notices pursuant to Rule 15c2-12(b)(5). In the past five years, the City has not failed to comply in any material respect its undertakings under such agreements.

Bond Insurance

The City does not intend to purchase a credit enhancement facility for the Bonds.

Tax Exemption

Federal Taxes. In the opinion of Pullman & Comley, LLC, Bond Counsel, under existing law, (i) interest on the Bonds is not included in gross income for federal income tax purposes, and (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax; however, for taxable years that began before January 1, 2018 with respect to certain corporations (as defined for federal income tax purposes), such interest is taken into account in computing the federal alternative minimum tax liability.

Bond Counsel’s opinion with respect to the Bonds will be rendered in reliance upon and assuming the accuracy of and continuing compliance by the City with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”). The Code and regulations promulgated thereunder establish certain requirements which must be satisfied at and subsequent to the issuance of the Bonds in order that interest on the Bonds be and remain excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds irrespective of the date on which such noncompliance occurs. In the Tax Compliance Agreement, which will be delivered concurrently with the issuance of the Bonds, the City will covenant to comply with certain provisions of the Code and will make certain representations designed to assure compliance with such requirements of the Code including, but not limited to, investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Bond proceeds and certain other matters. The opinion of Bond Counsel delivered on the date of issuance of the Bonds is conditioned upon compliance by the City with such requirements.

No other opinion is expressed by Bond Counsel regarding the federal tax consequences of the ownership of, or the receipt or accrual of interest on, the Bonds.

Original Issue Discount. The initial public offering prices of the Bonds of certain maturities may be less than the stated principal amount. Under existing law, the difference between the stated principal amount and the initial offering price of each maturity of the Bonds will constitute original issue discount. The offering prices relating to the yields set forth on the cover page of this Official Statement for such Bonds is expected to be the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Bonds are sold. Under existing law, original issue discount on the Bonds accrued and properly allocable to the owners thereof under the Code is excludable from gross income for federal income tax purposes if interest on the Bonds is excludable from gross income for federal income tax purposes.

Under the Code, for purposes of determining an owner's adjusted basis in a Bond purchased at an original issue discount, original issue discount is treated as having accrued while the owner holds such Bond and will be added to the owner's basis. Original issue discount will accrue on a constant-yield-to-maturity method based on regular compounding. The owner's adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of such a Bond. For certain corporations (as defined for federal income tax purposes), a portion of the original issue discount that accrues in each year to such Bond will be included in the calculation of the corporation's federal alternative minimum tax liability. As a result, ownership of such a Bond by such a corporation may result in an alternative minimum tax liability even though such owner has not received a corresponding cash payment.

Prospective purchasers of Bonds at an original issue discount should consult their own tax advisors as to the calculation of accrued original issue discount, the accrual of original issue discount in the case of Bondowners purchasing such Bonds after the initial offering and sale, and the state and local tax consequences of owning or disposing of such Bonds.

Original Issue Premium. The initial public offering prices of certain maturities of the Bonds may be more than their stated principal amounts. An owner who purchases a Bond at a premium to its principal amount must amortize the original issue premium as provided in the applicable Treasury Regulations, and amortized premium reduces the owner's basis in the Bond for federal income tax purposes. Prospective purchasers of the Bonds should consult their tax advisors regarding the amortization of premium and the effect upon basis.

Other Federal Tax Matters. Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, certain insurance companies, recipients of Social Security or Railroad Retirement benefits, certain S corporations, foreign corporations subject to the branch profits tax, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Bond Counsel does not express any opinion regarding such collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding collateral federal income tax consequences.

State Taxes. In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based for individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Accrued original issue discount on a Bond is also excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based for individuals, trusts and estates required to pay the federal alternative minimum tax.

Owners of the Bonds should consult their own tax advisors with respect to the determination for state and local income tax purposes of original issue discount or original issue premium accrued upon sale or redemption thereof, and with respect to the state and local tax consequences of owning or disposing of such Bonds.

Owners of the Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Bonds and the disposition thereof.

Proposed Legislation and Other Matters. Tax legislation and administrative actions taken by tax authorities (whether currently proposed, proposed in the future, or enacted) and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation, actions or decisions could affect the market price for, or the marketability of, the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding the foregoing matters.

General. The opinion of Bond Counsel is rendered as of its date, and Bond Counsel assumes no obligation to update or supplement their opinion to reflect any facts or circumstances that may come to its attention or any

changes in law that may occur after the date of its opinion. Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date of issuance. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinions.

The discussion above does not purport to deal with all aspects of federal or state or local taxation that may be relevant to a particular owner of the Bonds. Prospective owners of the Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal, state and local tax consequences of owning and disposing of the Bonds.

Qualification for Financial Institutions

The Bonds shall NOT be designated by the City as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Bonds.

Legal Opinion

The legal opinion for the Bonds will be rendered by Pullman & Comley, LLC in substantially the form set forth in Appendix B to this Official Statement.

Registrar, Transfer Agent, Paying Agent and Certifying Agent

The Registrar, Transfer Agent, Paying Agent and Certifying Agent for the Bonds will be U.S. Bank National Association, Goodwin Square, 23rd Floor, 225 Asylum Street, Hartford, Connecticut 06103.

Ratings

The Bonds were rated "AAA" by S&P Global Ratings. The City has furnished to the rating agency certain information and materials, some of which may not be included in this Official Statement. Rating agencies generally base their ratings on the information and materials furnished to them, and upon further investigations, studies and assumptions by each respective rating agency. There can be no assurance that a rating will continue for any given period of time, or that it will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. Any such downward change in, or withdrawal of, a rating may have an adverse effect on the marketability or market price of outstanding securities.

The rating reflects only the view of the rating agency. S&P Global Ratings should be contacted directly for an explanation of such rating. The City expects to furnish to the rating agency information and materials that they may request. The City's Financial Advisor, Phoenix Advisors, LLC, recommends that all bonded debt be submitted for a credit rating. No application has been made to any other rating agency for the purpose of obtaining ratings on outstanding securities of the City.

II. The Issuer



Description of the City

Middletown was settled in 1650, and incorporated as a Town in 1651. The City and Town were consolidated in 1923 and the 1st and 2nd taxing districts and two school districts were consolidated in 1959. The City covers an area of 42.9 square miles located on the west bank of the Connecticut River, fifteen miles south of Hartford. Middletown is traversed by Interstate 91 and State Highways Number 9, 17, 66, 72, 155, 157 and 217. Bus transportation linking Middletown with other communities is provided by commercial companies, as is an intra-city bus service. Freight service is provided by Conrail, light shipping up the Connecticut River and various motor common carriers.

Wesleyan University, founded in 1831, is located in Middletown. The University is nationally recognized and owns a beautiful campus. With an enrollment of nearly 2,900 men and women and a significant faculty and staff, its economic and social impact upon the community is important and includes rich cultural offerings open to Middletown residents. The University has also been responsible for the formation of the Hill Development Corporation which, over the past two decades, has provided varied housing opportunities in the City.

Middlesex Community College, located to the south of the downtown area, provides adult and continuing education, as well as a two-year undergraduate program.

Middletown has numerous medical facilities and convalescent homes to meet area health needs. The Middlesex Hospital, located within the City, has a capacity of approximately 380 beds and is the focal point for health delivery services for Middlesex County. The hospital combines the quality care of competent, concerned, personalized service with the accuracy and convenience of high technology, and is the only acute care, community hospital in this county of approximately 160,000 residents. Its medical staff, with board-certified physicians in virtually all major sub-specialties, offers a wide range of coverage including preventative medicine as well as the diagnosis and treatment of illnesses. The hospital also functions as a major educational resource to prepare students for health careers.

Description of Government

Middletown operates under a Charter first granted in 1874 and subsequently revised. The most recent revision was effective November 3, 2009. The City is governed by a full-time Mayor and a twelve-member Common Council elected at large for a term of two years. The Mayor is the chief executive officer of the City. In addition to the City's departments, there is a Sanitary District Commission, a Water and Sewer Commission, a Parking Authority, a Housing Authority and a Downtown District. A Director of Finance & Revenue Services administers the financial affairs of the City.

Principal Municipal Officials

| <i>Official</i> | <i>Name</i> | <i>Manner of Selection</i> | <i>Length of Service</i> | <i>Term of Office</i> | <i>Former Employment</i> |
|--|--------------------------|----------------------------|--------------------------|-----------------------|--|
| Mayor | Daniel Drew | Elected | 7 years | Nov. 2019 | Grant Writer at Sacred Heart University |
| Director of Finance & Revenue Services.. | Carl R. Erlacher | Appointed | 14 years | Indefinite | Accounting Firm |
| Chairman, Board of Education | Christopher R. Drake | Elected | 2 Year | Nov. 2019 | Dir of Business Services Div., CT Secretary of the State |
| Superintendent of Schools | Michael T. Conner, Ed.D. | Appointed | 0.5 Years | Indefinite | CAO, Norwalk Schools, CT |
| Treasurer | Quentin Phipps | Elected | 4 years | Nov. 2019 | Banking |

Municipal Services

General government is comprised of the legislative, executive, and legal activities of the City, as well as staff and auxiliary housekeeping services. The Mayor presides over the Common Council, and is also the chief executive officer of the City. The directors of all City departments and agencies are responsible to the Mayor for all matters regarding the operation of their respective departments. In a broad sense, general government activities provide the administrative and overhead systems, which support the operations of programs necessary for the achievement of City objectives.

Finance Department. The Finance Department is responsible for administering a completely integrated financial function including all responsibility for treasury operations, purchasing, administrative services, payrolls, and financial data processing as well as accounting and budgetary activities.

Personnel Department. The Department of Personnel is responsible for the central administration of the City's personnel system, as specified in the Personnel Ordinance. The Personnel Director is responsible for labor relations with four of the City's employee labor associations.

Office of the City and Town Clerk. The duties and responsibilities of the Office of the City and Town Clerk are primarily set by State law. There are three major areas of responsibility: the custodianship of the City's land records; administration of elections; and issuance of various licenses, such as sportsman, tradename, liquor and dog licenses. Additionally, the office of the City and Town Clerk retains a record journal for licensed Justices of the Peace and Notary Publics. Meeting notices and agendas for all public boards and commissions are filed and retained in the office, and are available for public viewing.

Legal Department. The services of the Legal Department fall into several areas. The duties of the City Attorney include acting as City Attorney for the City, its officers, departments, agencies, boards and commissions, in all matters relating to their official duties. The City Attorney also has the power to resolve or settle any claim by or against the City in the amount of \$3,500 or less. With respect to any claims over \$3,500, the City Attorney has the power to resolve or settle subject to the approval of the Insurance and Claims Committee, which Committee consists of three members of the Common Council. The Legal Department is also responsible for the Property and Casualty Insurance, Worker's Compensation and Health Insurance and Risk Management programs of the City.

Fire Protection. The City is divided into three fire districts: the Middletown Fire Department (the City's department), the South Fire District and the Westfield Volunteer Fire District. Each operates autonomously under the command of a fire chief with its own administration, Fire Commission, and taxing district. The Middletown Fire Department is the municipal fire and the Fire Chief works under the direction of the Mayor of the City.

The City's Fire Department, the Middletown Fire Department, is the oldest fire protection organization in the City with origins dating back to 1785. Its mission is to enhance the quality of living in the community by preventing or minimizing injury and loss of life or property from fire or other emergencies that may occur within the City's jurisdictional boundaries.

The Middletown Fire Department is the largest and most active fire department in the City, staffed by 67 sworn women and men, as well as four civilian staff, who respond to over 4,000 requests annually. The department, besides providing fire protection, control and extinguishment services, provides various rescue services including vehicle extrication, confined space, dive rescue team, high angle and low angle, and marine operations. The department also responds to requests for services involving hazardous materials, is an EMS first responder and is now certified in Trench Rescue. Code enforcement, building plan review, fire protection and education is completed by the department's Fire Marshal's Office as well as supported by the suppression division. The department also has a Fire Alarm Division covering the entire City, which monitors and maintains alarms connected directly to the City's alarm system.

The department operates out of two stations: Headquarters, located at 533 Main Street, which was built in 1899, is a historical landmark and architectural gem in the City's North End; and Station 2, located at 169 Cross Street in the heart of Wesleyan University. The Alarm Division is located at Thomas Street, City Yard.

Police Department. The City Police Department, presently consisting of one hundred and fourteen (114) sworn Police Officers, three (3) Animal Control Officers, ten (10) school crossing guards and fifteen (15) civilian personnel, is the primary law enforcement agency in the City. The Department, which is located in a state-of-the-art 45,000 square foot police facility on Main Street, is dedicated to "Community Policing" and working with City residents, businesses and other agencies in hopes of improving the quality of life for the residents of Middletown.

Police services are delivered through four divisions: Patrol, Administrative, Investigative, and Professional Standards. The Patrol Division is comprised of uniformed Police Officers, the Traffic Unit, Animal Control Officers, and School Crossing Guards. It is responsible for the patrol of the City and is the primary responder to all calls for services. The Administrative Division serves as a support division to the Department and is responsible for the staffing, budgeting, purchasing, Records Bureau, and maintaining all equipment and supplies. The Investigative Services Division is made up of the Major Investigations unit, the Special Investigations unit, and the Street Crime unit. This division conducts investigations of major crimes, family issues, narcotics, vice, organized crimes, and other criminal matters. The Professional Standards Division oversees Department personnel matters, including the recruitment process, training, workers' compensation, Internal Affairs and policy review.

Public Works. The Department of Public Works, as required by City Charter, is headed by a director who is charged with the management, care and maintenance of all public buildings, public highways, city vehicles, collection and disposal of refuse and solid waste, permitting of new construction, rehabilitation and restoration of buildings and inspection of all construction in the City in accordance with State building codes.

Water Department. The Middletown Water Department is a self-supporting municipal department providing water service to approximately 90% of the City's population and also services small portions of Middlefield and the Water Pollution Control Facility ("WPCF") in Cromwell. The Water Department shares a Director with the Sewer Department and has 34 full-time employees. The system consists of three reservoirs, a well field with ten wells, two water treatment plants, pumping stations and facilities, and approximately one hundred eighty miles of water mains. The sources are fully permitted and have ample supply through the year 2040.

The budget for the 2018-19 fiscal year is \$6,357,854. The water rate for fiscal year 2018-19 is \$31.25/1,000 cubic feet. All water use is metered and bills are due and payable on a semi-annual basis for all services up to 1½" and on a monthly basis for services 1½" and larger:

| Billing | Size of Meter | Charge |
|----------------|----------------------|---------------|
| Semi annual: | 5/8 inch | \$20.53 |
| | 3/4 inch | \$25.87 |
| | 1.0 inch | \$56.67 |
| Monthly: | 1.5 inches | \$15.61 |
| | 2.0 inches | \$21.50 |
| | 3.0 inches | \$34.03 |
| | 4.0 inches | \$60.03 |
| | 6.0 inches | \$109.92 |
| | 8.0 inches | \$175.40 |

The City is working with the Town of Durham and the EPA to provide for an excess sale of water to Durham. This project is being funded by the Town of Durham and the EPA and will include a new water storage tank, piping, and opportunities to connect to the existing Durham center water system. This project's objective is to provide potable water to all properties located within the site wide groundwater study area in Durham.

Sewer Department. The Sewer Department consists of a shared Director with the Water Department and 26 full-time employees. A wastewater treatment facility serves approximately 60% of the City and parts of a neighboring municipality. Its operations are financed from direct charges to the users. The daily use is 3.5 million gallons per day and the plant can handle average daily flows of 6.75 million gallons per day and maximum flows of 15.2 million gallons per day. The remaining 40% of the City's sanitary sewage is treated at the Mattabassett Treatment Facility in Cromwell and the sewer users pay for this service based upon the volume treated. The sewer budget for 2018-19 is \$9,286,487.

The sewer rate for fiscal year 2018-19 is \$56.51/1000 cubic feet. All sewer use is based on the metered water use and billed on a semi-annual basis for all services up to 1 ½" and on a monthly basis for services 1 ½" and larger.

Mattabassett District. A total of \$55 million has been approved allowing the City to make application to the Connecticut Department of Energy and Environmental Protection for Clean Water Funds (both grant and loans) for a project to regionalize its sewer treatment operation with the Mattabassett District, the fifth largest sewage disposal district in the State that is located in Cromwell, Connecticut. As part of the project and in accordance with Special Act 11-15, the City joined the Mattabassett District as a constituent municipality in March of 2014, after approval by the District and the legislative bodies of the other three constituent municipalities (New Britain, Cromwell and Berlin). As a financial pre-condition to joining the Mattabassett District, a one-time "buy-in" payment of \$13,000,000 was made by the City to the Mattabassett District. The City is currently completing construction of the first phase of this project, a 2.5 mile tandem sewer force main from Middletown to the Mattabassett District facility. A second phase for the construction of a 26 million gallon per day inter-municipal pump station to deliver waste water from Middletown to the Mattabassett District facility has been bid, the project has been awarded and construction began in February 2017. The approved funding also allows for select demolition of the current sewer treatment plant that sits on the banks of the Connecticut River, and will allow for constructive reuse and development of the area consistent with the City's plans for upscale public access, housing and business development. Construction is scheduled to be completed for both phases by the middle of 2019.

The Mattabassett District serves the towns of Berlin, Cromwell, Farmington, Middletown, and New Britain, and portions of the Metropolitan District Commission. Middletown pays the District annually each July 1st based upon metered flows, fixed operating costs, and amortization of plant, trunk sewers, and debt. Middletown's present usage equates to 31.5% of Mattabassett's capacity, which is also the City's share of Mattabassett's annual operating expenses. The City's share of operating capital expenses is based upon current reserved plant capacity, which is 9.5%.

The District is empowered to issue bonds and notes in its own name. The District levies its annual assessment upon each member, including the City. The City in turn establishes sewer use rates in an amount sufficient to pay the District annual assessment. In the event a town fails to pay its annual assessment, the District may levy, collect and enforce payment from individual District facility users in such town. The City is not liable for payment of District debt. The Mattabassett District has never defaulted on its bond and note liabilities. See "Government Organization-Mattabassett District" and "Overlapping Debt" herein.

Subsequent to a comprehensive 1999 study, the Mattabassett District embarked on a plan to upgrade and expand treatment capabilities in order to meet the stricter Department of Energy and Environmental Protection requirements for the removal of nitrogen and sewage sludge incinerator emissions as well as to provide for the additional flow capacity needs of the member communities. The project is complete. Total construction cost were \$100 million. A grant from the Department of Environmental Protection Clean Water Fund will cover approximately 23% of the cost. The remainder of the costs are being financed with a 2% 20-year Clean Water Fund loan to the extent not funded by additional grants. The cost of the project will be borne by sewer fee increases spread across the member towns. The 2017 budget includes the first full year of the loan repayment for the project and as a result Middletown's annual share of the project cost has peaked. Over the last 4 years Middletown's annual payments to Mattabassett has increased dramatically. With the exception of annual operating and capital increases, Middletown's annual payment to Mattabassett should remain relatively stable. The City's share of project cost is equal to its percent of future plant reserved capacity, estimated to be 31.5%.

An ongoing combined sewer overflow (CSO) project has been commenced by the City with construction to abate a portion of the CSO flowing from the City to Mattabassett District. A final report from a consultant, addressing "concern areas" of existing inflow and infiltration (I/I) was completed in 1999 and construction bid plans and documents were completed in July 2012 to re-line the existing sewer pipes where major problems exist. Currently, the CSO project is approximately 90% complete. Additional I/I lining work will be completed by the Water Pollution Control Authority. The construction costs for the I/I project are estimated at approximately \$12,000,000 and the project is expected to be initiated after the first phase of the Mattabassett project is complete.

Combined Sewer Overflow Separation Projects: In accordance with the requirements of the Connecticut Department of Environmental Protection (Water Compliance Unit) and the U.S. Environmental Protection Agency, the City developed a "Facility Plan" issued in June of 1980 and updated in September 1987. The Facility Plan provides cost effective and environmentally acceptable solutions for the Combined Sewer Overflow ("CSO") problems occurring in Middletown. Both State and Federal agencies approved the Facility Plan recommendations and the City has undertaken the construction of projects, which incorporate the recommendations. A timetable for construction of the CSO projects has been established by mutual agreement between the City and the Connecticut Department of Environmental Protection.

CSO construction includes the installation of new sanitary sewer pipe and manholes, new storm drainpipe manholes and catch basins, rehabilitation of existing sewer pipe and manholes and the separation of private inflow sources. Surface improvement work includes the installation of new granite curb, new concrete sidewalks and driveway aprons, full-depth pavement reconstruction and/or bituminous concrete overlay of existing street pavement, and the installation of street trees.

The City is nearing the end of its CSO construction projects with just three project areas left to be constructed, two of which are currently funded.

Housing Authority. The Housing Authority of the City is a quasi-governmental, non-profit corporation. It manages, owns and operates 491 dwelling units concentrated in complexes throughout the City for low, moderate, elderly, and disabled residents. In addition, the Housing Authority serves as the local administrator for the Section 8 federal rental subsidy program.

Middletown Transit District. The Middletown Transit District provides public transportation throughout the City and the Middletown region which includes Portland, East Hampton, Cromwell, Middlefield and Durham. Fixed route bus service operates 6 days a week, Monday through Saturday, and the District also offers Dial-a-Ride Elderly/Handicapped services to the aforementioned towns excluding Cromwell. These services are funded by passenger fares and federal, State and local subsidies.

Middletown Transit is the host to the Land Jet Bus Company. Land Jet Bus Company services the Foxwoods Casino and Resort and the Mohegan Sun Casino. The District also provides direct service to AMTRAK and the Westfield Shopping Mall in Meriden. Connections are available to Higganum, Chester, Essex, and Old Saybrook via 9 Town Transit. In addition, connections are available to Wethersfield, Rocky Hill, Hartford, and New Haven via CT Transit.

Solid Waste Disposal. Refuse collection in the City is accomplished by private refuse contractors and by the Sanitation District. The latter is a requirement of the City Charter and the Sanitation District represents approximately 30% of the refuse in the City. The refuse contractors charge each customer for their service, including the collection of recyclables. The Sanitation District is a self-sufficient operation. User fee charges are the basis for paying for the service. Separate bills are mailed out semiannually for refuse collection service in the Sanitation District.

Landfill: The City has a permitted Sanitary Landfill, which has been closed.

Recycling: The City presently has a mandatory recycling program for all State-mandated materials including curbside collection of newspapers, bottles and cans, certain plastic containers and corrugated cardboard. Both private contractors and the Sanitation District collect these curbside materials. Only refuse contractors that dispose their municipal solid waste at a City-designated solid waste facility are allowed to dispose their recyclables at the Middletown Recycling Center. Non-participating refuse contractors must make their own arrangements for refuse and recyclables. City employees haul the recyclables from the recycling center to a designated market based on bids. The tip fee, if any, is paid by the participants through the contracted refuse tipping fee.

Contractors and commercial operations that have the need to dispose of bulky waste on special occasions may dump it at the Recycling Center. The charge for the bulky waste is \$91.50 per ton. The bulky waste is dumped separately and transferred to the private bulky waste site on a when-needed basis. The cost of disposing the bulky waste is \$79.50 per ton.

Residents who establish residency may obtain a permit from the Public Works Department and bring their own recyclables to the Recycling Center.

Service Contract - Solid Waste Disposal. The Eastern Connecticut Resource Recovery Authority (the "Authority") is a public body politic and corporate of the State of Connecticut, organized and existing pursuant to Connecticut General Statutes Sec. 7-273aa et seq., and an ordinance adopted by the Common Council of the City on December 10, 1990. The Authority was created for the purpose of developing and implementing a solid waste disposal and resource recovery system, including the acquisition and ownership of a resource recovery facility in Lisbon, Connecticut (the "Facility"). At present, the City is the only member of the Authority; accordingly, the Authority is fiscally dependent and under the City's control. Initially, two series of bonds were issued by the Authority in October of 1993 to finance the construction of the Facility: \$114,110,000 Series 1993A Solid Waste Revenue Bonds and \$14,040,000 Series 1993B Taxable Solid Waste Revenue Bonds (together "Authority Bonds"). The Authority's outstanding bonded debt as of June 30, 2017 amounted to \$38,929,000. The Authority Bonds do not constitute a debt or other obligation of the City, and neither the faith and credit nor the taxing power of the City are pledged to the payment of the principal of or interest on the Authority Bonds.

The City has entered into a long-term Municipal Waste Disposal Agreement (the "Disposal Agreement") with the Authority to provide for the disposal of municipal solid waste generated in the City at the Facility. Under the Disposal Agreement, the City is required annually to deliver or cause to be delivered a guaranteed minimum amount of acceptable waste to the Facility and to pay a disposal fee (the "Disposal Fee") to the Authority. The City expects to deliver the approximately 6,200 tons of waste that it collects annually in its Sanitation District. The Disposal Fee payment is calculated on a per-ton basis in an amount sufficient to permit the Authority to recover from all Facility users the Authority's net cost of providing the Facility, including debt service on the Authority Bonds and all amounts needed for the operation of the facility. The Disposal Fee for the 2017-18 fiscal year is \$95.42.

The City has pledged its full faith and credit to the payment of all amounts to be paid by it to the Authority under the Disposal Agreement, and shall be obligated to appropriate funds and levy taxes in an amount sufficient, together with other available revenues, to make such payment. Under the Disposal Agreement, the City's payment obligation is contingent upon the Authority's acceptance of the City's waste. The Disposal Agreement does not obligate the City to pay the principal of or interest on the Authority Bonds.

The Authority has entered into a long-term agreement (the "Service Agreement") with Wheelabrator Lisbon, Inc. (the "Company") to operate the Facility, which is a 500-ton-per-day solid waste disposal, electric power generation and resource recovery facility. The Company, a Delaware corporation, is an indirect, wholly owned subsidiary of Wheelabrator Technologies Inc., Hampton, New Hampshire, which has guaranteed the performance of all of the Company's obligations under the Service Agreement.

The Facility is designed to process 500 tons per day of acceptable waste, generate steam and convert the steam to electricity utilizing a 15-megawatt turbine generator. The Facility has two von Roll mass-burn combustion grate units, utilizing Babcock & Wilcox furnaces with waterwall boilers. Wheelabrator is licensed by von Roll, Ltd. of Zurich, Switzerland to use the von Roll technology in its trash-to-energy facilities and Wheelabrator has used the von Roll design in 11 of its trash-to-energy facilities. The Facility has been commercially operable since January 1, 1996.

The Authority, the Company and Regional Transfer Systems of Middletown Inc. entered into an agreement in June 1998 entitled Acceptable Waste Loading Agreement for Services. Under this long-term agreement, and in combination with existing agreements, the City's Sanitation District utilizes a refuse transfer system at Regional Transfer Systems of Middletown Inc., 70 Industrial Park Road, Middletown, Connecticut.

Educational System. The Board of Education is responsible for the City-operated school system of eleven schools (including a senior high school and two middle schools) with an operating capacity of 5,562 (including relocatable classrooms). The following is a listing of school facilities and school enrollments:

School Facilities

| School | Grades | Date of Construction (Renovations) | Type of Construction | 10/1/2017 Enrollment¹ | Operating Capacity |
|---|---------------|---|-----------------------------|---|-------------------------------|
| Bielefield Elementary | PreK-5 | 1954 (66 & 00) | Steel/Masonry | 271 | 354 |
| Farm Hill Elementary | K-5 | 1990 | Masonry | 329 | 313 |
| Lawrence Elementary | K-5 | 1972 (05) | Steel/Masonry | 293 | 375 |
| Spencer Elementary | K-5 | 1951 (58 & 89) | Steel/Masonry | 293 | 354 |
| Macdonough Elementary | K-5 | 1925 (70 & 88) | Steel/Masonry | 233 | 250 |
| Moody Elementary | K-5 | 1964 (94 & 06) | Steel/Masonry | 262 | 354 |
| Snow Elementary | PreK-5 | 1998 | Steel/Masonry | 359 | 433 |
| Wesley Elementary | K-5 | 1972 (03) | Steel/Masonry | 241 | 354 |
| Keigwin Annex Middle School | 6 | 1973 | Steel/Masonry | 295 | 500 |
| Woodrow Wilson Middle School | 7-8 | 1973 (75 & 95) | Steel/Masonry | 625 | 900 |
| Middletown High School ² | 9-12 | 2008 | Steel/Masonry | 1,308 | 1,375 |
| Total | | | | 4,509 | 5,562 |

¹ Excludes out-of-district placement students.

² Includes Vocational Agriculture Center.

Source: City of Middletown, Board of Education.

School Enrollment^{1,2}

Historical

| School Year | Pre-K | K-5 | 6 | 7-8 | 9-12 | Out of District Placement | Total Enrollment |
|------------------------|--------------|------------|----------|------------|-------------|--|-----------------------------|
| 2008-2009 | 91 | 2,603 | 374 | 730 | 1,348 | 77 | 5,223 |
| 2010-2011 | 99 | 2,648 | 370 | 743 | 1,330 | 71 | 5,261 |
| 2010-2011 | 105 | 2,626 | 372 | 733 | 1,359 | 68 | 5,263 |
| 2011-2012 | 104 | 2,560 | 348 | 705 | 1,319 | 79 | 5,115 |
| 2012-2013 | 104 | 2,547 | 363 | 699 | 1,309 | 85 | 5,107 |
| 2013-2014 | 114 | 2,416 | 319 | 666 | 1,270 | 92 | 4,877 |
| 2014-2015 | 110 | 2,327 | 360 | 655 | 1,275 | 100 | 4,827 |
| 2015-2016 | 114 | 2,253 | 312 | 681 | 1,242 | 96 | 4,698 |
| 2016-2017 | 107 | 2,326 | 296 | 704 | 1,262 | 67 | 4,762 |
| 2017-2018 | 80 | 2,201 | 295 | 625 | 1,327 | 54 | 4,582 |

Projected

| School Year | Pre-K³ | K-5 | 6 | 7-8 | 9-12 | Out of District Placement⁴ | Total Enrollment |
|------------------------|--------------------------|------------|----------|------------|-------------|--|-----------------------------|
| 2018-2019 | 82 | 2,156 | 304 | 604 | 1,326 | - | 4,472 |
| 2019-2020 | - | 2,108 | 302 | 611 | 1,294 | - | 4,315 |
| 2020-2021 | - | 2,072 | 275 | 616 | 1,259 | - | 4,222 |

¹ Excludes homebound/sent-out students.

² Excludes 120 students enrolled in the Thomas Edison Magnet Middle School.

³ Pre-K enrollment cannot be projected more than one school year into the future.

⁴ No projections are available for Out-of-district placements.

Source: City of Middletown, Board of Education

Municipal Employees
Full-Time

The City employs 1,455 full-time persons for general government and education. The following table displays the City's employment rolls for the last five fiscal years.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| General Government | 626 | 626 | 567 | 548 | 488 |
| Board of Education | 829 | 799 | 803 | 752 | 743 |
| Total | 1,455 | 1,425 | 1,370 | 1,300 | 1,231 |

Source: City of Middletown, Department of Personnel; City of Middletown, Board of Education.

Employee Collective Bargaining Organizations

Nearly all full-time employees are represented by bargaining organizations as follows:

| <u>Employees</u> | <u>Board of Education Groups</u> | <u>Positions Covered</u> | <u>Current Contract Expiration Date</u> |
|---|--|--------------------------|---|
| Teachers | Middletown Federation of Teachers Local 1381, AFL-CIO | 430 | 6/30/2019 |
| Administrators | Middletown School Administrators Association | 32 | 6/30/2019 |
| Custodians, Secretaries ³ | Local 466 of Council No. 4 AFL-CIO | 167 | 6/30/2022 |
| Paraprofessionals | Middletown Federation of Paraprofessionals Local 1361 AFT, AFL-CIO | 195 | 6/30/2019 |
| Managers | Teamsters #671 ² | 6 | 6/30/2020 |
| Total Board of Education Employees | | 830 | |
| <u>Employees</u> | <u>Town Groups</u> | <u>Positions Covered</u> | <u>Current Contract Expiration Date</u> |
| Firefighters | Local 1073 Int. Association of Firefighters AFL-CIO | 66 | 6/30/2019 |
| Police | Police Local 1361 AFSCME AFL-CIO | 112 | 6/30/2022 |
| Public Works | Local 466 of Council No. 4 AFL-CIO | 352 | 6/30/2022 |
| Library Workers | Local 1303 AFSCME, AFL-CIO | 35 | 6/30/2020 |
| Managers | UPSEU #6457 ² | 44 | 6/30/2020 |
| Non-Bargaining Personnel.. | N/A | 26 | N/A |
| Total General Government Employees | | 635 | |
| Total | | 1,465 | |

¹ An agreement in principle has been made and is awaiting ratification by the Common Council.

² Formerly Middletown Managers & Professional Association & Teamsters.

³ Includes Nurses and Cafeteria workers

Source: City of Middletown, Department of Personnel; City of Middletown, Board of Education.

Section 7-473c and 7-474 of the Connecticut General Statutes, as amended, provides a procedure for binding arbitration of collective bargaining agreements between municipal employers and organizations representing municipal employees, except certified teachers and administrative personnel.

Section 10-153f of the Connecticut general statutes, as amended, provides a procedure for binding arbitration of collective bargaining agreements between local or regional boards of education and the exclusive representative of a bargaining unit of teachers or administrators.

III. Economic and Demographic Information

Population and Density

| Year | Actual Population ¹ | % Increase | Density ² |
|-------------------|---|-------------------|-----------------------------|
| 2016 ⁴ | 46,933 | -1.2% | 1,094 |
| 2010 | 47,510 | 4.3% | 1,107 |
| 2000 | 45,563 ³ | 6.6% | 1,062 |
| 1990 | 42,762 | 9.5% | 997 |
| 1980 | 39,040 | 5.7% | 910 |
| 1970 | 36,924 | -- | 861 |

¹ 1970 – 2010 U.S. Department of Commerce, Bureau of Census.

² Population per square mile: 42.9 square miles.

³ As a result of the U.S. Census Bureau's Count Question Resolution Program, the U.S. Census Bureau on November 4, 2002 officially corrected the City's Census 2000 population from 43,167 to 45,563, representing an increase of 2,396; however, the census counts used for other Census 2000 data were not officially changed.

⁴ American Community Survey, 2012-2016

Age Distribution of the Population

| Age | City of Middletown | | State of Connecticut | |
|------------------------|---------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Under 5 years..... | 2,590 | 5.5% | 188,812 | 5.3% |
| 5 to 9 years..... | 1,674 | 3.6 | 210,557 | 5.9 |
| 10 to 14 years..... | 2,433 | 5.2 | 228,543 | 6.4 |
| 15 to 19 years..... | 3,886 | 8.3 | 252,522 | 7.0 |
| 20 to 24 years..... | 4,678 | 10.0 | 242,007 | 6.7 |
| 25 to 34 years..... | 7,218 | 15.4 | 438,471 | 12.2 |
| 35 to 44 years..... | 5,739 | 12.2 | 439,606 | 12.3 |
| 45 to 54 years..... | 6,396 | 13.6 | 545,977 | 15.2 |
| 55 to 59 years..... | 3,566 | 7.6 | 263,778 | 7.4 |
| 60 to 64 years..... | 2,323 | 4.9 | 223,274 | 6.2 |
| 65 to 74 years..... | 3,204 | 6.8 | 303,959 | 8.5 |
| 75 to 84 years..... | 1,976 | 4.2 | 163,137 | 4.5 |
| 85 years and over..... | 1,250 | 2.7 | 87,927 | 2.5 |
| Total..... | 46,933 | 100.0% | 3,588,570 | 100.0% |

Median Age (Years)..... 36.4 40.6

Source: American Community Survey, 2012-2016

Income Distribution

| Income | City of Middletown | | State of Connecticut | |
|-----------------------------|---------------------------|----------------|-----------------------------|----------------|
| | Families | Percent | Families | Percent |
| Less than \$10,000..... | 466 | 4.4% | 29,623 | 3.3% |
| \$10,000 to \$14,999..... | 239 | 2.3 | 17,060 | 1.9 |
| \$15,000 to \$24,999..... | 544 | 5.2 | 44,354 | 5.0 |
| \$25,000 to \$34,999..... | 725 | 6.9 | 54,456 | 6.1 |
| \$35,000 to \$49,999..... | 903 | 8.6 | 81,300 | 9.1 |
| \$50,000 to \$74,999..... | 1,795 | 17.0 | 137,336 | 15.4 |
| \$75,000 to \$99,999..... | 1,521 | 14.4 | 124,033 | 13.9 |
| \$100,000 to \$149,999..... | 2,375 | 22.5 | 186,214 | 20.8 |
| \$150,000 to \$199,999..... | 1,042 | 9.9 | 96,075 | 10.7 |
| \$200,000 or more..... | 947 | 9.0 | 123,962 | 13.9 |
| Total..... | 10,557 | 100.0% | 894,413 | 100.0% |

Source: American Community Survey, 2012-2016

Income Levels

| | City of Middletown | State of Connecticut |
|---|---------------------------|-----------------------------|
| Per Capita Income, 2016..... | \$35,074 | \$39,906 |
| Per Capita Income, 2010..... | \$31,850 | \$37,627 |
| Per Capita Income, 2000..... | \$25,720 | \$28,766 |
| Median Family Income, 2016..... | \$84,941 | \$91,274 |
| Percent Below Poverty (Families), 2016..... | 9.20% | 7.30% |

Source: U.S. Department of Commerce, Bureau of Census, 2010

Source: American Community Survey, 2012-2016

Age Distribution of Housing

| Year Built | City of Middletown | | State of Connecticut | |
|----------------------------------|---------------------------|----------------|-----------------------------|----------------|
| | Units | Percent | Units | Percent |
| 2010 or later..... | 4,316 | 20.5% | 334,202 | 22.4% |
| 2000 to 2009..... | 5,936 | 28.1 | 533,202 | 35.7 |
| 1990 to 1999..... | 3,016 | 14.3 | 200,614 | 13.4 |
| 1980 to 1989..... | 3,680 | 17.4 | 190,755 | 12.8 |
| 1970 to 1979..... | 2,648 | 12.6 | 113,584 | 7.6 |
| 1940 to 1969..... | 1,371 | 6.5 | 104,308 | 7.0 |
| 1939 or earlier..... | 129 | 0.6 | 17,133 | 1.1 |
| Total Housing Units | 21,096 | 100.0% | 1,493,798 | 100.0% |
| Percent Owner Occupied..... | 53.6% | | 66.5% | |

Source: American Community Survey, 2012-2016

Housing Inventory

| Type | City of Middletown | | State of Connecticut | |
|-----------------------------|---------------------------|----------------|-----------------------------|----------------|
| | Units | Percent | Units | Percent |
| 1-unit, detached..... | 9,527 | 45.2% | 882,236 | 59.1% |
| 1-unit, attached..... | 956 | 4.5 | 80,639 | 5.4 |
| 2 units..... | 1,863 | 8.8 | 123,152 | 8.2 |
| 3 or 4 units..... | 1,644 | 7.8 | 130,686 | 8.7 |
| 5 to 9 units..... | 2,164 | 10.3 | 82,581 | 5.5 |
| 10 to 19 units..... | 1,985 | 9.4 | 56,858 | 3.8 |
| 20 or more units..... | 2,919 | 13.8 | 125,758 | 8.4 |
| Mobile home..... | 38 | 0.2 | 11,534 | 0.8 |
| Boat, RV, van, etc..... | - | 0.0 | 354 | 0.0 |
| Total Inventory..... | 21,096 | 100.0% | 1,493,798 | 100.0% |

Source: American Community Survey, 2012-2016

Housing Unit Vacancy Rates

| Units | City of Middletown | | State of Connecticut | |
|----------------------------------|---------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Occupied housing units | 19,219 | 91.1% | 1,354,713 | 90.7% |
| Vacant housing units | 1,877 | 8.9 | 139,085 | 9.3 |
| Total Housing Units | 21,096 | 100.0% | 1,493,798 | 100.0% |
| Homeowner vacancy rate | -- | 2.5 | -- | 1.9 |
| Rental vacancy rate | -- | 7.3 | -- | 6.5 |

Source: American Community Survey, 2012-2016

Owner-Occupied Housing Units

| Units | City of Middletown | State of Connecticut |
|--|---------------------------|-----------------------------|
| Total owner-occupied units | 10,297 | 900,223 |
| Average household size of owner-occupied units | 2.44 | 2.68 |
| Median number of rooms | 5.10 | 5.70 |

Source: American Community Survey, 2012-2016

Specified Owner-Occupied Units

| Units | City of Middletown | | State of Connecticut | |
|------------------------------|---------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Less than \$50,000 | 256 | 2.5% | 24,343 | 2.7% |
| \$50,000 to \$99,999 | 469 | 4.6 | 29,703 | 3.3 |
| \$100,000 to \$149,999 | 1,219 | 11.8 | 81,158 | 9.0 |
| \$150,000 to \$199,999 | 1,981 | 19.2 | 139,979 | 15.5 |
| \$200,000 to \$299,999 | 3,774 | 36.7 | 246,071 | 27.3 |
| \$300,000 to \$499,999 | 2,394 | 23.2 | 233,345 | 25.9 |
| \$500,000 to \$999,999 | 184 | 1.8 | 104,952 | 11.7 |
| \$1,000,000 or more | 20 | 0.2 | 40,672 | 4.5 |
| Total Inventory..... | 10,297 | 100.0% | 900,223 | 100.0% |

Source: American Community Survey, 2012-2016

Educational Attainment Years of School Completed Age 25 and Over

| | City of Middletown | | State of Connecticut | |
|--|---------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Less than 9th grade..... | 1,198 | 3.8% | 103,279 | 4.2% |
| 9th to 12th grade, no diploma..... | 1,361 | 4.3 | 139,653 | 5.7 |
| High School graduate (includes equivalency)... | 9,013 | 28.5 | 673,220 | 27.3 |
| Some college, no degree..... | 5,778 | 18.2 | 427,232 | 17.3 |
| Associate degree..... | 2,628 | 8.3 | 184,426 | 7.5 |
| Bachelor's degree..... | 6,182 | 19.5 | 524,370 | 21.3 |
| Graduate or professional degree..... | 5,512 | 17.4 | 413,949 | 16.8 |
| Total..... | 31,672 | 100.0% | 2,466,129 | 100.0% |
| Total high school graduate or higher (%)..... | | 91.9% | | 90.1% |
| Total bachelor's degree or higher (%)..... | | 36.9% | | 38.0% |

Source: American Community Survey, 2012-2016

Employment Data By Place of Residence

| Period | City of Middletown | | Percentage Unemployed | | |
|-----------------------|---------------------------|-------------------|------------------------------|------------------------------|-----------------------------|
| | Employed | Unemployed | City of Middletown | Hartford Labor Market | State of Connecticut |
| January 2018..... | 24,928 | 1,387 | 5.3 | 5.3 | 5.3 |
| Annual Average | | | | | |
| 2017 | 25,081 | 1,224 | 4.7 | 4.8 | 4.7 |
| 2016 | 24,847 | 1,374 | 5.2 | 5.3 | 5.3 |
| 2015 | 25,008 | 1,481 | 5.6 | 5.6 | 5.6 |
| 2014 | 24,561 | 1,733 | 6.6 | 6.7 | 6.7 |
| 2013 | 24,000 | 2,042 | 7.8 | 7.8 | 7.8 |
| 2012 | 24,730 | 2,130 | 7.9 | 8.4 | 8.3 |
| 2011 | 25,203 | 2,255 | 8.2 | 8.9 | 8.8 |
| 2010 | 25,114 | 2,272 | 8.3 | 9.1 | 9.0 |
| 2009 | 25,308 | 2,050 | 7.5 | 8.3 | 8.2 |
| 2008 | 25,559 | 1,449 | 5.4 | 5.8 | 5.7 |

Source: Department of Labor, State of Connecticut.

Employment by Industry
Employed Persons 16 Years of Age and Over

| Sector | City of Middletown | | State of Connecticut | |
|--|---------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Agriculture, forestry, fishing/hunting, & mining | 17 | 0.1% | 7,209 | 0.4% |
| Construction | 936 | 3.8 | 101,497 | 5.7 |
| Manufacturing | 3,089 | 12.4 | 190,713 | 10.6 |
| Wholesale trade | 642 | 2.6 | 45,110 | 2.5 |
| Retail trade | 2,282 | 9.2 | 193,853 | 10.8 |
| Transportation and warehousing, and utilities | 820 | 3.3 | 66,516 | 3.7 |
| Information | 995 | 4.0 | 42,374 | 2.4 |
| Finance, insurance, real estate, rental & leasing | 2,305 | 9.3 | 163,765 | 9.1 |
| Professional, scientific, management, administrative, and waste mgmt services | 2,352 | 9.4 | 206,042 | 11.5 |
| Education, health and social services | 7,459 | 29.9 | 474,976 | 26.5 |
| Arts, entertainment, recreation, accommodation and food services | 1,913 | 7.7 | 153,754 | 8.6 |
| Other services (except public administration) | 1,263 | 5.1 | 81,588 | 4.5 |
| Public Administration | 833 | 3.3 | 66,291 | 3.7 |
| Total Labor Force, Employed | 24,906 | 100.0% | 1,793,688 | 100.0% |

Source: American Community Survey, 2012-2016

Major Employers
As of March 2018

| Employer | Type of Business | Number of Employees |
|--|-------------------------|----------------------------|
| Middlesex Health System ¹ | Private Hospital | 3,150 |
| United Technologies | Aircraft Engines | 2,100 |
| Connecticut Valley Hospital | State Hospital | 1,608 |
| Wesleyan University | Higher Education | 1,235 |
| Middletown Board of Education | Board of Education | 828 |
| City of Middletown | Municipal Government | 626 |
| Liberty Bank | Financial Institution | 393 |
| Jarvis Products | Manufacturing | 232 |
| Kaman Aerospace Corporation | Electronics Systems | 206 |
| DATTCO..... | Transportation | 165 |
| Total..... | | 10,543 |

¹ Includes Middlesex Hospital and all related affiliates located in the City under the Middlesex Health System umbrella.

Sources: Middletown Chamber of Commerce; City of Middletown, Personnel Department and Board of Education.

Commute to Work
16 Years of Age and Over

| Category | City of Middletown | | State of Connecticut | |
|---|---------------------------|----------------|-----------------------------|----------------|
| | Number | Percent | Number | Percent |
| Car, truck, or van - drove alone | 19,491 | 79.3% | 1,379,406 | 78.3% |
| Car, truck, or van - carpooled | 1,508 | 6.1 | 143,187 | 8.1 |
| Public transportation (including taxicab) | 486 | 2.0 | 85,762 | 4.9 |
| Walked | 1,716 | 7.0 | 51,845 | 2.9 |
| Other means | 286 | 1.2 | 20,266 | 1.2 |
| Worked at home | 1,078 | 4.4 | 81,050 | 4.6 |
| Total | 24,565 | 100.0% | 1,761,516 | 100.0% |

Source: American Community Survey, 2012-2016

Building Permits

| Fiscal Year Ended | Residential | | Commercial & Industrial | | Total | |
|------------------------------|--------------------|---------------|--|--------------------------|--------------|---------------|
| | No. | Amount | No. | Amount | No. | Amount |
| 2017 | 1,240 | \$19,810,930 | 305 | \$ 74,500,938 | 1,545 | \$ 94,311,868 |
| 2016 | 1,472 | 34,036,321 | 275 | 188,715,378 ¹ | 1,747 | 222,751,699 |
| 2015 | 1,298 | 19,999,045 | 286 | 22,240,051 | 1,584 | 42,239,096 |
| 2014 | 1,221 | 27,624,680 | 250 | 22,637,137 | 1,471 | 50,261,817 |
| 2013 | 1,219 | 17,455,859 | 234 | 34,205,270 | 1,453 | 51,661,129 |
| 2012 | 1,259 | 14,468,501 | 236 | 18,355,230 | 1,495 | 32,823,731 |
| 2011 | 1,122 | 11,298,499 | 255 | 29,950,158 | 1,377 | 41,248,657 |
| 2010 | 996 | 13,398,270 | 268 | 45,884,490 | 1,264 | 59,282,760 |
| 2009 | 1,047 | 13,962,795 | 233 | 28,590,500 | 1,280 | 42,553,295 |
| 2008 | 1,095 | 16,294,735 | 241 | 65,267,294 | 1,336 | 81,562,029 |

¹ \$160 million is due to FedEx site improvements.

Source: City of Middletown, Building Department

Land Use Summary

| Developed | | | Undeveloped | | |
|--------------------------|---------------|--------------|--------------------------|---------------|--------------|
| Land Use Category | Acres | % | Land Use Category | Acres | % |
| Residential | 6,080 | 21.9 | Agriculture | 2,135 | 13.4 |
| Commercial | 340 | 1.2 | Woodland/Vacant | 9,765 | 61.3 |
| Industrial | 1,030 | 3.7 | Parks/Open Space | 4,041 | 25.3 |
| Other | 20,326 | 73.2 | Other | - | - |
| Total Area | 27,776 | 100.0 | | 15,941 | 100.0 |

Source: City of Middletown, Planning and Zoning Department.

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IV. Revenue and Tax Policy

The maintenance of an equitable tax base and the location and appraisal of all real and personal property within the City for inclusion onto the Grand List is the responsibility of the Tax Assessor. The Grand List represents the total of assessed values for all taxable and tax exempt real estate, taxable personal property and motor vehicles located within the City on October 1st. A Board of Assessment Appeals determines whether adjustments to the Assessor's list on assessments under appeal are warranted. The City completed a revaluation of all real estate, both taxable and exempt, for the October 1, 2017 Grand List.

Assessments for real estate are computed at 70% of the estimated market value at the time of the last revaluation, while assessments for motor vehicles and personal property are computed at 70% of the current fair market value.

Section 12-62 of the Connecticut General Statutes establishes the revaluation cycle for Connecticut municipalities. The law requires a revaluation every five years and a general revaluation based on physical observation where the preceding revaluation in the five year cycle was a statistical revaluation. Section 12-62 also imposes a penalty on municipalities that fail to effect revaluations as required, with certain exceptions. Municipalities may choose to phase-in real property assessment increases resulting from a revaluation, but such phase in must be implemented in less than five assessment years.

When a new structure or modification to an existing structure is undertaken, the Assessor's Office receives a copy of the permit issued by the Building Inspector. A physical appraisal is then completed and the structure classified and priced from a schedule developed as of the revaluation. Property depreciation and obsolescence factors are also considered when arriving at an equitable value.

Motor vehicle lists are furnished to the City by the State of Connecticut and appraisals of motor vehicles are accomplished in accordance with an automobile price schedule developed by the Connecticut Association of Assessing Officials and as recommended by the State Office of Policy and Management. Section 12-71b of the Connecticut General Statutes provides that motor vehicles which are registered with the Commissioner of Motor Vehicles after the October 1 assessment date but before the next August 1 are subject to a property tax as if the motor vehicle had been included on the October 1 Grand List. The tax is prorated, and the pro-ration is based on the number of months of ownership between October 1 and the following July 31. Cars purchased in August and September are not taxed until the next October 1 Grand List. If the motor vehicle replaces a motor vehicle that was taxed on the October Grand List, the taxpayer is entitled to certain credits.

Connecticut General Statutes Section 12-71e, as amended, created a cap on the local property tax mill rate for vehicles for the assessment year commencing October 1, 2015, and each assessment year thereafter. Originally, Connecticut General Statutes Section 12-71e required a motor vehicle mill rate cap of 37 mills for the assessment year commencing October 1, 2015 and a cap of 32 mills for the assessment year commencing October 1, 2016 and thereafter. Connecticut General Statutes Section 12-71e was amended in October 2017 such that for the assessment year commencing October 1, 2016, the mill rate for motor vehicles was capped at 39 mills and for the assessment year commencing October 1, 2017, and each assessment year thereafter, the mill rate for motor vehicles was capped at 45 mills. Any municipality or special tax district is permitted to establish a mill rate for motor vehicles that is different from its mill rate for real property. No district or borough may set a motor vehicle mill rate that if combined with the motor vehicle mill rate of the municipality in which such district or borough is located would result in a combined motor vehicle mill rate (1) above 39 mills for the assessment year commencing October 1, 2016, or (2) above 45 mills for the assessment year commencing October 1, 2017, and each assessment year thereafter.

All personal property (furniture, fixtures, equipment, machinery and leased equipment) is assessed annually. An Assessor's check and audit is completed periodically. Assessments for both personal property and motor vehicles are computed at seventy percent (70%) of present market value.

Property taxes are levied on all assessed property on the Grand List of October 1 prior to the beginning of the fiscal year. At the discretion of the City and for the convenience of the taxpayer, tax bills are payable in two installments - July and January. A margin against delinquencies, legal reductions, and Grand List adjustments, such as assessor errors, is provided by including a modest estimate for prior year's delinquent taxes when computing anticipated property tax revenue from the current levy. A modest estimate for interest and lien fees anticipated to be collected during the fiscal year is normally included as a revenue item in the budget. Delinquent taxes are billed at least twice a year, with interest charged at the rate of 1½ percent per month. In accordance with state law, the oldest outstanding tax is collected first. Outstanding real estate tax accounts are automatically liened each year in June, with legal demands and alias tax warrants used in the collection of personal property and motor vehicle tax bills.

**Comparative Assessed Valuations
Last 10 Years
(000s)**

| Grand List as of 10/1 | Residential Real Property (%) | Commercial & Industrial Real Property (%) | Other Real Property (%) | Personal Property (%) | Motor Vehicles (%) | Gross Taxable Grand List (000s) | Exemptions Veterans Relief and Elderly | Net Taxable Grand List (000s) | Percent Growth |
|------------------------------|--------------------------------------|--|--------------------------------|------------------------------|---------------------------|--|---|--------------------------------------|-----------------------|
| 2017 ¹ | 47.4 | 27.9 | 0.9 | 16.1 | 7.7 | \$ 3,694,257 | \$ 244,465 | \$ 3,449,792 | 3.46% |
| 2016 | 49.5 | 24.6 | 1.1 | 16.8 | 8.0 | 3,564,056 | 229,624 | 3,334,432 | 0.15% |
| 2015 | 49.8 | 24.4 | 1.2 | 16.6 | 8.0 | 3,534,691 | 205,407 | 3,329,284 | 1.02% |
| 2014 | 50.0 | 24.8 | 1.4 | 15.9 | 7.9 | 3,496,683 | 200,859 | 3,295,824 | -0.57% |
| 2013 ¹ | 50.1 | 23.5 | 2.6 | 15.8 | 8.0 | 3,491,254 | 176,612 | 3,314,642 | -7.23% |
| 2012 | 55.3 | 20.1 | 3.3 | 14.1 | 7.2 | 3,738,096 | 165,054 | 3,573,042 | -0.25% |
| 2011 | 55.1 | 20.0 | 3.4 | 14.2 | 7.3 | 3,738,891 | 156,838 | 3,582,053 | 1.25% |
| 2010 | 54.9 | 21.7 | 3.3 | 13.2 | 6.9 | 3,744,146 | 206,417 | 3,537,729 | 0.88% |
| 2009 | 55.4 | 21.1 | 3.9 | 12.8 | 6.8 | 3,689,485 | 182,522 | 3,506,963 | 0.12% |
| 2008 | 56.2 | 21.5 | 3.1 | 12.3 | 6.9 | 3,628,156 | 125,555 | 3,502,601 | 0.71% |

¹ Revaluation.

Note: Figures are prior to valuation hearings before the City of Middletown's Board of Assessment Appeals.

Source: City of Middletown, Assessor's Office.

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**Exempt Property
Assessed Value**

| Public | As of 10/1/17 ¹ |
|---|-----------------------------------|
| Federal | \$ 14,666,270 |
| City of Middletown | 242,394,950 |
| State of Connecticut | 354,430,030 |
| Volunteer Fire Companies | 1,699,710 |
| Sub-Total Public | \$ 613,190,960 |
| Private | |
| Scientific, Educational, Historical, Charitable | \$ 26,901,270 |
| Cemeteries | 2,440,260 |
| Church, Relig School & Parishes | 107,056,320 |
| Middlesex Memorial Hospital | 231,256,930 |
| Weslyan University | 374,520,950 |
| Healthcare | 5,845,420 |
| Sub-Total Private | 748,021,150 |
| Total Exempt Property | \$1,361,212,110 |
| Percent Net Taxable Grand List | 39.46% |

¹ Net Taxable Grand List October 1, 2017 of \$3,449,792,000.

Source: City of Middletown, Assessor's Office.

Principal Taxpayers

| Name of Taxpayer | Nature of Business | Taxable Valuation | Percent of Net Taxable Grand List ¹ |
|---------------------------------------|---------------------------|------------------------------|---|
| Eversource | Utility | \$ 145,150,320 | 4.21% |
| Aetna Life | Insurance | 83,756,390 | 2.43% |
| Kleen Energy Systems LLC..... | Utility | 63,984,690 | 1.85% |
| United Technologies | Manufacturing | 50,398,500 | 1.46% |
| Middletown Power LLC | Utility | 44,497,850 | 1.29% |
| FedEx Ground Package System Inc. | Delivery Service | 37,798,080 | 1.10% |
| Northwood Apt Assoc LLC..... | Apartments | 30,363,840 | 0.88% |
| Chestnut Hill Apt Assoc LLC..... | Apartments | 29,706,980 | 0.86% |
| Baker Middletown LLC | Apartments | 22,755,720 | 0.66% |
| Fairfield Midtown Brook L.P. | Apartments | 22,651,910 | 0.66% |
| Total | | \$ 531,064,280 | 15.39% |

¹ Net Taxable Grand List October 1, 2017 of \$3,449,792,000.

Source: City of Middletown, Assessor's Office.

Property Tax Levies and Collections

| Grand List Year | Fiscal Year Ending 6/30 | Net Taxable | | Total Adjusted Tax Levy ² | Uncollected | | | |
|--------------------|----------------------------|-----------------------|---------------------------|--|----------------------------|------|--------------------|------|
| | | Grand List (000's) | Mill Rate ¹ | | End of Each Fiscal Year | % | As of 6/30/2017 | % |
| 2016 | 2018 | \$ 3,334,432 | 33.90 | \$ 113,037,245 | <i>IN COLLECTION</i> | | | |
| 2015 | 2017 | 3,329,284 | 33.30 | 110,865,157 | \$ 2,787,255 | 2.51 | \$ 2,787,255 | 2.51 |
| 2014 | 2016 | 3,295,824 | 32.60 | 105,992,759 | 2,493,973 | 2.35 | 1,263,608 | 1.19 |
| 2013 ³ | 2015 | 3,314,642 | 32.70 | 106,347,434 | 2,413,986 | 2.27 | 851,920 | 0.80 |
| 2012 | 2014 | 3,573,042 | 32.70 | 97,903,736 | 2,141,093 | 2.19 | 498,299 | 0.51 |
| 2011 | 2013 | 3,582,053 | 27.70 | 95,368,085 | 2,055,921 | 2.16 | 280,966 | 0.29 |
| 2010 | 2012 | 3,537,729 | 26.90 | 94,389,077 | 1,933,908 | 2.05 | 171,672 | 0.18 |
| 2009 | 2011 | 3,506,963 | 26.10 | 94,054,102 | 1,954,569 | 2.08 | 117,639 | 0.13 |
| 2008 | 2010 | 3,502,601 | 26.40 | 88,897,771 | 1,904,320 | 2.14 | 68,840 | 0.08 |
| 2007 ³ | 2009 | 3,477,947 | 25.50 | 88,416,759 | 2,243,464 | 2.54 | 51,534 | 0.06 |
| 2006 | 2008 | 2,634,065 | 31.80 | 84,419,334 | 1,884,313 | 2.23 | 39,463 | 0.05 |

¹ Excluding Fire District.

Taxes due for the fiscal year are levied on the Grand List of October 1, payable in two installments, one-half July 1. If the first installment is not paid by August 1, the tax becomes delinquent and a penalty of 1 1/2 % per month (18% per annum) is charged from the due date.

³ Revaluation

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V. Debt Summary

Principal Amount of Bonded Indebtedness As of April 12, 2018 (Pro Forma)

| Purpose | Amount Outstanding¹ |
|---|---|
| General Purpose..... | \$ 64,119,230 |
| School..... | 3,682,770 |
| Sewer..... | 3,506,000 |
| State of Connecticut Clean Water Fund Loans | 17,364,365 |
| Water (Special Revenue Funds) | 5,787,000 |
| Long-Term Principal Bonded Debt..... | \$ 94,459,365 |
| <u>THIS ISSUE (Dated April 12, 2018)</u> | |
| General Purpose | \$ 9,662,500 |
| School | 337,500 |
| Total Bonds of This Issue..... | 10,000,000 |
| Grand Total - All Bonded Debt..... | \$ 104,459,365 |

¹ Excludes any underlying or overlapping debt.

Clean Water Fund Program

The City is a participant in the State of Connecticut's Clean Water Fund Program (General Statutes Sections 22a-475 *et seq.*, as amended) which provides financial assistance through a combination of grants and loans bearing interest at a rate of 2% per annum. All participating municipalities receive a grant of 20% and a loan of 80% of total eligible costs (with the exception of combined sewer overflow correction projects, which are financed with a 50% grant and a 50% loan).

Loans to each municipality are made pursuant to a Project Grant and Project Loan Agreement. Each municipality is obligated to repay only that amount which it draws down for the payment of project costs (an "Interim Funding Obligation"). Each municipality must deliver to the State an obligation secured by the full faith and credit of the municipality, and/or a dedicated source of revenue of such municipality.

Amortization of each loan is required to begin one year from the earlier of the project completion date specified in the Project Loan Agreement, or the actual project completion date. The final maturity of each loan is twenty years from the scheduled completion date. Principal and interest payments are payable: (1) in monthly installments commencing one month after the scheduled completion date; or (2) in a single annual installment representing 1/20 of total principal not later than one year from the project completion date specified in the Project Loan Agreement, the first year's date, and thereafter in monthly installments. Monthly installments may be level debt service or level principal payments. Loans made under loan agreements entered into prior to July 1, 1989 are repayable in annual installments. Borrowers may elect to make level debt service payments or level principal payments, and Borrowers may prepay their loans at any time prior to maturity without penalty.

The City has the following Clean Water Fund loans outstanding (numbers rounded):

| Project | Original 2% Loan Amount | 2% Loan Outstanding As of 4/12/18 |
|--------------------|------------------------------------|--|
| CWF 371-C..... | \$ 3,525,940 | \$ 620,838 |
| CWF 362-C | 1,574,008 | 570,578 |
| CWF 362-CD1 | 2,875,097 | 846,344 |
| CWF 207-CSL | 2,226,567 | 1,445,150 |
| CWF 487-DC | 17,019,167 | 13,881,455 |
| Total | \$ 27,220,779 | \$ 17,364,365 |

**Other Obligations
As of April 12, 2018
(Pro-Forma)**

In June 2009, the Common Council approved an ordinance to renew lease contracts with G.E. Capital for energy conservation improvements in connection with various Board of Education projects. The Council authorized \$3,699,542 in total appropriations for these projects with a fifteen year term at a rate of 5.1%. In December 2015, the Common Council approved a renegotiated lease with an interest rate of 2.15% and a nine year term ending in 2024 with Old National Bank.

In addition, the Board of Education has entered into a lease for copy machines as detailed below:

- \$611,580 beginning on August 1, 2014: 5-year lease maturing on August 1, 2018

Overlapping/Underlying Debt

Overlapping Debt

The City, along with the City of New Britain and the Towns of Berlin and Cromwell, is a member of The Mattabassett District, which was organized under a Special Act of the 1961 Session of the Connecticut General Assembly. The constituent municipalities approved the District’s charter dated May 1963. The function of the District is to operate and maintain a water pollution control system, and it is governed by a District Board composed of twelve members appointed by the constituent municipalities. The District currently has \$69,411,486 debt outstanding to finance its sewage treatment plant expansion and upgrade (the “Project”) consisting of an \$67,064,486 IFO and a \$2,346,940 PLO. It is estimated that, based on future treatment plant reserved capacity, the City’s annual assessment from the District will include 31.5% of CWF debt service. The responsibility for payment of District expenses, including debt service, is the individual sewer user who is billed directly by the District.

See “Clean Water Fund Program,” “Summary of Municipal Services,” and “Water and Sewers” herein.

**Mattabassett District
Statement of Overlapping Debt
As of June 30, 2017**

| | |
|---|---------------------------|
| Net Overlapping Debt for All Member Towns | \$69,411,486 ¹ |
| Middletown’s Percent of Overlapping Debt | 31.50% |
| Middletown’s Share of Overlapping Debt | \$21,864,618 |

¹ June 30, 2017 Annual Financial Report, Mattabassett District.

Underlying Debt

The City reports the South Fire District, Westfield Fire District and Central City as underlying debt. The fire districts are separate and distinct organizations operating under State statutes, each district responsible for funding its respective operating and capital budgets, setting tax rates, and authorizing and servicing its debt obligations. As of April 12, 2018, none of the districts have any debt outstanding.

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General Fund Annual Bonded Debt Maturity Schedule
As of April 12, 2018
(Pro Forma)

| Fiscal Year Ended 6/30 | Existing Debt ² | | | Pro-forma | | Cumulative Principal Retired (%) |
|-----------------------------------|-----------------------------------|----------------------|----------------------|----------------------------------|----------------------------|---|
| | Principal | Interest | Total | This Issue: The Bonds | Total Principal | |
| 2018 ¹ | \$ 1,130,940 | \$ 160,035 | \$ 1,290,975 | \$ - | \$ 1,130,940 | 1.15 |
| 2019 | 12,190,810 | 3,291,321 | 15,482,131 | - | 12,190,810 | 13.50 |
| 2020 | 10,889,410 | 2,908,083 | 13,797,492 | 1,000,000 | 11,889,410 | 25.55 |
| 2021 | 10,889,410 | 2,517,485 | 13,406,894 | 1,000,000 | 11,889,410 | 37.60 |
| 2022 | 9,954,655 | 2,055,911 | 12,010,566 | 1,000,000 | 10,954,655 | 48.70 |
| 2023 | 9,112,502 | 1,633,931 | 10,746,433 | 1,000,000 | 10,112,502 | 58.95 |
| 2024 | 9,112,502 | 1,243,573 | 10,356,075 | 1,000,000 | 10,112,502 | 69.20 |
| 2025 | 6,502,502 | 860,204 | 7,362,707 | 1,000,000 | 7,502,502 | 76.80 |
| 2026 | 6,307,065 | 583,034 | 6,890,099 | 1,000,000 | 7,307,065 | 84.21 |
| 2027 | 3,478,065 | 326,980 | 3,805,045 | 1,000,000 | 4,478,065 | 88.75 |
| 2028 | 2,778,065 | 212,379 | 2,990,444 | 1,000,000 | 3,778,065 | 92.57 |
| 2029 | 878,065 | 118,771 | 996,836 | 1,000,000 | 1,878,065 | 94.48 |
| 2030 | 878,065 | 101,166 | 979,231 | - | 878,065 | 95.37 |
| 2031 | 878,065 | 83,562 | 961,627 | - | 878,065 | 96.26 |
| 2032 | 878,065 | 65,961 | 944,026 | - | 878,065 | 97.15 |
| 2033 | 803,316 | 48,852 | 852,168 | - | 803,316 | 97.96 |
| 2034 | 778,399 | 33,158 | 811,557 | - | 778,399 | 98.75 |
| 2035 | 778,399 | 17,546 | 795,946 | - | 778,399 | 99.54 |
| 2036 | 454,066 | 3,027 | 457,093 | - | 454,066 | 100.00 |
| Total | \$ 88,672,365 | \$ 16,264,980 | \$104,937,345 | \$ 10,000,000 | \$ 98,672,365 | |

¹ Excludes principal payments of \$11,960,397 and interest payments of \$3,627,783 made between July 1, 2017 and April 12, 2018.

² Includes Clean Water Fund loans, but excludes any capital leases and self-supporting water debt. See "Special Revenue Funds Self-Supporting Debt" below.

Note: All sewer bonds issued by the City of Middletown for sewer projects (including loans issued under the State of Connecticut Clean Water Fund Program) are paid by the General Fund. Bond ordinances approved by the City indicate that the bonds shall be general obligations of the City and that the full faith and credit of the City is pledged towards the payment of principal and interest on the bonds.

Special Revenue Funds Self-Supporting Debt
As of April 12, 2018
(Pro Forma)

| Fiscal Year Ending 6/30 | Water Fund | | | Total Principal | Cumulative % of Principal Retired (Pro Forma) |
|------------------------------------|--------------------|-------------------|--------------------|----------------------------|--|
| | Principal | Interest | Total | | |
| 2018 ¹ | \$ 270,750 | \$ 24,368 | \$ 295,118 | \$ 270,750 | 4.68% |
| 2019 | 960,950 | 237,039 | 1,197,989 | 960,950 | 21.28% |
| 2020 | 957,350 | 207,149 | 1,164,499 | 957,350 | 37.83% |
| 2021 | 957,350 | 170,158 | 1,127,508 | 957,350 | 54.37% |
| 2022 | 686,600 | 125,674 | 812,274 | 686,600 | 66.23% |
| 2023 | 576,000 | 94,200 | 670,200 | 576,000 | 76.19% |
| 2024 | 576,000 | 67,150 | 643,150 | 576,000 | 86.14% |
| 2025 | 401,000 | 40,100 | 441,100 | 401,000 | 93.07% |
| 2026 | 401,000 | 20,050 | 421,050 | 401,000 | 100.00% |
| Total | \$5,787,000 | \$ 985,887 | \$6,772,887 | \$5,787,000 | |

¹ Excludes principal payments of \$5,787,000 and interest payments of \$985,887 made between July 1, 2017 and April 12, 2018.

**Debt Statement
Principal Only
As of April 12, 2018
(Pro Forma)**

Long-Term Debt Outstanding:

| | |
|--|-----------------------|
| General Purpose (Includes This Issue)..... | \$ 73,781,730 |
| Schools (Includes This Issue)..... | 4,020,270 |
| Sewers..... | 3,506,000 |
| Water | 5,787,000 |
| State of Connecticut Clean Water Fund Loans | 17,364,365 |
| Total Long-Term Debt | 104,459,365 |
| Short-Term Debt | - |
| Total Direct Debt | 104,459,365 |
| Overlapping/Underlying Debt | 21,864,618 |
| Total Overall Debt | 126,323,983 |
| Less: Special Revenue Fund - Self-Supporting Water Bonds | (5,787,000) |
| Total Overall Net Debt | \$ 120,536,983 |

¹ The State of Connecticut Bureau of School Building Grants will reimburse the City for eligible principal and interest costs over the life of any bonds issued for projects authorized by the General Assembly prior to July 1, 1996. School construction grants receivable stated above are for principal reimbursement only.

Note: Excludes capital lease.

**Current Debt Ratios
As of April 12, 2018
(Pro Forma)**

| | |
|---|-----------------|
| Population ² | 46,933 |
| Net Taxable Grand List (10/1/17) | \$3,449,792,000 |
| Estimated Full Value (70%) | \$4,928,274,286 |
| Equalized Net Taxable Grand List (10/1/15) ¹ | \$4,904,971,237 |
| Income per Capita (2000) ² | \$25,720 |
| Income per Capita (2010) ² | \$31,850 |
| Income per Capita (2016) ³ | \$35,074 |

| | Total Overall Debt | Total Overall Net Debt |
|---|-------------------------------|-----------------------------------|
| Per Capita | \$2,691.58 | \$2,568.28 |
| Ratio to Net Taxable Grand List | 3.66% | 3.49% |
| Ratio to Estimated Full Value | 2.56% | 2.45% |
| Ratio to Equalized Grand List | 2.58% | 2.46% |
| Debt per Capita to Income per Capita 2000..... | 10.46% | 9.99% |
| Debt per Capita to Income per Capita 2010 | 8.45% | 8.06% |
| Debt per Capita to Income per Capita 2016 | 7.67% | 7.32% |

¹ Office of Policy and Management, State of Connecticut.

² U.S. Department of Commerce Bureau of the Census.

³ American Community Survey, 2012-2016

Maturities

General obligation bonds (serial and term) are required to be payable in maturities wherein a succeeding maturity may not exceed any prior maturity by more than 50% or aggregate annual principal and interest payments must be substantially equal. The term of an issue may not exceed twenty years except in the case of sewer and certain school building bonds, which may mature in up to thirty years.

Temporary Financing

When general obligation bonds have been authorized, bond anticipation notes may be issued maturing in not more than two years (CGS Sec. 7-378). Temporary notes may be renewed up to ten years from their original date of issue as long as all project grant payments are applied toward payment of temporary notes when they become due and payable, and the legislative body schedules principal reductions starting at the end of the third and continuing in each subsequent year during which such temporary notes remain outstanding, in an amount equal to a minimum of 1/20th (1/30th for sewer projects and certain school construction projects) of the estimated net project cost (CGS Sec. 7-378a). The term of the bond issue is reduced by the amount of time temporary financing exceeds two years.

Sewer notes issued in anticipation of State and/or federal grants may be funded beyond ten years from the initial borrowing if a written commitment exists for such State and/or Federal grants, for terms not to exceed six months until such time that the final grant payments are received (CGS Sec. 7-378b).

Temporary notes may also be issued for up to fifteen years for certain capital projects associated with the operation of a waterworks system (CGS Sec. 7-244a) or a sewage system (CGS Sec. 7-264a). In the first year following the completion of the project(s), or in the sixth year (whichever is sooner), and in each year thereafter, the notes must be reduced by at least 1/15th of the total amount of the notes issued by funds derived from certain sources of payment. Temporary notes may be issued in one year maturities for up to fifteen years in anticipation of sewer assessments receivable, such notes to be reduced annually by the amount of assessments received during the preceding year (CGS Sec. 7-269a).

Limitation of Indebtedness

Municipalities shall not incur indebtedness through the issuance of bonds, which will cause aggregate indebtedness by class to exceed the following:

| | |
|---------------------------------|--|
| General Purposes: | 2.25 times annual receipts from taxation |
| School Purposes: | 4.50 times annual receipts from taxation |
| Sewer Purposes: | 3.75 times annual receipts from taxation |
| Urban Renewal Purposes: | 3.25 times annual receipts from taxation |
| Unfunded Past Pension Purposes: | 3.00 times annual receipts from taxation |

“Annual receipts from taxation” (the "Base,") are defined as total tax collections (including interest and penalties) and state payments for revenue losses under Sections 12-129d and 7-528 of the Connecticut General Statutes. In no case shall total indebtedness exceed seven times the Base.

The statutes also provide for exclusion from the debt limit calculation of debt issued in anticipation of taxes; for the supply of water, gas, electricity; for the construction of subways for cables, wires, and pipes; for the construction of underground conduits for cables, wires, and pipes; and for two or more of such purposes. There are additional exclusions for indebtedness issued in anticipation of the receipt of proceeds from assessments levied upon property benefited by any public improvement and for indebtedness issued in anticipation of the receipt of proceeds from state or federal grants evidenced by a written commitment or contract but only to the extent such indebtedness can be paid from such proceeds.

**Statement of Statutory Debt Limitation
As of April 12, 2018
(Pro Forma)**

| | |
|--|-----------------------|
| Total Tax Collections (Including interest and lien fees received by the Tax Collector for the year ended June 30, 2017 (taxes are levied for General Fund, Fire District and Special Parking District)..... | \$ 125,238,000 |
| Reimbursement for Revenue Loss On: | |
| Tax Relief for Disabled, Freeze and Owners' Program | 4,000 |
| Base for Debt Limitation Computation | <u>\$ 125,242,000</u> |

| Debt Limitation: | General Purposes | Schools | Sewers | Urban Renewal | Past Pension |
|---|-----------------------------|----------------------|----------------------|----------------------|-----------------------|
| 2 1/4 times base | \$281,794,500 | \$ - | \$ - | \$ - | \$ - |
| 4 1/2 times base | - | 563,589,000 | - | - | - |
| 3 3/4 times base | - | - | 469,657,500 | - | - |
| 3 1/4 times base | - | - | - | 407,036,500 | - |
| 3 times base | - | - | - | - | 375,726,000 |
| Total Debt Limitation | <u>281,794,500</u> | <u>563,589,000</u> | <u>469,657,500</u> | <u>407,036,500</u> | <u>375,726,000</u> |
| Less Indebtedness: ¹ | | | | | |
| Outstanding Bonds | 64,119,230 | 3,682,770 | 3,506,000 | - | - |
| Bonds: This Issue | 9,662,500 | 337,500 | - | - | - |
| CWF Program Loans | - | - | 17,364,365 | - | - |
| Underlying./Overlapping Debt. ³ | - | - | 21,864,618 | - | - |
| Interim CWF Program Loans | - | - | - | - | - |
| Authorized But Unissued Debt | 45,330,730 | 219,450 | 10,911,554 | - | - |
| Total Indebtedness | <u>119,112,460</u> | <u>4,239,720</u> | <u>53,646,537</u> | <u>-</u> | <u>-</u> |
| Less: School Grants Receivable ² | - | - | - | - | - |
| Open Space Grant Commitment | - | - | - | - | - |
| Net Debt for Calculation of Debt Limitation. | <u>119,112,460</u> | <u>4,239,720</u> | <u>53,646,537</u> | <u>-</u> | <u>-</u> |
| Debt Limitation in Excess of Outstanding And Authorized Debt | <u>\$162,682,040</u> | <u>\$559,349,280</u> | <u>\$416,010,963</u> | <u>\$407,036,500</u> | <u>\$ 375,726,000</u> |

¹ Excludes \$5,787,000 total principal amount of water bonds outstanding as of April 12, 2018 that is excludable from debt limit calculations per Connecticut General Statutes. Also excludes approximately \$4,561,566 of authorized but unissued water debt.

² The State of Connecticut Bureau of School Building Grants will reimburse the City for eligible principal and interest costs over the life of any bonds issued for projects authorized by the General Assembly prior to July 1, 1996. School construction grants receivable stated above are for principal reimbursement only. See "School Projects" herein.

³ Based on City's 31.5% share of Mattabassett Districts currently outstanding CWF project funding.

Note: In no case shall total indebtedness exceed seven times the annual receipts from taxation or \$876,694,000.

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**Authorized but Unissued Debt
As of April 12, 2018
(Pro Forma)**

| Project | Amount Authorized | This Issue: Bonds | Authorized But Unissued Debt (after issuance of the Bonds) |
|--|--------------------------|--------------------------|---|
| Middletown High School | \$ 42,100,000 | \$ - | \$ 69,000 |
| Road Improvements 2007 | 9,975,000 | - | 206,400 |
| CSO & Surface Improvements 2001 ² | 9,900,000 | - | 2,576,000 |
| Road Improvements 2005 | 9,850,000 | 36,300 | 424,700 |
| CSO Surface Improvements 2007 ³ | 8,620,000 | - | 3,293,000 |
| Route 66, Westfield, Water & Sewer Improvements..... | 4,500,000 | - | 603,700 |
| Open Space 2002 ¹ | 3,000,000 | - | 15,700 |
| Sanitary Sewers Infiltration/Inflow ⁴ | 2,500,000 | - | 701,000 |
| Public Safety Software (Dispatch System, etc.) (2010)..... | 745,000 | - | 5,500 |
| I.T. Infrastructure upgrades (2010) | 745,000 | - | 4,800 |
| Water Improvements/Charles Bacon (2010)..... | 725,000 | - | 219,000 |
| Sewer Pump Station & Equip. (2010)..... | 470,000 | - | 24,200 |
| John Roth Water Treatment Plant (2010)..... | 310,000 | - | 259,400 |
| Water System Controls (2010)..... | 250,000 | - | 69,400 |
| Water Improv/Leak Detectn/Cap Impr (2010)..... | 250,000 | - | 51,900 |
| Eckersely Hall Building..... | 750,000 | 7,100 | 5,500 |
| 2011 Road Bond..... | 14,170,000 | - | 2,236,700 |
| IT Storage Infrastructure..... | 736,000 | - | 68,150 |
| Various Tech Improvements-Chambers ⁵ | 625,000 | 17,150 | 61,400 |
| Russell Library..... | 749,250 | - | 56,800 |
| Revaluation..... | 750,000 | 76,600 | 57,400 |
| Capital Non-recurring-2012..... | 585,000 | - | 48,800 |
| Mattabassett ⁶ | 37,000,000 | - | - |
| Senior Center ⁷ | 4,850,000 | 110,800 | 424,900 |
| City Public Parking | 599,000 | 77,500 | 80,400 |
| Parking Security..... | 600,000 | 264,000 | 94,600 |
| Street lights..... | 1,150,000 | 5,050 | 31,500 |
| Road Bond-2013..... | 15,200,000 | 1,007,500 | 6,681,500 |
| PW Capital Non-recurring-2013 | 750,000 | - | 700 |
| Main St water..... | 1,930,000 | - | 250,700 |
| WWMS track & tennis..... | 749,000 | 302,250 | 31,700 |
| BOE MHS wired/wireless..... | 343,000 | 35,250 | 12,750 |
| Mattabassett force main ⁶ | 3,000,000 | - | 1,882,200 |
| CSO & road surface ⁸ | 7,750,000 | - | 6,597,000 |
| City security..... | 750,000 | 100,750 | 149,200 |
| School security | 750,000 | - | 106,000 |
| Middle St. sewers & potable water 2015..... | 1,300,000 | - | 69,500 |
| Parks - 2015 | 33,450,000 | 4,436,050 | 23,838,900 |
| Mattabassett referendum - 2015 ⁹ | 15,000,000 | - | - |
| Public Works Capital Non-recurring-2015..... | 727,000 | - | 133,000 |
| Firing Range - 2015 | 750,000 | - | 745,000 |
| Sidewalks-2016..... | 500,000 | - | 350,000 |
| Bullet trap system firearms facility-2016..... | 750,000 | - | 750,000 |
| Wesleyan tennis courts-2016 | 750,000 | - | 1,000 |
| W&S Main St, Columbus, Mazzotta, Erin St-2016..... | 4,255,000 | - | 4,255,000 |
| Central Communications system-2016..... | 12,100,000 | 2,519,000 | 2,781,000 |
| Police cruisers-2016..... | 657,000 | 156,000 | 1,000 |
| Public Works Capital Non-recurring-2016..... | 750,000 | 496,000 | 4,000 |
| Military Museum | 300,000 | 151,200 | 148,800 |
| Public Works Capital Non-recurring-2017 | 746,000 | 201,500 | 544,500 |
| Totals..... | \$ 259,761,250 | \$ 10,000,000 | \$ 61,023,300 |

¹ The City expects to receive a grant in the amount of approximately \$405,000 for this project.

² The City expects to receive \$4,774,000 in financial assistance from the State of Connecticut through a combination of a 20% grant and a 80% loan.

³ The City expects to receive \$1,993,500 in financial assistance from the State of Connecticut in the form of a loan.

⁴ The City expects to receive a grant in the amount of approximately \$500,000 for this project.

⁵ The City expects to receive a grant in the amount of approximately \$83,500 for this project.

⁶ The City expects the majority of the project to be funded by grants and loans from the State of Connecticut

⁷ The City expects approximately \$1,454,000 in grants for this project from various sources.

⁸ The City expects to receive approximately \$1,150,000 in financial assistance from the State of Connecticut in the form of a loan.

⁹ The City expects to receive approximately \$15,000,000 in financial assistance from the State of Connecticut.

**Ratio of Annual Debt Service Expenditures
to Total General Government Expenditures**

| Fiscal Year Ended 6/30 | Total Debt Service (000's) | Total Governmental Expenditures (000's) | Ratio of Total Debt Service Expenditures To Total Governmental Expenditures |
|-----------------------------------|---------------------------------------|--|--|
| 2016 | \$14,749 | \$226,367 | 6.52% |
| 2015 | 15,190 | 216,737 | 7.01% |
| 2014 | 12,866 | 205,509 | 6.26% |
| 2013 | 13,149 | 205,623 | 6.39% |
| 2012 | 12,889 | 185,455 | 6.95% |
| 2011 | 13,065 | 188,812 | 6.92% |
| 2010 | 14,465 | 178,869 | 8.09% |

Note: "Total Governmental Expenditures" are derived by summing the expenditures from all governmental fund types.

Source: Annual Financial Reports, City of Middletown.

Ratios of Net Long-Term Debt to Valuation, Population and Income

| Fiscal Year Ended 6/30 | Grand List 10/1 | Net Assessed Value (000's) | Estimated Full Value (000's) | Net Long- Term Debt (000's)¹ | Ratio of Net Long- Term Debt to Assessed Value | Ratio of Net Long- Term Debt to Estimated Actual Value | Population² | Ratio of Net Long-Term Debt per Capita to Income³ | |
|---|--------------------------------|---------------------------------------|---|--|---|---|-------------------------------|---|-------|
| 2017 | 2015 | \$ 3,329,284 | \$ 4,756,120 | \$ 92,642 | 2.78% | 1.95% | 46,933 | \$1,974 | 5.63% |
| 2016 | 2014 | 3,295,824 | 4,708,320 | 86,354 | 2.62% | 1.83% | 46,933 | 1,840 | 5.25% |
| 2015 | 2013 | 3,314,642 | 4,735,203 | 90,559 | 2.73% | 1.91% | 46,933 | 1,930 | 5.50% |
| 2014 | 2012 | 3,573,042 | 5,104,346 | 70,905 | 1.98% | 1.39% | 47,489 | 1,493 | 4.26% |
| 2013 | 2011 | 3,582,053 | 5,117,219 | 78,820 | 2.20% | 1.54% | 47,489 | 1,660 | 4.73% |
| 2012 | 2010 | 3,537,729 | 5,053,899 | 61,618 | 1.74% | 1.22% | 47,489 | 1,298 | 3.70% |
| 2011 | 2009 | 3,506,963 | 5,009,947 | 71,505 | 2.04% | 1.43% | 47,489 | 1,506 | 4.29% |
| 2010 | 2008 | 3,502,601 | 5,003,716 | 72,482 | 2.07% | 1.45% | 47,489 | 1,526 | 4.35% |
| 2009 | 2007 | 3,477,947 | 4,968,496 | 63,272 | 1.82% | 1.27% | 47,489 | 1,332 | 3.80% |

¹ Long-Term debt less school building construction grants receivable.

² American Community Survey, 2012-2016.

³ American Community Survey, 2012-2016 Income Per Capita \$35,074.

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VI. Financial Administration

Audit

The City, pursuant to local ordinance and provisions of the Connecticut General Statutes, is required to undergo an annual audit by an independent public accountant. The auditor, appointed by the Common Council, is required to conduct the audit under the guidelines outlined by the Office of Policy and Management, which also receives a copy of the audit report. For the fiscal year ended June 30, 2017, the financial statements of the various funds of the City were audited by Blum, Shapiro & Company, P.C., West Hartford, Connecticut. The City prepares a Comprehensive Annual Financial Report and has been a recipient of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for each year since 1983.

Accounting and Budgetary Basis

By Charter, the responsibility for the financial function in Middletown rests with the Director of Finance & Revenue Services. The Director of Finance & Revenue Services administers a broad and integral fiscal operation consisting of treasury management, budget formulation and execution (including grants administration), appropriation and general accounting, revenue collections, electronic data processing, materials administration and purchasing management. Under the Charter, the Mayor is required to present his annual fiscal budget to the Common Council by April 1 of each year. The Common Council has the power to add, delete, increase or decrease any item in the Mayor's proposed budget and is required to adopt a budget by May 15 of each year.

The City's accounting records for general governmental operations are maintained on a modified accrual basis with all revenues being recorded when they become available and measurable and expenditures being recorded when incurred utilizing the encumbrance method. Property taxes are carried as a receivable and shown as an asset on the general fund balance sheet. Budgetary control is maintained on a full encumbrance system: all proposed expenditures require a purchase requisition and purchase order, and funds are recorded as encumbered when the purchase order is issued. Expenditures are recorded upon issuance of a check drawn upon the City. Each purchase order and voucher for personal services (wages and salaries) is subject to a pre-audit for funds' availability, and commitments which exceed appropriation balances, as defined by the City Charter and Common Council ordinance, are not processed until transfers or supplemental appropriations are made available. Encumbrances outstanding at year-end are reported as reservation of fund balance since they do not constitute expenditures or liabilities.

Appropriations for each department are enacted by ordinance based upon a broad character of expenditure breakdown (personal services, non-personal expense, capital outlay, sundry expense), although the budget is prepared and appropriation accounting exercised on an activity, sub-activity, and detailed line-item basis within each department. It exactly parallels the appropriation accounting structure utilized throughout the fiscal year.

Liability Insurance

The City maintains liability insurance coverage, as listed below:

General Liability \$3,000,000 general aggregate -- \$1,000,000 each occurrence; Automobile Liability \$1,000,000 each occurrence; Uninsured/Underinsured Motorist Coverage \$40,000 each occurrence. No deductible applies to this coverage.

Automobile Physical Damage, subject to a \$25,000 deductible.

Employee Benefits Liability (claims made) \$1,000,000 each claim/aggregate, subject to a \$1,000 deductible.

Law Enforcement Liability with a limit each wrongful act/aggregate of \$1,000,000, subject to a \$50,000 deductible.

School Leaders Legal (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

Public Officials Liability (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

Personal injury & Advertising Injury (claims made) coverage for \$1,000,000.

Medical Payments (claims made) for bodily injury sustained on premises owned or rented by the City up to \$10,000 regardless of fault.

Excess Liability (excess over General Liability, Automobile Liability, Employee Benefits Liability, Law Enforcement Liability, School Leaders Legal, and Public Officials Liability) with a limit of \$10,000,000 each occurrence and aggregate (where applicable).

The City further maintains the required bond for the Tax Collector.

The City further maintains the required bond for the Superintendent of Highways.

Workers' Compensation Insurance

The City self-insures its Workers' Compensation Program, which is comprised of two parts: third party claims administration and managed medical care, both of which are administered by an outside vendor hired by the City.

Workers' Compensation and Employers' Liability coverage (amounts not rounded), subject to a self-insured retentions per occurrence of \$650,000 (Police & Fire) and \$500,000 (All Other) with maximum limit of indemnity per occurrence statutory and \$1,000,000 Employers Liability.

Investment Policy for Operating Funds

The City's investment policy applies to all investment activities of the City except for the employee retirement system funds, which are organized and administered separately. All City funds under the control of the Director of Finance & Revenue Services, including the General Fund, Special Revenue Funds, Capital Projects Fund, Trust and Agency Funds, and other funds that may be created from time to time, are administered in accordance with the provisions of the investment policy.

Management responsibility for the investment program is vested in the Director of Finance & Revenue Services who is responsible for all transactions undertaken and has established a system of controls to regulate the activities of subordinate officials. The standard of prudence used by investment officials is that of the "prudent person" and is applied in the context of managing an overall portfolio.

The Director of Finance & Revenue Services prepares a periodic investment report that summarizes and describes the portfolio in terms of investment securities, maturities, risk characteristics and other features. Funds may be invested in: (a) U.S. Treasury bills; (b) Treasury notes or bonds maturing within one year; (c) certificates of deposit of bank and savings and loan associations maturing within one year; (d) repurchase agreements collateralized by U.S. Treasury securities; and (e) the State Short Term Investment Fund (STIF). Invested funds are diversified to eliminate the risk of loss resulting from the over-concentration of funds in a specific maturity, or a specific issuer.

City funds not under the direct control of the Director of Finance & Revenue Services and Treasurer are the responsibility of the director or head of that department until such time the funds are transferred and collected by the City Treasurer, disbursed, or maintained for which the fund has been established. The director or head of the department has established written procedures for the control of these funds.

In addition, the City monitors the risk based capital ratios and collateral requirements of the qualified public depositories, as defined by the Connecticut General Statutes, Section 36-382, for which it places deposits or makes investments.

Eligible investments for Connecticut municipalities are governed by the Connecticut General Statutes, Section 7-400 and 7-402. Please refer to Notes to the Financial Statements, Note 4 entitled "Cash, Cash Equivalents and Investments" regarding the City's cash and cash equivalent investments at June 30, 2017.

Other Post-Employment Benefits

The City, in accordance with various collective bargaining agreements, provides retiree medical benefits for the lifetime of the retired member and covered dependents. The plan covers City, Board of Education, Police and Fire employees as further defined in collective bargaining agreements and other written materials. Eligibility and premium sharing information is detailed in the various collective bargaining agreements. The City does not issue separate stand-alone financial statements for the plan.

The City currently pays for postemployment health care benefits on a pay-as-you-go basis and is funded on a self-insured basis and partially on an insured basis. As of June 30, 2011, the City established a trust fund to segregate assets to fund the liability associated with the post-employment benefits. Currently, the funding and payment of postemployment benefits are accounted for in an internal service fund. Over 15 years ago, the City developed a funding strategy setting aside \$50,000 annually in anticipation of the liability. In addition, the City contributed \$600,000 in fiscal year 2012-2013, \$500,000 in fiscal year 2013-2014, \$100,000 in fiscal year 2014-2015, \$600,000 in fiscal year 2015-2016, \$600,000 in fiscal year 2016-2017, and \$600,000 in fiscal year 2017-18. As of June 30, 2017 the City has set aside nearly \$11,500,000 million to fund this liability.

Actuarial valuations involve estimates of the value of reported amounts and assumption about the probability of the occurrence of future events. Assumptions include future employment, mortality, healthcare and other benefit cost trends. The Government Accounting Standards Board (“GASB”) has issued statements to establish financial reporting, liability calculation, along with the requirement to disclose the government’s funding strategy and progress.

The City’s annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 thirty years. The following table shows the components of the City’s annual OPEB cost for the year 2017, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation (asset):

| | |
|---|---------------------|
| Annual required contribution (ARC) | \$15,542,000 |
| Interest on net OPEB obligation | 3,280,000 |
| Adjustment to annual required contribution | <u>(2,591,000)</u> |
| Annual OPEB cost | 16,231,000 |
| Contributions made..... | <u>(10,751,000)</u> |
| Increase in net OPEB obligation | 5,480,000 |
| <i>Net OPEB Obligation, Beginning of Year</i> | <u>47,598,000</u> |
| <i>Net OPEB Obligation, End of Year</i> | \$53,078,000 |

For more information on OPEB, please refer to Appendix A – “Note 12. Postemployment Benefits” of the City’s General Purpose Financial Statements.

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**General Fund Revenues, Expenditures
and Changes in General Fund Balance**
Five-Year Summary of Audited Revenues and Expenditures (GAAP Basis)
and Current Budget (Budgetary Basis)
(000's)

| Revenues: | Budget 2017-18 | Actual 2016-17 | Actual 2015-16 | Actual 2014-15 | Actual 2013-14 | Actual 2012-13 |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Taxes | \$ 109,601 | \$ 109,846 | \$ 106,083 | \$ 106,476 | \$ 98,375 | \$ 95,674 |
| Licenses and Permits | 605 | 1,378 | 1,292 | 652 | 659 | 769 |
| Intergovernmental | 33,169 | 45,596 | 38,702 | 34,947 | 36,163 | 35,322 |
| Charges for Services | 4,441 | 4,752 | 5,506 | 4,769 | 3,982 | 4,143 |
| Investment income | 80 | 209 | 115 | 52 | 45 | 66 |
| Miscellaneous | 4,122 | 4,574 | 4,096 | 3,926 | 4,014 | 4,139 |
| Total Revenues | 152,018 | 166,355 | 155,794 | 150,822 | 143,238 | 140,113 |
| Expenditures: | | | | | | |
| General Government | 8,156 | 9,948 | 9,311 | 9,233 | 8,651 | 8,390 |
| Public Safety | 16,010 | 16,017 | 16,060 | 14,337 | 13,844 | 13,525 |
| Public Works | 6,694 | 4,995 | 4,728 | 5,020 | 4,552 | 4,515 |
| Health & Human Resources | 740 | 1,628 | 1,564 | 1,495 | 694 | 702 |
| Culture and Recreation | 3,886 | 5,238 | 5,389 | 5,283 | 4,843 | 5,171 |
| Employee Benefits and Insurance | 21,091 | 20,680 | 19,046 | 17,380 | 14,895 | 13,550 |
| Education | 81,325 | 93,117 | 85,369 | 82,531 | 82,259 | 79,052 |
| Other | 5,425 | 93 | - | - | 2,691 | 2,175 |
| Total Expenditures | 143,327 | 151,716 | 141,467 | 135,279 | 132,429 | 127,080 |
| Revenues over (under) expenditures | 8,691 | 14,639 | 14,327 | 15,543 | 10,809 | 13,033 |
| Other Financing Sources Uses: | | | | | | |
| Premiums on Bonds Issued | - | 2,862 | 830 | 5,287 | - | 3,647 |
| Operating Transfers In | 974 | 521 | 524 | 553 | 469 | 495 |
| Operating Transfers (Out) | (14,466) | (14,889) | (14,440) | (14,680) | (12,832) | (12,615) |
| Total other Financing Sources (uses) | (13,492) | (11,506) | (13,086) | (8,840) | (12,363) | (8,473) |
| Revenues and other financing sources over (under) expenditures and other financing uses ... | (4,801) | 3,133 | 1,241 | 6,703 | (1,554) | 4,560 |
| Fund Balance, beginning | 30,941 | 27,808 | 26,567 | 19,864 | 21,418 | 16,858 |
| Fund Balance, ending | \$ 26,140 | \$ 30,941 | \$ 27,808 | \$ 26,567 | \$ 19,864 | \$ 21,418 |

¹ Budgetary Basis; Subject to Audit.

Analysis of General Fund Balance
(000's)

| | Budget 2017-18¹ | Actual 2016-17 | Actual 2015-16 | Actual 2014-15 | Actual 2013-14 | Actual 2012-13 |
|--|---------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Reserved for Encumbrances..... | N/A | \$ - | \$ - | \$ - | \$ 1,068 | \$ - |
| Unreserved: | | | | | | |
| Designated for Specific Purposes | N/A | - | - | - | - | - |
| Undesignated..... | N/A | - | - | - | - | - |
| Assigned | N/A | 6,230 | 4,829 | 4,741 | 2,000 | 6,363 |
| Unassigned..... | N/A | 24,711 | 22,979 | 21,826 | 16,796 | 15,055 |
| Total Fund Balance | N/A | \$ 30,941 | \$ 27,808 | \$ 26,567 | \$ 19,864 | \$ 21,418 |

¹ Budgetary Basis; Subject to Audit.

Section 207 of Public Act No. 15-244 (Jan. 2015 Reg. Sess.), as amended by Section 42 of Public Act No. 16-2 (May 2016 Spec. Sess.) and Section 189(h) of Public Act No. 16-3 (May 2016 Spec. Sess.), of the Connecticut General Assembly (the "Act") created a cap on adopted general budget expenditures for municipalities in Connecticut in order for municipalities to be eligible to receive the full amount of the State's municipal revenue sharing grant. Beginning in fiscal year ending June 30, 2018, and in each fiscal year thereafter, the Office of Policy and Management ("OPM") must reduce the municipal revenue sharing grant amount for those municipalities whose adopted general budget expenditures (with certain exceptions including but not limited to debt service, special education, implementation of court orders or arbitration awards, budgeting for an audited deficit, nonrecurring grants, capital expenditures of \$100,000 or more, or payments on unfunded pension liabilities, and certain major disaster or emergency expenditures) exceeds the spending limits specified in the Act. For each applicable fiscal year, OPM must determine the municipality's percentage growth in general budget expenditures over the prior fiscal year and reduce the grant if the growth rate is equal to or greater than 2.5% or the inflation rate, whichever is greater, each of those amounts adjusted by an amount proportionate to any increase to in the municipality's population from the previous fiscal year. The reduction is generally equal to 50 cents for every dollar the municipality spends over this cap. Each municipality must annually certify to the Secretary of the OPM whether such municipality has exceeded the cap set forth in the Act and if so the amount by which the cap was exceeded. For the fiscal year ending June 30, 2018, and each fiscal year thereafter, motor vehicle property tax grants to municipalities that impose mill rates on real property and personal property other than motor vehicles greater than 32 mills or that, when combined with the mill rate of any district located within the municipality, impose mill rates greater than 32 mills, shall be made in an amount equal to the difference between the amount of property taxes levied by the municipality and any district located within the municipality on motor vehicles for the assessment year commencing October 1, 2013, and the amount such levy would have been if the mill rate on motor vehicles for said assessment year was 32 mills.

Anticipated Fiscal Year 2018 Results

The City expects to end Fiscal Year 2018 on target or with a small deficit of revenues over expenditures that would enable the City to maintain its General Fund Balance at its current level, after accounting for its planned fund balance contribution to the Fiscal Year 2019 Budget.

Pension Plan

The City is the administrator of the Middletown Retirement System Fund, a single-employer defined benefit Public Employee Retirement System ("PERS") established and administered by the City to provide pension benefits for its non-teacher employees. The PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The Charter provides the City Council with the authority to establish and amend benefit provisions, by ordinance, through the Retirement Board. The PERS is considered to be part of the City's financial reporting entity and is included in the City's financial reports as a pension trust fund. Stand-alone financial statements are not issued.

Under the plan, all full-time employees are eligible to join. Employees are 100% vested after 10 years of continuous service. Anyone who shall receive a vested benefit based on the minimum of 10 years of service, but less than 20 years of service, shall be eligible to collect such benefits at 65. If a member is separated from service after 20 years of service, the member shall be entitled to a deferred retirement allowance to commence on the earliest date on which the member would have been eligible to retire.

Members of the Fire Union receive a pension based upon 2.5% per year of service to a maximum of 80% and shall be eligible for retirement after 20 years of credited service. Pension benefits shall be calculated on the basis of 2.5% for each year of credited service times the average of the employee's 4 highest years out of the employee's last 5 years of earnings.

Members of the Police Union receive a pension based upon 2.5% per year of service to a maximum of 70% and shall be eligible for retirement after 20 years of credited service. However, those members who will or elect to receive health benefits in accordance with Article 20, Option 2 of their agreement, shall receive a pension based upon 2.5% per year of service to a maximum of 80% and the computation shall include 4% of replacement overtime pay for the years of service included in such computation. Pension benefits shall be calculated on the basis of 2.5% for each year of credited service times the average of the employee's 3 highest consecutive years of service. Base pay shall include any and all holiday payments made to the bargaining unit member.

Members of UPSEU receive a pension based upon 2.25% per year of service to a maximum of 70% and shall be eligible for retirement after 22 years of credited service. However, those members who will or elect to receive health benefits in accordance with Article VII, Section 6, subsections B and E of their agreement, shall receive a pension based upon 2.5% per year of service to a maximum of 80% and shall be eligible for retirement after 20 years of credited service. Pension benefits shall be calculated on the average of the employee's 3 highest consecutive years of service.

Members of the 466 Union receive a pension based upon 2.25% per year of service to a maximum of 70% and shall be eligible for retirement after 22 years of credited service. Pension benefits shall be calculated on the average of the employee's 3 highest years of service.

Members of the Library Union receive a pension based upon 2.25% per year of service to a maximum of 70% and shall be eligible for retirement after 22 years of credited service. Pension benefits shall be calculated on the average of the employee's 3 highest years of service.

Police employees contribute 6.5% of their earnings to the PERS and all other employees in the plan are required to contribute 6% of their earnings to the PERS. If an employee leaves employment or dies before meeting the vesting requirements, accumulated employee contributions and interest are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees as determined by its actuaries; the current rate is 0% - General Government, 24.6% - Firefighters, and 24.5% - Police, of annual covered payroll. Benefits and employee contributions are fixed by contract and may be amended by the City Council subject to union negotiations. Compensation is expanded by including longevity pay and holiday pay.

The City's Annual Required Contribution for the Fiscal Year 2017-2018 was \$3,401,000, and the City made contributions of \$3,401,000 or 100%. The Net Pension Obligation (Asset) as of June 30, 2017 was (\$37,666,000). The City has conservatively reduced its expected rate of return from 7.1% to 7.0%.

| <i>Fiscal Year Ended</i> | <i>Total Fund Balance</i> | <i>Total City Contributions</i> | <i>Total Employee Contributions</i> | <i>Total Benefit Payments</i> |
|---------------------------------|----------------------------------|--|--|--------------------------------------|
| 2017 | \$ 399,630,000 | \$ 2,807,000 | \$ 2,488,000 | \$ 16,314,000 |
| 2016 | 366,544,000 | 2,630,000 | 2,410,000 | 15,704,000 |
| 2015 | 377,970,000 | 2,794,000 | 2,282,000 | 15,195,000 |
| 2014 | 377,839,000 | 2,418,000 | 2,269,000 | 14,626,000 |
| 2013 | 334,556,000 | 1,388,000 | 2,134,000 | 13,466,000 |

Schedule of Funding Progress

| <i>Actuarial Valuation Date</i> | <i>Actuarial Value of Assets (a)</i> | <i>Actuarial Accrued Liability (AAL) (b)</i> | <i>Unfunded AAL (UAAL) (b-a)</i> | <i>Funded Ratio (a/b)</i> | <i>Covered Payroll (c)</i> | <i>UAAL as a Percentage of Covered Payroll ((b-a)/c)</i> |
|--|---|---|---|----------------------------------|-----------------------------------|---|
| 7/1/2016 | \$399,630 | \$361,964 | (37,666) | 110.41% | \$39,021 | (96.53)% |
| 7/1/2015 | 366,544 | 339,922 | (26,622) | 107.83 | 38,802 | (68.61) |
| 7/1/2014 | 357,757 | 306,975 | (50,782) | 116.54 | 36,908 | (137.59) |
| 7/1/2013 | 337,875 | 295,129 | (42,746) | 114.48 | 34,606 | (123.52) |
| 7/1/2012 | 326,433 | 278,929 | (47,504) | 117.03 | 35,560 | (133.59) |

VII. Legal and Other Information

Legal Matters

Pullman & Comley, LLC is serving as Bond Counsel with respect to the authorization and issuance of the Bonds and will render its opinion in substantially the form included in this Official Statement as Appendix B.

Litigation

The City, its officers and employees are defendants in a number of lawsuits pending in both the State and Federal Courts. In the opinion of the City Attorney, as of the present time, the pending litigation will not finally result, either individually or in the aggregate, in final judgments against the City which would have a materially adverse effect upon the finances of the City.

Documents Furnished at Delivery

The original purchaser will be furnished the following documents when the Bonds are delivered:

1. Signature and No Litigation Certificate stating that at the time of delivery no litigation is pending or threatened affecting the validity of the Bonds or the levy or collection of taxes to pay them.

2. Certificate on behalf of the City, signed by the Mayor, Treasurer, and Director of Finance and Revenue Services, which will be dated the date of delivery and attached to a signed or confirmed copy of the Official Statement, and which will certify, to the best of said officials' knowledge and belief that, at the time bids on the Bonds were accepted the description and statements in the Official Statement relating to the City and its finances were true and correct in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and that there has been no material adverse change in the financial condition of the City from that set forth in or contemplated by the Official Statement.

3. A receipt for the purchase price of the Bonds.

4. The approving opinion of Pullman & Comley, LLC, Bond Counsel.

5. An executed Continuing Disclosure Agreement for the Bonds in substantially the form attached hereto as Appendix C to this Official Statement.

6. The City has prepared an Official Statement for the Bonds which is dated March 28, 2018. The City deems such Official Statement final as of its date for purposes of SEC Rule 15c2-12 (b)(1), but it is subject to revision or amendment. The City will make available to the winning purchaser of the Bonds 100 copies of the final Official Statement at the City's expense. The copies of the Official Statement will be made available to the winning purchaser at the office of Phoenix Advisors, LLC, the City's Financial Advisor, within seven business days of the bid opening. If the City's Financial Advisor is provided with the necessary information from the winning purchaser by noon of the day following the day bids on the Bonds are received, then copies of the Official Statement will include an additional cover page and other pages indicating the interest rates, ratings, yields or reoccurring prices, the name of the managing underwriter, the name of the insurer, if any, and any changes on the Bonds. The purchaser shall arrange with the Financial Advisor the method of delivery of the copies of the Official Statement to the purchaser. Additional copies of the Official Statement may be obtained by the purchaser at its own expense by arrangement with the printer.

A record of the proceedings taken by the City in authorizing the Bonds will be kept on file at the principal office of the Paying Agent, U.S. Bank National Association, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103 and may be examined upon reasonable request.

Concluding Statement

To the extent that any statements made in this Official Statement involve matters of opinion or estimates such statements are made as such and not as representations of fact or certainty, and no representation is made that any of such statements will be realized. Information herein has been derived by the City from official and other sources and is believed by the City to be reliable, but such information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed.

This Official Statement has been duly prepared and delivered by the City, and executed for and on behalf of the City by the following officials:

City of Middletown, Connecticut

/s/ *Daniel Drew*

DANIEL DREW, *Mayor*

/s/ *Quentin Phipps*

QUENTIN PHIPPS, *Treasurer*

/s/ *Carl R. Erlacher*

CARL R. ERLACHER, *Director of Finance & Revenue Services*

Dated: March 28, 2018

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Appendix A

General Purpose Financial Statements Fiscal Year Ending June 30, 2017

The following includes the General Purpose Financial Statements of the City of Middletown, Connecticut for the fiscal year ended June 30, 2017. The supplemental data which was a part of that report has not been reproduced herein. A copy of the complete report is available upon request from Matthew A. Spoerndle, Senior Managing Director, Phoenix Advisors, 53 River Street, Suite 1, Milford, Connecticut 06460. Telephone (203) 878-4945.

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BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Honorable Mayor and Members of the Common Council
City of Middletown, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Middletown, Connecticut'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 opinions 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 auditors' 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 auditors consider 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of June 30, 2017 and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As discussed in Note 12 to the financial statements, during the fiscal year ended June 30, 2017, the City adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. Our opinion is not modified with respect to this matter.

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 4 through 11, the budgetary comparison information on pages 64 through 66 and the pension and OPEB schedules on pages 67 through 73 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, which considers it to be an essential part of 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 opinions on the financial statements that collectively comprise the City of Middletown, Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the City of Middletown, Connecticut as of and for the year ended June 30, 2016 (not presented herein), and have issued our report thereon dated December 30, 2016, which contained unmodified opinions on the respective financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information. The accompanying General Fund balance sheet and Internal Service Funds statements of net position, revenues, expenses and changes in net position and cash flows as of and for the year ended June 30, 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 2016 financial statements. The accompanying General Fund balance sheet and Internal Service Funds statements of net position, revenues, expenses and changes in net position and cash flows have been subjected to the auditing procedures applied in the audit of the 2016 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund balance sheet and Internal Service Funds statements of net position, revenues, expenses and changes in net position and cash flows are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2016.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2017 on our consideration of the City of Middletown, Connecticut'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Middletown, Connecticut's 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 the City of Middletown, Connecticut's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 29, 2017

CITY OF MIDDLETOWN, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

This discussion and analysis of the City of Middletown, Connecticut's (City) financial performance is provided by management to provide an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read this MD&A in conjunction with the transmittal letter and the City's financial statements, Exhibits I to IX.

FINANCIAL HIGHLIGHTS

- Net position of the City's governmental activities decreased by \$10.4 million, or 3.1 percent.
- During the year, the City had expenses that were \$10.4 million more than the \$223.8 million generated in tax and other revenues for governmental programs.
- Total cost of all of the City's programs was \$234.2 million with no new programs added this year.
- The General Fund reported a fund balance this year of \$30.9 million.
- The resources available for appropriation exceeded budgetary estimates by \$3.2 million for the General Fund. Expenditures were kept within spending limits by 1.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (Exhibits I and II, respectively) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented in Exhibit III to IX. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements

The analysis of the City as a whole begins on Exhibit I and II. The statement of net position and the statement of activities report information about the City as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. The City's net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets, to assess the overall health of the City.

In the statement of net position and the statement of activities, we divide the City into two types of activities:

- *Governmental activities* - Most of the City's basic services are reported here, including education, public safety, public works, human resources, culture and recreation, employee benefits and insurance, and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.
- *Component units* - The City includes two separate legal entities in its report; the Eastern Connecticut Resource Recovery Authority (ECRRA), and the Long Hill Estate Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund Financial Statements

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by Charter. However, the City Council establishes many other funds to help control and manage financial activities for particular purposes (like the Fire District, Water Fund, Sewer Fund and Sanitation Fund) or to show that it is meeting legal responsibilities for using grants, and other money (like grants received from the Clean Water Fund, Block Grants and Special Education Grants). The City's funds are divided into three categories; governmental, proprietary and fiduciary.

- *Governmental funds (Exhibits III and IV)* - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation included with the fund financial statements.
- *Proprietary funds (Exhibits V, VI and VII)* - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. Internal service funds (the component of proprietary funds) are used to report activities that provide services for the City's other programs and activities - such as the City's Medical, Workers Compensation and Property and Liability Funds.
- *Fiduciary funds (Exhibits VIII and IX)* - The City is the trustee, or fiduciary, for its employees' pension plans. All of the City's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position decreased from a year ago from \$351.9 million to \$341.4 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental activities.

TABLE 1
NET POSITION
(In Thousands)

| | Governmental Activities | |
|---|------------------------------------|-------------------|
| | 2017 | 2016 |
| Current assets | \$ 135,902 | \$ 114,444 |
| Capital assets, net of accumulated depreciation | <u>382,577</u> | <u>377,862</u> |
| Total assets | <u>518,479</u> | <u>492,306</u> |
| Deferred outflows of resources | <u>19,587</u> | <u>41,072</u> |
| Long-term liabilities outstanding | 171,880 | 157,479 |
| Other liabilities | <u>29,648</u> | <u>27,239</u> |
| Total liabilities | <u>201,528</u> | <u>184,718</u> |
| Deferred inflows of resources | <u>5,538</u> | <u>7,262</u> |
| Net Position: | | |
| Net investment in capital assets | 263,979 | 269,612 |
| Restricted | 1,309 | 1,234 |
| Unrestricted | <u>65,712</u> | <u>70,552</u> |
| Total Net Position | <u>\$ 331,000</u> | <u>\$ 341,398</u> |

Net position of the City's governmental activities decreased by 3.1 percent (\$331.0 million compared to \$341.4 million). Decrease in net position is mainly attributable to the decrease in net OPEB obligation. Capital assets increased by \$4.7 million while long-term liabilities increased by \$6.2 million. The City's has an aggressive debt repayment philosophy which results in the rapid payment for capital asset additions.

TABLE 2
CHANGE IN NET POSITION
(In Thousands)

| | Governmental Activities | |
|--|------------------------------------|-------------------|
| | 2017 | 2016 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 21,250 | \$ 22,711 |
| Operating grants and contributions | 54,565 | 49,251 |
| Capital grants and contributions | 5,224 | 4,854 |
| General revenues: | | |
| Property taxes | 121,492 | 115,937 |
| Grants and contributions not restricted to specific programs | 14,019 | 12,650 |
| Unrestricted investment earnings | 495 | 217 |
| Other general revenues | 5,982 | 4,323 |
| Total revenues | <u>223,027</u> | <u>209,943</u> |
| | | |
| Program expenses: | | |
| General government | 17,404 | 17,150 |
| Public safety | 39,394 | 40,453 |
| Public works | 14,509 | 13,161 |
| Health and human services | 1,686 | 1,601 |
| Culture and recreation | 5,749 | 5,641 |
| Employee benefits and insurance | 18,980 | 15,781 |
| Education | 119,861 | 112,623 |
| Sewer | 7,561 | 6,073 |
| Water | 4,087 | 3,841 |
| Sanitation | 1,827 | 1,662 |
| Interest on long-term debt | 2,367 | 2,501 |
| Total program expenses | <u>233,425</u> | <u>220,487</u> |
| | | |
| Increase (Decrease) in Net Position | (10,398) | (10,544) |
| | | |
| Net Position at Beginning of Year | <u>341,398</u> | <u>351,942</u> |
| | | |
| Net Position at End of Year | <u>\$ 331,000</u> | <u>\$ 341,398</u> |

The City's total revenues were \$223.8 million. The total cost of all programs and services was \$234.2 million. Our analysis below considers the operations of governmental activities.

Governmental Activities

More than 54.3 percent of the revenues were derived from property taxes, followed by 24.7 percent from operating grants, then 9.5 percent from charges for services.

Major revenue factors included:

- Property tax revenues recorded for fiscal year 2017 reflects an increase in the City's tax rate and virtually no change in the total assessed value of all taxable property.
- Operating Grants and contributions increased by 6.1 million mainly attributable to increased education grants received from the State of Connecticut.
- Capital grants increased by .4 million, which is mainly due to the continuing Clean Water Projects under construction.

For governmental activities, more than 51.4 percent of the City's expenses relate to education, 16.9 percent relate to public safety, general government (7.5 percent), employee benefits and insurance (8.1 percent), and public works (6.2 percent).

Major expense factors include:

- Increases in total program expenses is attributable to an increase in public safety expenses mainly due to a decrease in accruals for various liabilities including pension.
- The cost of education services increased due to accrual basis changes in other post-employment benefits and the expenses related to state teachers retirement plan.

CITY FUNDS FINANCIAL ANALYSIS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported a combined fund balance of \$41.6 million, which is an increase from last year's total of \$5.4 million. The fund balance for the Capital Project's Fund decreased by \$6.1 million dollars mainly due to issuance of debt.

General Fund Budgetary Highlights

Tax collections were favorable by \$1.8 million primarily due to continued increase in delinquent tax collections. Charges for services were favorable by \$.6 million with the majority of this coming from increased activity with police extra duty.

Under the intergovernmental section, the City experienced a favorable revenue variance of \$.1 million which is mainly due to accurate budgeting.

The aforementioned items, when combined with the planned use of fund balance to minimize the annual tax impact to City residents, resulted in completing the June 30, 2017 year with an unassigned fund balance of \$24.7 million.

The City continues to experience a variety of favorable events, most related to a planned expenditure cut back, that favorably impacted expenses during the fiscal year.

These events include:

| | (in thousands) | |
|----------------------|----------------|---------------------|
| General government | \$ | 431 |
| Public safety | | 286 |
| Public works | | 47 |
| Parks and recreation | | 31 |
| Other | | <u>721</u> |
| Total | \$ | <u><u>1,516</u></u> |

The City's General Fund balance of \$30.9 million reported on Exhibit III differs from the General Fund's budgetary fund balance of \$29.5 million. This is principally because budgetary fund balance includes \$1.4 million of outstanding encumbrances at year end which are reported as expenditures for budgetary purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the City had \$382.6 million invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment, roads, bridges, and water and sewer lines - Table 3.

TABLE 3
CAPITAL ASSETS AT YEAR-END (Net of Depreciation)
(In Millions)

| | Governmental Activities | |
|--|----------------------------|------------------------|
| | <u>2017</u> | <u>2016</u> |
| Land | \$ 18.7 | \$ 18.7 |
| Infrastructure | 128.2 | 131.8 |
| Buildings and improvements | 141.2 | 146.1 |
| Machinery, equipment and building contents | 11.9 | 11.7 |
| Construction in progress | <u>82.6</u> | <u>69.6</u> |
| Total | <u><u>\$ 382.6</u></u> | <u><u>\$ 377.9</u></u> |

The City capital assets increase for 2017 is mainly attributable to continued clean water projects and other various projects throughout the City.

More detailed information about the City's capital assets is presented in Notes 1 and 5 to the financial statements.

Long-Term Debt

At June 30, 2017, the City had \$92.6 million in bonds outstanding versus \$86.4 million last year, an increase of 7.2 percent - as shown in Table 4.

TABLE 4
OUTSTANDING DEBT, at Year-End
(In Millions)

| | Governmental Activities | |
|--------------------------|----------------------------|---------|
| | 2017 | 2016 |
| General Obligation Bonds | \$ 92.6 | \$ 86.4 |

The City's general obligation bond rating continues to carry a AAA rating with Standard & Poor's Rating Services. The State limits the amount of general obligation debt that towns can issue based on formula determined under State Statutes based on type of debt and tax base. The City's outstanding general obligation debt is significantly below this \$876 million state-imposed limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the City is currently 4.2 percent compared with the prior year of 5.7 percent.

The appropriation for expenditures totaled \$157.8 million in the adopted budget for the 2017-2018 fiscal year representing an increase of 2.0 percent compared to the final amended budget for fiscal year ended June 30, 2017. The City is anticipating using \$4.8 million of assigned General Fund fund balance to balance budgeted operations for the 2017-2018 fiscal year.

The City's elected and appointed officials considered many factors when establishing the tax mill rate of 42.4 for the adopted budget for the 2017-2018 fiscal year. There was an increase of 2.9% from the mill rate established for the 2016-2017 fiscal year.

The City, while cautiously optimistic, is quite concerned about the State of Connecticut budget and the impact balancing the State budget may have on the City. Approximately one-fourth of the City's budget revenues are derived from revenues received from the State of Connecticut. The vast majority of the State revenues come to the City in the form of Educational Cost Sharing Grants (ECS) which provide a direct subsidy to the local school system.

This is a difficult year for the State of Connecticut due to shortfalls in State revenues resulting from the current state of our economy. Section 52 of Public Act 02-1 allows the Governor, on or after October 1, 2002, to reduce certain allotments, including grants to municipalities, by up to 5 percent. Any State reduction over \$750,000 would result in a budget revenue shortfall and would reduce the City's undesignated General Fund fund balance and/or increase the property tax rate in fiscal year 2018.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, City of Middletown, 245 DeKoven Drive, Middletown, Connecticut 06457.

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Basic Financial Statements

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF NET POSITION
JUNE 30, 2017
(In Thousands)

| | Primary Governmental Activities | Component Units | |
|--|--|------------------------|-----------------------------|
| | | ECRRA | Long Hill Estate |
| Assets: | | | |
| Cash and cash equivalents | \$ 66,961 | \$ 814 | \$ 693 |
| Investments | 11,509 | | 116 |
| Receivables, net | 19,727 | 2,596 | |
| Inventories | 39 | | |
| Net pension asset | 37,666 | | |
| Other assets | | 309 | |
| Restricted assets: | | | |
| Cash and cash equivalents | | 8,783 | |
| Investments | | 11,134 | |
| Capital assets: | | | |
| Assets not being depreciated | 101,337 | | |
| Assets being depreciated, net | 281,240 | 42,429 | |
| Total assets | <u>518,479</u> | <u>66,065</u> | <u>809</u> |
| Deferred Outflows of Resources: | | | |
| Deferred outflows related to pension | <u>19,587</u> | | |
| Liabilities: | | | |
| Accounts and other payables | 13,397 | 3,997 | 24 |
| Unearned revenue | 683 | | 303 |
| Note payable | 15,568 | | |
| Noncurrent liabilities: | | | |
| Due within one year | 19,889 | 11,694 | |
| Due in more than one year | 151,991 | 26,909 | |
| Total liabilities | <u>201,528</u> | <u>42,600</u> | <u>327</u> |
| Deferred Inflows of Resources: | | | |
| Deferred inflows related to pension | <u>5,538</u> | | |
| Net Position: | | | |
| Net investment in capital assets | 263,979 | 14,960 | |
| Restricted for: | | | |
| Debt service | | 8,783 | |
| Trust purposes: | | | |
| Expendable | 72 | | |
| Nonexpendable | 1,237 | | |
| Unrestricted | <u>65,712</u> | <u>(278)</u> | <u>482</u> |
| Total Net Position | <u>\$ 331,000</u> | <u>\$ 23,465</u> | <u>\$ 482</u> |

The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017
 (In Thousands)

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes In Net Assets | | |
|--|-------------------|----------------------|------------------------------------|----------------------------------|---|-----------------|------------------|
| | | Charges For Services | Operating Grants And Contributions | Capital Grants And Contributions | Primary Governmental | Component Units | |
| | | | | | Governmental Activities | ECRRA | Long Hill Estate |
| Primary Government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 17,404 | \$ 4,046 | \$ 121 | \$ | \$ (13,237) | \$ | \$ |
| Public safety | 39,394 | 1,715 | 1,772 | | (35,907) | | |
| Public works | 14,509 | 387 | 91 | 5,147 | (8,884) | | |
| Health and human resources | 1,686 | | 66 | | (1,620) | | |
| Culture and recreation | 5,749 | 752 | 175 | 77 | (4,745) | | |
| Employee benefits and insurance | 18,980 | | | | (18,980) | | |
| Education | 119,861 | 541 | 52,340 | | (66,980) | | |
| Sewer | 7,561 | 7,441 | | | (120) | | |
| Water | 4,087 | 4,527 | | | 440 | | |
| Sanitation | 1,827 | 1,841 | | | 14 | | |
| Interest on long-term debt | 2,367 | | | | (2,367) | | |
| Total Primary Government - Governmental Activities | \$ 233,425 | \$ 21,250 | \$ 54,565 | \$ 5,224 | (152,386) | - | - |
| Component Units: | | | | | | | |
| ECRRA | \$ 22,896 | \$ 30,302 | \$ | \$ | | 7,406 | |
| Long Hill Estate | 534 | 647 | | 1 | | | 114 |
| Total Component Units | \$ 23,430 | \$ 30,949 | \$ - | \$ 1 | - | 7,406 | 114 |
| General revenues: | | | | | | | |
| Property taxes | | | | | 121,492 | | |
| Grants and contributions not restricted to specific programs | | | | | 14,019 | | |
| Unrestricted investment earnings | | | | | 495 | 627 | 2 |
| Miscellaneous | | | | | 5,982 | | |
| Total general revenues | | | | | 141,988 | 627 | 2 |
| Change in net position | | | | | (10,398) | 8,033 | 116 |
| Net Position at Beginning of Year | | | | | 341,398 | 15,432 | 366 |
| Net Position at End of Year | | | | | \$ 331,000 | \$ 23,465 | \$ 482 |

The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017
(In Thousands)

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|------------------|-------------------------|-----------------------------|--|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 19,175 | \$ 80 | \$ 12,345 | \$ 16,116 | \$ 47,716 |
| Investments | 10,280 | | | 1,229 | 11,509 |
| Receivables, net | 6,259 | | 5,459 | 4,887 | 16,605 |
| Due from other funds | 6,700 | | | | 6,700 |
| Inventories | | | | 39 | 39 |
| Total Assets | <u>\$ 42,414</u> | <u>\$ 80</u> | <u>\$ 17,804</u> | <u>\$ 22,271</u> | <u>\$ 82,569</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts and other payables | \$ 6,095 | | \$ 4,064 | \$ 1,906 | \$ 12,065 |
| Due to other funds | | | 6,293 | 407 | 6,700 |
| Note payable | | | 15,568 | | 15,568 |
| Unearned revenue | | | | 683 | 683 |
| Total liabilities | <u>6,095</u> | <u>-</u> | <u>25,925</u> | <u>2,996</u> | <u>35,016</u> |
| Deferred Inflows of Resources: | | | | | |
| Unavailable revenue - property taxes | <u>5,378</u> | | | <u>603</u> | <u>5,981</u> |
| Fund Balances: | | | | | |
| Nonspendable | | | | 39 | 39 |
| Restricted | | 80 | | 4,081 | 4,161 |
| Committed | | | | 15,235 | 15,235 |
| Assigned | 6,230 | | | | 6,230 |
| Unassigned | <u>24,711</u> | | <u>(8,121)</u> | <u>(683)</u> | <u>15,907</u> |
| Total fund balances | <u>30,941</u> | <u>80</u> | <u>(8,121)</u> | <u>18,672</u> | <u>41,572</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 42,414</u> | <u>\$ 80</u> | <u>\$ 17,804</u> | <u>\$ 22,271</u> | <u>\$ 82,569</u> |

(Continued on next page)

CITY OF MIDDLETOWN, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2017
(In Thousands)

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position:

Amounts reported for governmental activities in the statement of net position (Exhibit I) are different because of the following:

| | | |
|--|----|-----------------------|
| Fund balances - total governmental funds | \$ | 41,572 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | | |
| Governmental capital assets | \$ | 656,396 |
| Less accumulated depreciation | | <u>(273,819)</u> |
| Net capital assets | | 382,577 |
| Other long-term assets and deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not recorded in the funds: | | |
| Net pension asset | | 37,666 |
| Property tax receivables greater than 60 days | | 5,981 |
| Interest receivable on property taxes | | 2,466 |
| Interest receivable on water, sewer and sanitation | | 657 |
| Deferred outflows related to pension | | 19,587 |
| Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net position. | | |
| | | 10,880 |
| Long-term liabilities, including bonds payable and deferred inflows of resources, are not due and payable in the current period and therefore, are not reported in the funds: | | |
| Bonds and notes payable | | (92,642) |
| Interest payable on bonds and notes | | (917) |
| Compensated absences | | (7,823) |
| OPEB obligation | | (53,078) |
| Bond premium | | (10,388) |
| Deferred inflows related to pension | | <u>(5,538)</u> |
| Net Position of Governmental Activities (Exhibit I) | \$ | <u><u>331,000</u></u> |

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|------------------|-------------------------|-----------------------------|--|---|
| Revenues: | | | | | |
| Property taxes | \$ 109,846 | \$ | \$ | \$ 10,953 | \$ 120,799 |
| Licenses and permits | 1,378 | | | | 1,378 |
| Intergovernmental | 45,596 | | 2,617 | 24,954 | 73,167 |
| Charges for services | 4,752 | | | 14,308 | 19,060 |
| Investment income | 209 | | | 257 | 466 |
| Miscellaneous | 4,574 | | 1,076 | 1,652 | 7,302 |
| Total revenues | <u>166,355</u> | <u>-</u> | <u>3,693</u> | <u>52,124</u> | <u>222,172</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 9,948 | 309 | | 852 | 11,109 |
| Public safety | 16,017 | | | 12,019 | 28,036 |
| Public works | 4,995 | | | | 4,995 |
| Health and human resources | 1,628 | | | 34 | 1,662 |
| Culture and recreation | 5,238 | | | 442 | 5,680 |
| Employee benefits and insurance | 20,680 | | | | 20,680 |
| Education | 93,117 | | | 22,961 | 116,078 |
| Sewer | | | | 7,620 | 7,620 |
| Water | | | | 4,040 | 4,040 |
| Sanitation | | | | 1,826 | 1,826 |
| Capital outlay | 93 | | 16,566 | 4,166 | 20,825 |
| Debt service: | | | | | |
| Principal retirement | | 12,712 | | | 12,712 |
| Interest and fiscal charges | | 3,415 | | | 3,415 |
| Total expenditures | <u>151,716</u> | <u>16,436</u> | <u>16,566</u> | <u>53,960</u> | <u>238,678</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>14,639</u> | <u>(16,436)</u> | <u>(12,873)</u> | <u>(1,836)</u> | <u>(16,506)</u> |
| Other Financing Sources (Uses): | | | | | |
| Bond and serial notes | | | 19,000 | | 19,000 |
| Bond premium | 2,862 | | | | 2,862 |
| Transfers in | 521 | 16,434 | | 1,640 | 18,595 |
| Transfers out | (14,889) | | (71) | (3,599) | (18,559) |
| Total other financing sources (uses) | <u>(11,506)</u> | <u>16,434</u> | <u>18,929</u> | <u>(1,959)</u> | <u>21,898</u> |
| Net Change in Fund Balances | 3,133 | (2) | 6,056 | (3,795) | 5,392 |
| Fund Balances at Beginning of Year | <u>27,808</u> | <u>82</u> | <u>(14,177)</u> | <u>22,467</u> | <u>36,180</u> |
| Fund Balances at End of Year | <u>\$ 30,941</u> | <u>\$ 80</u> | <u>\$ (8,121)</u> | <u>\$ 18,672</u> | <u>\$ 41,572</u> |

(Continued on next page)

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

| | | |
|---|----|-------|
| Net change in fund balances - total governmental funds (Exhibit IV) | \$ | 5,392 |
|---|----|-------|

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

| | |
|----------------------|----------|
| Capital outlay | 16,504 |
| Depreciation expense | (11,569) |

| | |
|--|-------|
| The statement of activities reports losses arising from the trade-in of existing capital assets to acquire new capital assets. Conversely governmental funds do not report any gain or loss on a trade-in of capital assets. | (220) |
|--|-------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

| | |
|---|----------|
| Property tax receivable - accrual basis change | 454 |
| Property tax interest and lien revenue - accrual basis change | 238 |
| Water, sewer, sanitation interest receivable - accrual change | 73 |
| Change in deferred outflows related to pension | (21,485) |
| Change in deferred inflows related to pension | 1,724 |

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

| | |
|-----------------------------|----------|
| Bond principal payments | 12,712 |
| Issuance of bonds and notes | (19,000) |
| Premium on bonds | (2,862) |

| | |
|-----------------------------|--------|
| Change in net pension asset | 11,044 |
|-----------------------------|--------|

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

| | |
|---------------------------|---------|
| Compensated absences | (723) |
| OPEB obligation | (5,480) |
| Bond premium amortization | 1,133 |
| Accrued interest | (85) |

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.

| |
|-------|
| 1,752 |
|-------|

| | | |
|--|----|-----------------|
| Change in Net Position of Governmental Activities (Exhibit II) | \$ | <u>(10,398)</u> |
|--|----|-----------------|

The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017
(In Thousands)

| | Governmental Activities |
|--------------------------------|------------------------------------|
| | Internal Service Funds |
| Assets: | |
| Cash and cash equivalents | \$ <u>19,245</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts and other payables | 416 |
| Unpaid claims - current | <u>2,561</u> |
| Total current liabilities | 2,977 |
| Noncurrent liabilities: | |
| Unpaid claims - noncurrent | <u>5,388</u> |
| Total liabilities | <u>8,365</u> |
| Net Position: | |
| Unrestricted | \$ <u><u>10,880</u></u> |

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

| | Governmental Activities Internal Service Funds |
|-----------------------------------|---|
| Operating Revenues: | |
| Charges for services | \$ 23,791 |
| Other | 3,494 |
| Total operating revenues | <u>27,285</u> |
| Operating Expenses: | |
| Benefit payments | 9,888 |
| Administration | 948 |
| Insurance | 14,748 |
| Total operating expenses | <u>25,584</u> |
| Operating Income (Loss) | 1,701 |
| Nonoperating Revenue: | |
| Income on investments | <u>87</u> |
| Income Before Transfers | 1,788 |
| Transfers Out | <u>(36)</u> |
| Change in Net Position | 1,752 |
| Net Position at Beginning of Year | <u>9,128</u> |
| Net Position at End of Year | <u>\$ 10,880</u> |

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

| | Governmental Activities Internal Service Funds |
|---|---|
| Cash Flows from Operating Activities: | |
| Interfund services provided or used | \$ 23,791 |
| Cash received for insurance reimbursements | 3,494 |
| Cash paid to vendors | (25,044) |
| Net cash provided by (used in) operating activities | <u>2,241</u> |
| Cash Flows from Noncapital Financing Activities: | |
| Transfers to other funds | (36) |
| Cash Flows from Investing Activities: | |
| Income on investments | <u>87</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,292 |
| Cash and Cash Equivalents at Beginning of Year | <u>16,953</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 19,245</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | |
| Operating income (loss) | \$ 1,701 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | |
| Increase (decrease) in vouchers and other payables | <u>540</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 2,241</u> |

The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2017
(In Thousands)

| | Pension and Other Employee Benefit Trust Funds | Agency Funds |
|---|---|-------------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 7,147 | \$ 2,812 |
| Investments: | | |
| Certificate of deposits | | 38 |
| U.S. government securities | 32,626 | |
| Corporate bonds | 111,954 | |
| Common stock | 96,243 | |
| Mutual funds | 164,351 | |
| Receivables: | | |
| Accrued investment income | <u>863</u> | |
| Total assets | <u>413,184</u> | <u>\$ 2,850</u> |
| Liabilities: | | |
| Vouchers and other payables | 222 | \$ |
| Due to student groups and others | | <u>2,850</u> |
| Total liabilities | <u>222</u> | <u>\$ 2,850</u> |
| Net Position: | | |
| Net Position Restricted for Pension and OPEB Benefits | <u>\$ 412,962</u> | |

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

| | Pension and Other Employee Benefit Trust Funds |
|---|---|
| Additions: | |
| Contributions: | |
| Employer | \$ 12,931 |
| Plan members | 2,488 |
| Other | 10 |
| Total contributions | <u>15,429</u> |
| Investment income (loss): | |
| Net change in fair value of investments | 40,421 |
| Interest and dividends | 5,512 |
| Total investment gain | <u>45,933</u> |
| Investment fees | <u>(797)</u> |
| Net investment income (loss) | <u>45,136</u> |
| Total additions | <u>60,565</u> |
| Deductions: | |
| Benefits | 24,830 |
| Other | |
| Total deductions | <u>24,830</u> |
| Net Increase (Decrease) | 35,735 |
| Net Position at Beginning of Year | <u>377,227</u> |
| Net Position at End of Year | <u>\$ 412,962</u> |

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Middletown, Connecticut (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 more significant policies of the City are described below.

A. Reporting Entity

The City was incorporated in 1651. Its legal authority is derived from a Charter granted in 1874 that has been subsequently revised, most recently in 2014. The City operates under a Council-Mayor form of government. Services provided include education, water, sewer, refuse, streets and drainage, recreation and parks, police and fire, planning and zoning, community development and human resources.

Discretely Presented Component Units

The Eastern Connecticut Resource Recovery Authority (ECRRA) has been included in the City's reporting as a proprietary fund type in accordance with GAAP. As more fully explained in Note 11, ECRRA is a regional authority formed to provide solid waste disposal and a resource recovery system. At June 30, 2017, the City is the only member and accordingly, ECRRA is fiscally dependent because the City is responsible for paying ECRRA's debt and it is under the City's control. Additionally, ECRRA's financial position and operations are material to the financial statements of the City. Separate financial statements of ECRRA are available from the City's Office of the Mayor.

The Long Hill Estate Authority (Authority) has been included in the City's reporting as a governmental fund type in accordance with GAAP. The Authority was established by ordinance to operate and maintain the former Wadsworth/Cenacle property. The City will maintain ownership of the facility and retire the debt issued to make renovations. The City Council appoints the Authority's nine-member board and, although the Authority is legally separate from the City, it is fiscally dependent upon the City because the City is responsible for paying the Authority's debt. Separate financial statements of the Authority are available from the Authority's offices, 421 Wadsworth Street.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the City is reported separately from certain legally separate component units for which the primary government is financially accountable.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and pension trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the payment of principal and interest on long-term debt of the City.

The Capital Project Fund accounts for financial resources to be used for the acquisition or construction of major capital assets.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for the risk management activity of the City.

The Pension and Other Employee Benefit Trust Funds account for the activities of the defined benefit pension plans and Other Post Employment Benefits Trust Fund, which accumulate resources for pension and health benefit payments to qualified employees upon retirement.

The Agency Funds are used to account for assets held by the City in an agent capacity for individuals, private organizations or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds include Escrow Account Fund and Board of Education Activity Fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between certain City's functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include property taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are charges to customers for risk management. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned then unassigned

D. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City, ECRRA and Long Hill Estate to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and certain other investments as described in Note 3.

Investments for the City, as well as for its component units, are reported at fair value.

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

E. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles. Allowances for uncollectibles are computed based on historical data. Property taxes allowance represents 2.2% of outstanding amounts.

Real, personal and motor vehicle property taxes are levied on the assessed value at the rate enacted by the Common Council in the annual budget ordinance.

Property taxes are levied on all assessed property on the Grand List of October 1 prior to the beginning of the fiscal year and are billed on the following July 1 and January 1. Taxes are overdue on August 1 and February 1. Interest at the rate of 1-1/2% per month accrues on all overdue taxes. If taxes are unpaid as of June 30, following the payable date, a lien is placed on the real property. Property assessments are made at 70% of the market value.

Property tax revenues are recognized when they become measurable and available. Available means then due, or past due and collectible within 60 days of the end of the current period.

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

G. Restricted Assets

Because of certain bond covenants, ECRRA is required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents) that can be used only for servicing outstanding debt and other indenture requirements.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 50 |
| Building improvements | 25 |
| Infrastructure | 35-70 |
| Equipment | 15 |
| Vehicles | 7 |
| Office equipment | 7 |
| Computer equipment | 7 |

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows related to pension. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The City reports a deferred inflow of resources related to pensions. A deferred inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees). For governmental funds, the City reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

J. Net Pension Asset

The net pension asset is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension asset), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension asset is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

K. Net OPEB Obligation

The net OPEB obligation represents the cumulative difference between the annual OPEB cost and the City's contributions to the plan. These amounts are calculated on an actuarial basis and are recorded as noncurrent liabilities in the government-wide financial statements.

L. Termination Benefits

Sick Leave and Vacation Benefits

Employees may accumulate a limited amount of vested vacation and unused sick leave. At year end, accumulated vacation and unused sick leave was valued at \$7,823. The General Fund generally funds the cost associated with compensated absences.

M. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditure.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Fund Equity

Equity in the government-wide financial statements is defined as "net position" and is classified in the following categories:

Net Invested in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted

Net position is restricted because they are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This component consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

The equity of the fund financial statements is defined as “fund balance” and is classified in the following categories:

Nonspendable Fund Balance

This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance

This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

Committed Fund Balance

This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (City of Middletown Town Council). A commitment of fund balance and any subsequent modifications or rescission requires a resolution of the City of Middletown Town Council.

Assigned Fund Balance

This represents amounts constrained for the intent to be used for a specific purpose by the Board of Finance, which has been delegated authority to assign amounts by City Charter.

Unassigned Fund Balance

This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

O. Accounting 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City has an annual operating budget for the General Fund and budgets for certain Special Revenue Funds: Fire District Fund, Sanitary Disposal District Fund, Water Fund and Sewage Disposal Fund.

The City Charter requires the Mayor to submit a recommended operating budget for the General Fund and selected Special Revenue Funds to the Common Council by April 1. The budget provides a financial plan for the year and contains estimates of anticipated revenues and proposed expenditures. After public hearings a final budget is adopted by the Common Council by May 15.

The budget allocations among the various organizational units, as revised by the Common Council through year-end, are included in the budget-to-actual comparisons. Total budgeted expenditures in the budget-to-actual comparison agree with the Common Council appropriations. These budgetary comparisons are made at the sub-function level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of sub-function balances are not released until additional appropriations are made available.

**CITY OF MIDDLETOWN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017
 (IN THOUSANDS)**

Any revisions that alter the total expenditures of any department of the General Fund must be approved by the City Council. In addition, any revisions that alter the total budget of Special Revenue funds must be approved by the City Council. During the year General Fund appropriations increased in the amount of \$1,910. All budget amendments were processed in accordance with Charter provisions.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Deficit Fund Equity

The City has the following fund deficits at June 30, 2017:

| | <u>Amount</u> |
|------------------------------|---------------|
| Capital Projects Fund* | \$ 8,121 |
| Nonmajor Governmental Funds: | |
| Special Revenue Funds: | |
| School Cafeteria Fund ** | 644 |

* Deficit will be eliminated with future bond proceeds

** Deficit will be eliminated through future appropriations

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by Statute or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an “out of state bank” as defined by the Statutes, which is not a “qualified public depository.”

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: (1) obligations of the United States and its agencies; (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

**CITY OF MIDDLETOWN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017
 (IN THOUSANDS)**

Deposits

Deposit Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposit will not be returned. The City does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the State of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository’s risk based capital ratio.

City

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$54,569 of the City’s bank balance of \$56,340 was exposed to custodial credit risk as follows:

| | |
|---|------------------|
| Uninsured and uncollateralized | \$ 48,937 |
| Uninsured and collateral held by the pledging bank’s trust department, not in the City’s name | <u>5,632</u> |
| Total Amount Subject to Custodial Credit Risk | <u>\$ 54,569</u> |

Long Hill Estate Authority

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$831 of the Authority’s bank balance of \$834 was insured or collateralized.

Cash Equivalents

City

At June 30, 2017, the City’s cash equivalents amounted to \$20,978. The following table provides a summary of the City’s cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

| | <u>Standard & Poor’s</u> | <u>Fitch Ratings</u> |
|---|----------------------------------|--------------------------|
| State Short-Term Investment Fund (STIF) | AAAm | |
| GYL Financial Synergies* | | |

*Not rated

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

ECRRA

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2017, ECRRA's cash equivalents amounted to \$9,597. ECRRA's cash equivalents are primarily bank and government instruments that are not rated by nationally recognized statistical rating organizations.

Investments

City

As of June 30, 2017, the City had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (Years)</u> | | |
|-------------------------------|-------------------|--------------------------------------|------------------|---------------------|
| | | <u>Less Than 1</u> | <u>1-10</u> | <u>More Than 10</u> |
| Interest-bearing investments: | | | | |
| Certificates of deposit | \$ 10,318 | \$ 10,318 | \$ | \$ |
| U.S. government securities | 32,625 | | 4,442 | 28,183 |
| Corporate bonds | <u>111,954</u> | <u>3,405</u> | <u>67,048</u> | <u>41,501</u> |
| Total | 154,897 | \$ <u>13,723</u> | \$ <u>71,490</u> | \$ <u>69,684</u> |
| Other Investments: | | | | |
| Mutual funds | 165,436 | | | |
| Common stock | <u>96,388</u> | | | |
| Total Investments | \$ <u>416,721</u> | | | |

*Subject to coverage by Federal Depository Insurance and collateralization.

Long Hill Estate Authority

As of June 30, 2017, the Authority had the following investments:

| <u>Investment Type</u> | <u>Credit Rating</u> | <u>Fair Value</u> | <u>Investment Maturities (Years)</u> | | |
|-------------------------------|----------------------|-------------------|--------------------------------------|-------------|---------------------|
| | | | <u>Less Than 1</u> | <u>1-10</u> | <u>More Than 10</u> |
| Interest-bearing investments: | | | | | |
| Certificates of Deposit | * | \$ <u>116</u> | \$ <u>116</u> | \$ - | \$ - |

* Subject to coverage by Federal Depository Insurance and collateralization.

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

ECRRA

As of June 30, 2017, ECRRA had the following investments:

| <u>Investment Type</u> | <u>Credit Rating</u> | <u>Fair Value</u> | <u>Investment Maturities (Years)</u> | | |
|-------------------------------|----------------------|-------------------|--------------------------------------|------------------|----------------------|
| | | | <u>Less Than 1</u> | <u>1-10</u> | <u>More Than 10</u> |
| Interest-bearing investments: | | | | | |
| MBIA Investment Agreements | * | \$ <u>11,334</u> | \$ <u> </u> | \$ <u>11,334</u> | \$ <u> </u> |

* Subject to coverage by Federal Depository Insurance and collateralization.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Investments

As indicated above, State Statutes limit the investment options of cities and towns. The City has no investment policy that would further limit its investment choices. The following table provides a summary of the City’s investments (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)

City

| <u>Average Rating</u> | <u>Corporate Bonds</u> | <u>U.S. Government Securities</u> | <u>Certificate of Deposit</u> |
|---------------------------|----------------------------|---|-----------------------------------|
| Aaa | \$ 3,231 | \$ 32,625 | \$ |
| Aa1 | 1,747 | | |
| Aa2 | 5,715 | | |
| Aa3 | 6,275 | | |
| A1 | 22,192 | | |
| A2 | 11,619 | | |
| A3 | 21,061 | | |
| Baa1 | 8,886 | | |
| Baa2 | 3,042 | | |
| Baa3 | 3,965 | | |
| Ba1 | 915 | | |
| Ba2 | 615 | | |
| Ba3 | 1,657 | | |
| B1 | 1,222 | | |
| B2 | 1,316 | | |
| B3 | 1,208 | | |
| Caa1 | 974 | | |
| Caa2 | 224 | | |
| Caa3 | 41 | | |
| Unrated | <u>16,049</u> | <u> </u> | <u>10,318</u> |
| | <u>\$ 111,954</u> | <u>\$ 32,625</u> | <u>\$ 10,318</u> |

Concentration of Credit Risk

The City's investment policy does not allow for an investment in any one issuer that is in excess of five percent of the City's total investments.

Custodial Credit Risk

Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the City or that sells investments to or buys them for the City), the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2017, the City's investments, other than open-end mutual funds and other pooled accounts that are not categorized as to custodial credit risk, were uninsured and unregistered securities held by the counterparty, or by its trust department or agent, and were not in the City's name.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements). The City has the following recurring fair value measurements as of June 30, 2017:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------------|-------------------|-------------------|----------------|----------------|
| Investments by Fair Value Level: | | | | |
| U.S. Government Securities | \$ 32,625 | \$ 32,625 | \$ | \$ |
| Corporate Bonds | 111,954 | 111,954 | | |
| Common Stock | 96,388 | 96,388 | | |
| Mutual Funds | 165,436 | 165,436 | | |
| Total Investments by Fair Value Level | <u>\$ 406,403</u> | <u>\$ 406,403</u> | <u>\$ -</u> | <u>\$ -</u> |

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

4. RECEIVABLES

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>General</u> | <u>Capital Projects</u> | <u>Nonmajor and Other Funds</u> | <u>Total</u> |
|-----------------------------------|-----------------|-------------------------|---------------------------------|------------------|
| Receivables: | | | | |
| Taxes | \$ 6,149 | \$ | \$ 654 | \$ 6,803 |
| Interest* | | | 863 | 863 |
| Accounts and other | 230 | | 3,114 | 3,344 |
| Intergovernmental | | 5,459 | 1,119 | 6,578 |
| Gross receivables | <u>6,379</u> | <u>5,459</u> | <u>5,750</u> | <u>17,588</u> |
| Less allowance for uncollectibles | <u>120</u> | | | <u>120</u> |
| Total Net Receivables | <u>\$ 6,259</u> | <u>\$ 5,459</u> | <u>\$ 5,750</u> | <u>\$ 17,468</u> |

* Does not include interest on property taxes \$2,466 and interest on water, sewer and sanitation receivables \$657.

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 18,653 | \$ 115 | \$ (22) | \$ 18,746 |
| Construction in progress | 69,598 | 14,604 | (1,611) | 82,591 |
| Total capital assets not being depreciated | <u>88,251</u> | <u>14,719</u> | <u>(1,633)</u> | <u>101,337</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 244,658 | 129 | (228) | 244,559 |
| Machinery, equipment and building contents | 32,860 | 2,096 | (1,019) | 33,937 |
| Infrastructure | 275,392 | 1,193 | (22) | 276,563 |
| Total capital assets being depreciated | <u>552,910</u> | <u>3,418</u> | <u>(1,269)</u> | <u>555,059</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (98,544) | (4,977) | 172 | (103,349) |
| Machinery, equipment and building contents | (21,192) | (1,747) | 857 | (22,082) |
| Infrastructure | (143,563) | (4,845) | 20 | (148,388) |
| Total accumulated depreciation | <u>(263,299)</u> | <u>(11,569)</u> | <u>1,049</u> | <u>(273,819)</u> |
| Total capital assets being depreciated, net | <u>289,611</u> | <u>(8,151)</u> | <u>(220)</u> | <u>281,240</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 377,862</u> | <u>\$ 6,568</u> | <u>\$ (1,853)</u> | <u>\$ 382,577</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|----------------------|
| Governmental activities: | |
| General government | \$ 3,399 |
| Public safety | 850 |
| Public works | 5,014 |
| Education | <u>2,306</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 11,569</u> |

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

Construction Commitments

The City has active construction projects as of June 30, 2017. The projects include roads, bridges, water and sewer lines and school building improvements. At year end the City's commitments with contractors are as follows:

| | <u>Spent-to-Date</u> | <u>Project Balance</u> |
|---|----------------------|------------------------|
| City Public Parking Improvement Construction | \$ 534 | \$ 65 |
| Parking Public Safety/Security Improve | 501 | 99 |
| Plan, Design, Cons, Portable Water Infrastructure | 563 | 187 |
| Middletown Youth Soccer | 353 | 2 |
| Athletic Fields/Parks | 8,996 | 24,454 |
| Military Museum | 263 | 37 |
| Eckersley Hall | 744 | 6 |
| Rehab Main St. Water Main N of Wash | 1,679 | 251 |
| CSO 2007 BI Sewer/Separation | 5,734 | 2,886 |
| Design Acquire/Constr W/Mattabassett | 35,357 | 1,643 |
| Eckersley Hall-Plan, Impr,Const, Restore | 4,426 | 424 |
| Wesleyan Tennis Courts | 749 | 1 |
| Dingwall-Horan Firearm Design and Construction | 5 | 745 |
| Dingwall Firearm Enviro Remediation | - | 750 |
| 2007 Road Improv. Bond | 9,815 | 160 |
| Water and Sewer Improvements | 4,091 | 409 |
| Plan, Design, Construct Replace W&S Mains | 207 | 4,048 |
| Water Planning Improvements | 209 | 41 |
| Installation of Water System (SCADA) | 242 | 8 |
| John S. Roth Treatment Plant Improvements | 74 | 236 |
| Sewer System Pump Station | 461 | 9 |
| Charles Bacon Plant Improvements Water | 532 | 193 |
| Integrated Public Safety Software | 744 | 1 |
| Information Technology Infrastructure | 741 | 4 |
| Acquisition/Implement Technology Project | 442 | 14 |
| Information Technology System & Devices | 593 | 32 |
| Pur/Install Telephone System City BLDGS | 635 | 50 |
| City Info Technology Storage Infrastructure | 693 | 43 |
| CNR Ordinance 2012-2013 | 536 | 49 |
| CNR Ordinance 13/14 | 748 | 2 |
| CNR Ordinance 2014-2015 | 715 | 8 |
| CNR Ordinance 2015-2016 | 594 | 133 |
| CNR Ordinance 2016-2017 | 722 | 28 |
| Radio Communications Upgrades | 9,871 | 2,229 |
| Sidewalks, Curbing & Driveway Aprons | 78 | 422 |
| Citywide Streets Poles & Equip | 1,125 | 25 |
| 2013 Road, Sidewalk & PW Facilities | 6,894 | 8,306 |
| Keigwin Middle Sch Parking Lot | 416 | 34 |
| Keigwin Middle Sch Fire Alarm System | 161 | 4 |
| Asbestos Abatement/Woodrow Wilson Middle | 372 | 63 |
| Woodrow Wilson Middle | 744 | 5 |
| Wired & Wireless Network MHS | 330 | 13 |
| Powerschool Info Sys Mdtwn Schools | 134 | 1 |
| Jackson Street Bridge | 122 | 158 |
| Renovation & Improve Russell Library | 692 | 57 |
| Physical Inspect & Reval Real Property | 723 | 27 |
| Sanitary Sewers | 1,882 | 618 |
| Road Bond 2005 | 9,450 | 400 |
| Mill Street Bridge | 1,476 | 261 |
| Rehab Sani S&W Infrastructure/Middle St. | 1,231 | 69 |
| 2011 Road Bond | 11,062 | 3,108 |
| Plan, Design, Const, Repl, Sani Sewer Infrass | 307 | 193 |
| BI Force Main & Pump Station w/Mattabasset | 1,207 | 1,793 |
| Combined Sewer Overflow Separation | 177 | 7,573 |
| Mattabassett Regionalization Project | 13,087 | 1,913 |
| Waterline Improv. Arrigoni Bridge | 327 | 23 |
| CSO Road Improvement | 7,338 | 2,562 |
| 2001 Road Improvement Bond | 6,745 | 55 |
| Open Space | 2,984 | 16 |
| Middletown High School BI | 106,549 | 101 |
| Security Measures at City Hall | 630 | 120 |
| Web Base Security Sys School Citywide | 710 | 40 |
| Purchase Vehicles & Related Equipment | 608 | 49 |
| | <u>270,130</u> | <u>67,256</u> |
| Total | \$ <u>270,130</u> | \$ <u>67,256</u> |

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

The commitments are being financed as follows:

School projects are financed by bonds and grants from the State Department of Education.

Sewer projects are financed by grants and 2% loans from the State Department of Environmental Protection.

Other projects are primarily funded by City general obligation bonds.

Discretely Presented Component Units

Activity for ECRRA for the year ended June 30, 2017 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|------------------------------------|------------------------------|-------------------|-------------------|---------------------------|
| Capital assets, being depreciated: | | | | |
| Buildings and systems | \$ 109,901 | \$ | \$ | \$ 109,901 |
| Less accumulated depreciation for: | | | | |
| Buildings and systems | <u>(64,329)</u> | <u>(3,143)</u> | <u> </u> | <u>(67,472)</u> |
| ECRRA Capital Assets, Net | <u>\$ 45,572</u> | <u>\$ (3,143)</u> | <u>\$ -</u> | <u>\$ 42,429</u> |

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2017, the amounts due to and from other funds were as follows:

| | <u>Due From Other Funds</u> | <u>Due to Other Funds</u> |
|-----------------------------------|---------------------------------|-------------------------------|
| General Fund | \$ 6,700 | \$ |
| Nonmajor - Special Revenue Funds: | | |
| Special Grants | | 407 |
| Capital Projects Fund | <u> </u> | <u>6,293</u> |
| Total | <u>\$ 6,700</u> | <u>\$ 6,700</u> |

The above balances represent temporary advances for operating cash requirements.

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

Interfund transfers:

| | Transfers In | | | |
|----------------------------|-------------------------|----------------------------------|----------------------------------|------------------|
| | General Fund | Debt Service Fund | Nonmajor Governmental | Total |
| Transfers out: | | | | |
| General Fund | \$ | \$ 13,249 | \$ 1,640 | \$ 14,889 |
| Nonmajor Governmental | 485 | 3,114 | | 3,599 |
| Capital Projects | | 71 | | 71 |
| Internal Service Funds | 36 | | | 36 |
| Total Transfers Out | \$ 521 | \$ 16,434 | \$ 1,640 | \$ 18,595 |

Transfers are for regularly recurring operational transfers. Interfund transfers are used to 1) to move revenues from the General Fund, Nonmajor Governmental Funds and Capital Project Funds to the Debt Service Fund to pay for principal and interest on debt, and 2) to supplement revenues to other funds such as General Fund and Nonmajor Governmental Funds as approved by Town Council.

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$ 86,354 | \$ 19,000 | \$ 12,712 | \$ 92,642 | \$ 13,271 |
| Unamortized bond premium | 8,659 | 2,862 | 1,133 | 10,388 | 1,318 |
| Total bonds payable | 95,013 | 21,862 | 13,845 | 103,030 | 14,589 |
| Compensated absences | 7,100 | 723 | | 7,823 | 2,739 |
| OPEB obligation | 47,598 | 5,480 | | 53,078 | |
| Risk management | 7,768 | 15,627 | 15,446 | 7,949 | 2,561 |
| Total Governmental Activities Long-Term Liabilities | \$ 157,479 | \$ 43,692 | \$ 29,291 | \$ 171,880 | \$ 19,889 |

Governmental fund liabilities for bonds are liquidated by the Debt Service Fund, which is funded primarily from the General Fund. Compensated absences and other post-employment benefits of the governmental activities are liquidated primarily by the General Fund. Claims are liquidated by the Internal Service Funds, but primarily funded by the General Fund.

**CITY OF MIDDLETOWN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017
 (IN THOUSANDS)**

Note Payable

The City has a note payable at June 30, 2017 of \$15,568, which was issued for the construction of the Mattabassett Project. The note carries a 2% interest rate and the principal becomes payable upon the permanent refinancing of the note payable.

The annual requirements to amortize bonds payable as of June 30, 2017, are as follows:

| <u>Due Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|-------------------------|------------------------|---------------------|
| 2018 | \$ 13,271 | \$ 3,784 | \$ 17,055 |
| 2019 | 12,373 | 3,261 | 15,634 |
| 2020 | 11,068 | 2,864 | 13,932 |
| 2021 | 11,068 | 2,452 | 13,520 |
| 2022 | 9,863 | 1,961 | 11,824 |
| 2023-2027 | 32,575 | 4,001 | 36,576 |
| 2028-2032 | 2,399 | 103 | 2,502 |
| 2033 | 25 | | 25 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 92,642</u> | <u>\$ 18,426</u> | <u>\$ 111,068</u> |

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

Bonds payable at June 30, 2017 are comprised of the following:

| <u>Date</u> | <u>Purpose</u> | <u>Rate %</u> | <u>Original Issue</u> | <u>Debt Outstanding</u> | <u>Date of Fiscal Year Maturity</u> |
|-------------|------------------|---------------|-----------------------|-------------------------|-------------------------------------|
| 4/30/1998 | Clean Water Fund | 2% | \$ 1,832 | \$ 27 | 2018 |
| 4/30/2002 | Clean Water Fund | 2% | 3,526 | 751 | 2022 |
| 6/30/2006 | Clean Water Fund | 2% | 1,574 | 630 | 2025 |
| 3/15/2007 | General Purpose | 3.875-4% | 7,741 | 774 | 2018 |
| 3/15/2007 | Water | 3.875-4% | 800 | 80 | 2018 |
| 3/15/2007 | Sewer | 3.875-4% | 2,309 | 231 | 2018 |
| 3/15/2007 | Schools | 3.875-4% | 16,850 | 1,685 | 2018 |
| 3/15/2008 | General Purpose | 3.25-4.5% | 3,814 | 763 | 2019 |
| 3/15/2008 | Water | 3.25-4.5% | 36 | 7 | 2019 |
| 3/15/2008 | Sewer | 3.25-4.5% | 860 | 172 | 2019 |
| 3/15/2008 | Schools | 3.25-4.5% | 8,340 | 1,668 | 2019 |
| 8/31/2008 | Clean Water Fund | 2% | 1,975 | 934 | 2025 |
| 4/15/2010 | General Purpose | 3-5% | 6,248 | 2,499 | 2021 |
| 4/15/2010 | Water | 3-5% | 2,708 | 1,083 | 2021 |
| 4/15/2010 | Sewer | 3-5% | 892 | 357 | 2021 |
| 4/15/2010 | Schools | 3-5% | 1,052 | 421 | 2021 |
| 4/1/2011 | General Purpose | 2-4% | 7,712 | 3,856 | 2022 |
| 4/1/2011 | Water | 2-4% | 1,056 | 528 | 2022 |
| 4/1/2011 | Sewer | 2-4% | 132 | 66 | 2022 |
| 4/10/2013 | General Purpose | 2-4% | 24,323 | 17,017 | 2024 |
| 4/10/2013 | Water | 2-4% | 1,787 | 1,250 | 2024 |
| 4/10/2013 | Sewer | 2-4% | 1,030 | 721 | 2024 |
| 4/10/2013 | Schools | 2-4% | 760 | 532 | 2024 |
| 9/30/2013 | Clean Water Fund | 2% | 1,993 | 1,520 | 2033 |
| 3/18/2015 | General Purpose | 2-5% | 22,837 | 20,556 | 2026 |
| 3/18/2015 | Water | 2-5% | 4,013 | 3,609 | 2026 |
| 3/18/2015 | Sewer | 2-5% | 2,992 | 2,691 | 2026 |
| 3/18/2015 | Schools | 2-5% | 2,458 | 2,214 | 2026 |
| 4/14/2016 | General Purpose | 3-4% | 7,000 | 7,000 | 2027 |
| 4/12/2017 | General Purpose | 3-5% | 19,000 | 19,000 | 2028 |
| | | | <u>\$ 157,650</u> | <u>\$ 92,642</u> | |

Bonds authorized and unissued amounted to \$69.4 million at June 30, 2017.

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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(IN THOUSANDS)**

The total of the City's indebtedness does not exceed the legal debt limitation of \$876 million. The limitation is seven times the base of annual receipts from taxation as defined.

| <u>Category</u> | <u>Debt Limit</u> | <u>Net Indebtedness</u> | <u>Balance</u> |
|-----------------|-------------------|-------------------------|----------------|
| General purpose | \$ 281,795 | \$ 122,123 | \$ 159,672 |
| Schools | 563,590 | 7,081 | 556,509 |
| Sewer | 469,659 | 40,776 | 428,883 |
| Urban Renewal | 407,037 | | 407,037 |
| Pension deficit | 375,727 | | 375,727 |

ECRRA long-term liability activity for the year ended June 30, 2017 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Business-type activities: | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | \$ 49,709 | \$ | \$ 10,780 | \$ 38,929 | \$ 11,825 |
| Less deferred amounts for issuance discounts | (457) | | (131) | (326) | (131) |
| Business-Type Activity Long-Term Liabilities | \$ <u>49,252</u> | \$ <u>-</u> | \$ <u>10,649</u> | \$ <u>38,603</u> | \$ <u>11,694</u> |

ECRRA bonded debt at June 30, 2017 amounted to \$38,929. The following schedule reflects debt service requirements for each 12-month period ending January 1:

| <u>Due Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|------------------|-----------------|------------------|
| 2018 | \$ 11,825 | \$ 2,224 | \$ 14,049 |
| 2019 | 12,935 | 1,549 | 14,484 |
| 2020 | <u>14,169</u> | <u>810</u> | <u>14,979</u> |
| Total | \$ <u>38,929</u> | \$ <u>4,583</u> | \$ <u>43,512</u> |

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8. RESTRICTED ASSETS

The balances of the restricted asset accounts for ECRRA are as follows:

| | | |
|-----------------------------|--------|--------------------------|
| Construction Funds | \$ | 434 |
| Debt Service Reserve Fund | | 11,134 |
| Interest Funds | | 1,585 |
| Sinking Fund | | 5,945 |
| Special Reserve Fund | | <u>819</u> |
| Total Restricted Assets | \$ | <u><u>19,917</u></u> |

9. FUND BALANCE

The component of fund balance for the governmental funds at June 30, 2017 are as follows:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|-------------------------|----------------------------------|--------------------------------------|--|------------------|
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Inventory | \$ | \$ | \$ | \$ 39 | \$ 39,000 |
| Restricted for: | | | | | |
| Grants | | | | 2,772 | 2,772 |
| Permanent funds | | | | 1,309 | 1,309 |
| Debt service | | 80 | | | 80 |
| Committed to: | | | | | |
| Fire District | | | | 1,042 | 1,042 |
| Sanitary Disposal District | | | | 998 | 998 |
| Water distribution operations | | | | 5,236 | 5,236 |
| Landfill waste and recycling | | | | 296 | 296 |
| Sewer operations | | | | 2,804 | 2,804 |
| Sewage disposal | | | | 2,297 | 2,297 |
| Police benevolence | | | | 3 | 3 |
| Library | | | | 54 | 54 |
| Parking District | | | | 187 | 187 |
| Capital projects | | | | 2,317 | 2,317 |
| Assigned to: | | | | | |
| General government encumbrances | 717 | | | | 717 |
| Public safety encumbrances | 100 | | | | 100 |
| Public works encumbrances | 128 | | | | 128 |
| Health and human resources encumbrances | 13 | | | | 13 |
| Culture and recreation encumbrances | 70 | | | | 70 |
| Education encumbrances | 400 | | | | 400 |
| Assigned for subsequent year's budget | 4,802 | | | | 4,802 |
| Unassigned | <u>24,711</u> | | <u>(8,121)</u> | <u>(683)</u> | <u>15,907</u> |
| Total Fund Balances | <u>\$ 30,941</u> | <u>\$ 80</u> | <u>\$ (8,121)</u> | <u>\$ 18,672</u> | <u>\$ 41,572</u> |

10. RISK MANAGEMENT

The City is exposed to various risks of loss including, but not limited to claims for personal injury and property damage; theft of, damage to City property; errors and omissions claims; employee injuries and illnesses, both work-related and non-work-related. The City's comprehensive insurance program including property and liability, workers' compensation and employee health benefits is overseen by the Office of the General Counsel.

Property and Casualty Insurance Program

The City maintains property coverage (amounts not rounded) as listed below:

Automobile Physical Damage coverage includes actual cash value, subject to a \$25,000 deductible for both comprehensive and collision and \$125,000 for catastrophic loss.

Property Insurance totaling an amount equal to the replacement cost value of city-owned property including contents, subject to a \$50,000 deductible. Said coverage also includes specific sub-limits for fine arts, flood, earthquake, and other potential property related losses. Vacant city owned property is insured on an actual cash value basis.

Boiler and Machinery coverage with a limit of \$100,000,000 per accident is subject to a \$50,000 deductible.

With respect to liability coverage, the City's current program provides:

\$3,000,000 general aggregate - \$1,000,000 per occurrence General Liability; \$1; \$1,000,000 per occurrence Automobile Liability; and \$1,000,000 each claim Employee Benefits Liability (claims made). This coverage is not subject to a deductible, except for Employee Benefits Liability which is subject to a \$1,000 deductible. Automobile liability uninsured/underinsured motorist coverage with a limit of \$40,000 each occurrence.

Excess Liability (excess over General Liability, Automobile Liability, Law Enforcement Liability, Public Officials, School Board Legal Liability and Employers' Liability) with a limit of \$10,000,000 each occurrence and aggregate.

School Leaders Legal (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

Public Officials Liability (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

Law Enforcement Liability (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

The City further maintains the required bonding for the Tax Collector in the amount of \$400,000.

Workers' Compensation Insurance

The City self-insured its Workers' Compensation Program, which is comprised of two parts: third party claims administration and managed medical care, both of which are administered by an outside vendor hired by the City.

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Workers' Compensation and Employers' Liability coverage (amounts not rounded), subject to self-insured retentions of \$650,000 for Police and Fire and \$500,000 for all other employees, for each accident and each employee for disease with statutory limits for Workers' Compensation and \$1,000,000 Employers Liability.

Employee Health Benefits

The City's current employee/retiree medical benefit program is self-insured with stop-loss insurance limits (amounts not rounded) of \$125,000 per individual and 120% aggregate.

The City further provides employees and retirees with dental prescription drug coverage, both of which are self-insured. There is no stop-loss insurance that applies.

Employees and retirees also receive life insurance which is fully insured.

Outstanding Liabilities

Property and Liability

At the close of June 30, 2017, the City reported an outstanding liability of \$700 for claims incurred during the 2016-17 fiscal year, as well as prior years' claims within the deductible and self-insured retentions.

Workers' Compensation

At the close of June 30, 2017, the City reported an outstanding liability of \$4,688 for claims incurred during the 2016-17 fiscal year, as well as claims pending from prior years.

Employee Health Benefits

At the close of June 30, 2017, the City reported an outstanding liability of \$2,561 (medical/dental/prescription drug) for claims incurred but not reported during the 2016-17 fiscal year.

The following schedule reflects the change in the estimated liability for the last two fiscal years:

| | <u>Claims Payable July 1</u> | <u>Current Year Claims and Changes in Estimates</u> | <u>Claims Paid</u> | <u>Claims Payable June 30</u> |
|------------------------------------|------------------------------|---|--------------------|-------------------------------|
| <u>Health Benefits Fund:</u> | | | | |
| 2015-16 | \$ 2,877 | \$ 17,616 | \$ 17,606 | \$ 2,887 |
| 2016-17 | 2,887 | 12,045 | 12,371 | 2,561 |
| <u>Property and Casualty Fund:</u> | | | | |
| 2015-16 | 1,100 | 476 | 576 | 1,000 |
| 2016-17 | 1,000 | 501 | 801 | 700 |
| <u>Workers' Compensation Fund:</u> | | | | |
| 2015-16 | 3,662 | 2,023 | 1,804 | 3,881 |
| 2016-17 | 3,881 | 3,081 | 2,274 | 4,688 |

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11. CONTINGENT LIABILITIES

In December 1990, ECRRA was formed. ECRRA is a public body politic and corporate of the State of Connecticut, organized and existing pursuant to the Connecticut General Statutes and an Ordinance adopted by the Common Council of the City of Middletown. ECRRA was created for the purpose of developing and implementing a solid waste disposal system, including the acquisition and ownership of a solid waste resource recovery system. At June 30, 2017, the City was the only member of ECRRA. ECRRA is empowered to issue bonds and use the proceeds to acquire and construct such systems upon approval of each member's governing body. On June 17, 1993, the Common Council of the City approved the issuance of \$150 million of bonds for the cost of a solid waste facility. In October 1993, revenue bonds amounting to \$128,150 were issued by the Authority.

ECRRA has entered into an agreement, with an indirect, wholly owned subsidiary of Wheelabrator Technologies Inc., for design, installation, and equipage of a 500-ton per day solid waste disposal, electric power generation, and resource recovery facility in Lisbon, Connecticut. Under a Municipal Waste Disposal Agreement, the City is required to provide minimum amounts of acceptable waste to the project and to pay disposal fees to ECRRA. The City and Wheelabrator Connecticut (the Company), as the users of the facility, are obligated to make monthly disposal fee payments that together equal ECRRA's net cost of operations, including debt service.

The City's commitment is 23,273 tons per year, effective July 1, 1995, which may be assigned to other towns, cities or other political subdivisions, under certain conditions. Any such assignment would not relieve the City of its obligation to make payments. ECRRA and the Company have further agreed that, so long as the City delivers at least 6,718 tons per year, the Company will deliver the shortfall below 23,273 tons.

The City has pledged its full faith and credit to the payment of all amounts due under the agreement and shall appropriate funds and levy taxes in an amount sufficient, together with other available revenues, to make such payments. The agreement is not a debt of the City and does not obligate the City to pay the principal of or interest on the revenue bonds.

12. POST EMPLOYMENT BENEFITS

A. Plan Description

The City, in accordance with various collective bargaining agreements, provides retiree medical benefits for the lifetime of the retired member and covered dependents. The plan covers City, Board of Education, Police and Fire employees as further defined in collective bargaining agreements and other written materials. Eligibility and premium sharing information is detailed in the various collective bargaining agreements. The City does not issue separate stand-alone financial statements for the plan.

The post post-employment benefits plan is administered by the Retirement Board consisting of eight members: two (2) members of the Common Council (with one (1) member from each political party); the City's Director of Finance; three (3) citizens of the City of Middletown, provided that one such seat shall be held by a former finance director, until his resignation, death or expiration of his term without reappointment; one (1) citizen of the City of Middletown who is also a member of the Plan; and the Mayor, ex officio. In no event shall more than five (5) of the Retirement Board's members belong to any one political party, as determined based upon each member's registered party affiliation, excluding from consideration the City's Director of Finance.

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B. Funding Policy

The contribution requirements of plan members and the City are also negotiated with the various unions representing the employees. Generally, retirees and their dependents are covered for those City employees who have 15 years of service. Eligible retirees may either commence benefits immediately or defer coverage to a future date. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly towards the cost of health insurance premiums.

City employees must elect one of two pension options; the options that apply vary dependent upon their union affiliation and the health insurance benefits to which they are entitled are determined based on their selected pension option. Depending on which pension option is selected, City employees who are members of Local 466, Teamsters, Police and Fire will pay the same the cost-share percentage as actives for health insurance benefits, capped at 25% for life, or pay a premium cost-share percentage for health insurance benefits based on age at retirement.

New members of the bargaining units, upon retirement, have the same pension options, however the health insurance benefits to which they are entitled are reduced and vary by union group.

All pre-2005 retirees are under different funding rules. In addition, subject to the same premium cost-sharing contribution as active employees, a surviving spouse is covered until death or remarriage. Dental coverage is provided for all retirees, including eligible surviving spouses.

The waiver of contribution offering that applied to retirees electing coverage in the City's point-of-service plan option was discontinued as of March 1, 2009. All retirees, regardless of plan choice, now make a contribution toward the cost of coverage.

The Board of Education employees are eligible at the same time they are eligible for benefits under the plan with the State of Connecticut Teachers Retirement Board (TRB). Teachers contribute 100% of the premium less the TRB subsidy. Teachers over the age of 65 who are not eligible for Medicare, shall be allowed to purchase the coverage at no cost to the Board and are given the TRB subsidy; nonunion administration have no contribution up to the age of 65 and 20% after age 65, and union administration, pre-65 retiree pays excess over board payment. TRB subsidy is applied. If over 65 and not eligible for Medicare, retiree pays 100% of premium less the TRB subsidy.

At July 1, 2016, plan membership consisted of the following:

| | |
|-----------------------------|---------------------|
| Active plan members | 1,004 |
| Retired and spouses members | <u>782</u> |
| Total Participants | <u><u>1,786</u></u> |

C. Investments

Investment Policy

OPEB Benefits Plan's policy in regard to the allocation of invested assets is established and may be amended by the retirement board by a majority vote of its members.

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Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 7.90%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Net OPEB Liability of the Town

During the year, the City implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (OPEB). This Statement requires the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The components of the net OPEB liability of the City at June 30, 2017, were as follows:

| | | |
|--|----|-----------------------|
| Total OPEB liability | \$ | 307,981 |
| Plan fiduciary net position | | <u>13,332</u> |
| Net OPEB Liability | \$ | <u><u>294,649</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | | 4.33% |

The City's net OPEB liability will be required to be recorded on the government-wide financial statement of net position at June 30, 2018.

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Inflation | 2.50% (Prior: 3.00%) |
| Salary increases | 3.00%, average, including inflation |
| Investment rate of return | 3.79% (Prior: 7.00%), net of OPEB plan investment expense, including inflation |
| Healthcare cost trend rates | 7.50% for 2017, decreasing 0.50% per year to an ultimate rate of 4.50% for 2023 and later years |

Mortality rates were based on the RP-2000 Combined Mortality Table with separate male and female rates, with Total Dataset adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through July 1, 2015.

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The long-term expected rate of return on OPEB 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 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. The target allocation and best estimates of arithmetic real rates of return for each major asset as of June 30, 2017 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|--------------------------|---|
| U.S. Investment Grade Bonds | 34.10 % | 1.60 % |
| Large Cap Domestic Equity | 18.90 | 4.40 |
| International Equity Developed | 15.00 | 6.60 |
| Mid Cap Domestic Equity | 10.00 | 4.80 |
| Emerging Markets Equity | 6.00 | 8.60 |
| Small Cap Domestic Equity | 5.00 | 5.10 |
| U.S. Real Estate | 5.00 | 5.60 |
| U.S. High Yield Bonds | 3.00 | 3.90 |
| Cash | 3.00 | 0.10 |
| Total | 100.00 | |

Discount Rate

The discount rate used to measure the total OPEB liability was 3.79% (prior: 7.00%). The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.79%) or 1 percentage point higher (4.79%) than the current discount rate:

| | <u>1% Decrease (2.79%)</u> | <u>Current Discount Rate (3.79%)</u> | <u>1% Increase (4.79%)</u> |
|--------------------|--------------------------------|--|--------------------------------|
| Net OPEB Liability | \$ <u>348,192</u> | \$ <u>294,649</u> | \$ <u>252,466</u> |

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Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (6.50% decreasing to 3.50%) or 1 percentage point higher (8.50% decreasing to 5.50%) than the current healthcare cost trend rates:

| | 1% Decrease (6.50% Decreasing to 3.50%) | Healthcare Cost Trend Rates (7.50% Decreasing to 4.50%) | 1% Increase (8.50% Decreasing to 5.50%) |
|--------------------|--|--|--|
| Net OPEB Liability | \$ 250,831 | \$ 294,649 | \$ 350,702 |

E. Annual OPEB Cost and Net OPEB Obligations

The City of Middletown's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (asset):

| | |
|--|------------------|
| Annual required contribution (ARC) | \$ 15,542 |
| Interest on net OPEB obligation | 3,280 |
| Adjustment to annual required contribution | <u>(2,591)</u> |
| Annual OPEB cost | 16,231 |
| Contributions made | <u>10,751</u> |
| Change in net OPEB obligation | 5,480 |
| Net OPEB obligation at beginning of year | <u>47,598</u> |
| Net OPEB Obligation at End of Year | <u>\$ 53,078</u> |

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The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations for the last three fiscal years are presented below.

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost (AOC)</u> | <u>Actual Contribution</u> | <u>Percentage of AOC Contributed</u> | <u>Net OPEB Obligation (Asset)</u> |
|--------------------------|-------------------------------|----------------------------|--------------------------------------|------------------------------------|
| 6/30/2015 | \$ 14,159 | \$ 8,829 | 62.36 % | \$ 42,440 |
| 6/30/2016 | 15,796 | 10,668 | 67.54 | 47,598 |
| 6/30/2017 | 16,231 | 10,751 | 66.24 | 53,078 |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future. The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Underfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u> |
|---------------------------------|--------------------------------------|--|-------------------------------------|---------------------------|----------------------------|--|
| 7/1/2012 | \$ 5,850 | \$ 151,468 | \$ 145,618 | 3.9 % | \$ 34,145 | 426 % |
| 7/1/2014 | 8,748 | 183,479 | 174,731 | 4.8 | 34,622 | 505 |
| 7/1/2016 | 9,774 | 217,964 | 208,190 | 4.5 | 38,130 | 546 |

Schedule of Employer Contributions - Teachers and Administrators

| <u>Fiscal Year Ended</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|--------------------------|-------------------------------------|-------------------------------|
| 6/30/2012 | \$ 1,341 | 43 % |
| 6/30/2013 | 1,348 | 38 |
| 6/30/2014 | 1,366 | 35 |
| 6/30/2015 | 1,769 | 33 |
| 6/30/2016 | 1,791 | 50 |
| 6/30/2017 | 1,814 | 35 |

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Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.75% rate of return for the Board of Education, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. The annual healthcare cost trend rate is 7.50% for fiscal year 2017, decreasing 0.5% per year to 4.50% for year 2023 and later. Projected salary increases were 4.00%, with an inflation rate of 2.50%. The Unfunded Accrued Liability is amortized each year over a constant 30-year period, as a level dollar amount, open.

13. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Middletown Retirement System Fund

A. Plan Description and Benefits Provided

The City is the administrator of the Middletown Retirement System Fund, a single-employer defined benefit Public Employee Retirement System (PERS) established and administered by the City to provide pension benefits for its non-teacher employees. The PERS provides retirement disability, and death benefits to plan members and beneficiaries. The Charter provides the City Council with the authority to establish and amend benefit provisions, by ordinance, through the Retirement Board. The PERS is considered to be part of the City of Middletown's financial reporting entity and is included in the City's financial reports as a pension trust fund. Stand-alone financial statements are not issued.

Under the plan, all full-time employees are eligible to join. Firemen are 100% vested after 20 years of continuous service, all other employees are 100% vested after 10 years of continuous service. Employees who retire at normal retirement, (20 years for police and 22 years of service for fire and general government employees at any age, or after 15 years of service having attained age 65), receive a retirement benefit of 2 1/4% (Police and Fire 2 1/2%) of average annual pay during 4 (Police 3) consecutive highest-paid years times number of years of service. The maximum benefit is 70% of pay; the minimum benefit for 20 years of service is \$100 per month.

The retirement system of the City is vested in a Retirement Board consisting of eight members, not more than five of whom shall belong to any one political party, as follows: two members of the City Council (a representative from each political party); the City Director of Finance; four citizens of the City of Middletown, one of whom shall be a member of the retirement system elected by the members thereof; and the Mayor, ex officio. All members, except the Director of Finance, the Mayor and the member of the retirement system, shall be appointed by the Mayor with the advice and consent of the City Council.

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At July 1, 2016, PERS membership consisted of:

| | |
|--|-------------------------|
| Retirees, disabled and beneficiaries currently receiving benefits | 474 |
| Terminated employees entitled to benefits but not yet receiving them | 25 |
| Active plan members | <u>546</u> |
| Total | <u><u>1,045</u></u> |

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

PERS financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to Plan provisions and contractual requirements. Benefit payments and refunds are payable when due and payable in accordance with terms of the Plan. Administrative costs are funded through investment earnings.

Method Used to Value Investments

Investments are reported at fair value. Investment income is recognized as earned.

C. Funding Status and Progress

Employees are required to contribute 6% of their earnings to the PERS. If an employee leaves employment or dies before meeting the vesting requirements, accumulated employee contributions and interest are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees as determined by its actuaries; the current rate is 0% - General Government, 3.6% - Firefighters, and 3.1% - Police, of annual covered payroll. Benefits and employee contributions are fixed by contract and may be amended by the City Council subject to union negotiations. Effective July 1, 2003, police employees contribute 6.5% of their earnings to the PERS. Compensation is expanded by including longevity pay (effective July 1, 2002) and holiday pay (effective July 1, 2004).

D. Investments

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the PERS Board by a majority vote of its members. It is the policy of the PERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.18%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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E. Net Pension Asset of the City

The components of the net pension asset of the City at June 30, 2017 were as follows:

| | | |
|---|----|------------------------|
| Total pension liability | \$ | 361,964 |
| Plan fiduciary net position | | <u>399,630</u> |
| Net Pension Asset | \$ | <u><u>(37,666)</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | | 110.41% |

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation and measurement date as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.50% |
| Salary increases | Rates vary by age |
| Investment rate of return | 7.00% (Prior: 7.10%), net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

The plan does not have sufficiently credible data to perform an experience study.

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(IN THOUSANDS)

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|--------------------------|---|
| Custom Fixed Income | 37.0 % | 1.0 % |
| Large Cap Domestic Equity | 27.0 | 6.5 |
| International Equity Developed | 12.0 | 6.5 |
| Mid Cap Domestic Equity | 8.0 | 7.5 |
| Small Cap Domestic Equity | 8.0 | 8.3 |
| Emerging Markets Equity | 5.0 | 9.3 |
| High Yield Fixed Income | <u>3.0</u> | 4.5 |
| Total | <u>100.0 %</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

Employees' Pension Plan

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|---------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Asset (a)-(b) |
| Balances as of June 30, 2016 | \$ 339,922 | \$ 366,544 | \$ (26,622) |
| Changes for the year: | | | |
| Service cost | 8,184 | | 8,184 |
| Interest on total pension liability | 24,146 | | 24,146 |
| Effect of plan changes | 726 | | 726 |
| Differences between expected and actual experience | 995 | | 995 |
| Effect of assumptions changes or inputs | 4,305 | | 4,305 |
| Benefit payments | (16,314) | (16,314) | - |
| Employer contributions | | 2,807 | (2,807) |
| Member contributions | | 2,488 | (2,488) |
| Net investment income (loss) | | 44,095 | (44,095) |
| Other | | 10 | (10) |
| Net changes | <u>22,042</u> | <u>33,086</u> | <u>(11,044)</u> |
| Balances as of June 30, 2017 | \$ <u>361,964</u> | \$ <u>399,630</u> | \$ <u>(37,666)</u> |

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

The following presents the net pension asset of the City, calculated using the discount rate of 7.00%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|-------------------------------|----------------------|-----------------------------------|----------------------|
| Net Pension (Asset) Liability | \$ <u>10,523</u> | \$ <u>(37,666)</u> | \$ <u>(77,357)</u> |

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the City recognized pension expense of \$11,525. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Employees' Pension Plan | |
|---|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 811 | \$ 5,192 |
| Changes of assumptions | 9,304 | 346 |
| Net difference between projected and actual earning on pension plan investments | <u>9,472</u> | |
| Total | <u>\$ 19,587</u> | <u>\$ 5,538</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending June 30,

| | |
|------|----------|
| 2018 | \$ 6,608 |
| 2019 | 6,608 |
| 2020 | 2,992 |
| 2021 | (2,551) |
| 2022 | 392 |

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

Trust Fund Financial Statements

**COMBINING STATEMENT OF NET POSITION - PENSION AND OTHER
EMPLOYEE BENEFIT TRUST FUNDS
JUNE 30, 2017**

| | Pension Trust Fund | OPEB Trust Fund | Total |
|--|-----------------------------------|--------------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets: | | | |
| Cash and cash equivalents | \$ 4,620 | \$ 2,527 | \$ 7,147 |
| Investments: | | | |
| U.S. government securities | 32,626 | | 32,626 |
| Corporate bonds | 111,954 | | 111,954 |
| Common stock | 90,922 | 5,321 | 96,243 |
| Mutual funds | 158,729 | 5,622 | 164,351 |
| Receivables: | | | |
| Accrued investment income | <u>863</u> | | <u>863</u> |
| Total assets | <u>399,714</u> | <u>13,470</u> | <u>413,184</u> |
| Liabilities: | | | |
| Vouchers and other payables | <u>84</u> | <u>138</u> | <u>222</u> |
| Net Position: | | | |
| Net Position Restricted for Pension and OPEB Benefits | <u>\$ 399,630</u> | <u>\$ 13,332</u> | <u>\$ 412,962</u> |

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

| | <u>Pension Trust Fund</u> | <u>OPEB Trust Fund</u> | <u>Total</u> |
|---|-------------------------------|----------------------------|-------------------|
| Additions: | | | |
| Contributions: | | | |
| Employer | \$ 2,807 | \$ 10,124 | \$ 12,931 |
| Plan members | 2,488 | | 2,488 |
| Other | 10 | | 10 |
| Total contributions | <u>5,305</u> | <u>10,124</u> | <u>15,429</u> |
| Investment income (loss): | | | |
| Net change in fair value of investments | 39,491 | 930 | 40,421 |
| Interest and dividends | 5,378 | 134 | 5,512 |
| Total investment gain | <u>44,869</u> | <u>1,064</u> | <u>45,933</u> |
| Investment fees | <u>(774)</u> | <u>(23)</u> | <u>(797)</u> |
| Net investment income (loss) | <u>44,095</u> | <u>1,041</u> | <u>45,136</u> |
| Total additions | <u>49,400</u> | <u>11,165</u> | <u>60,565</u> |
| Deductions: | | | |
| Benefits | <u>16,314</u> | <u>8,516</u> | <u>24,830</u> |
| Total deductions | <u>16,314</u> | <u>8,516</u> | <u>24,830</u> |
| Change in Net Position | 33,086 | 2,649 | 35,735 |
| Net Position at Beginning of Year | <u>366,544</u> | <u>10,683</u> | <u>377,227</u> |
| Net Position at End of Year | <u>\$ 399,630</u> | <u>\$ 13,332</u> | <u>\$ 412,962</u> |

Teachers Retirement

A. Plan Description

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

B. Benefit Provisions

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement

Retirement benefits for employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

Early Retirement

Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement

Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

C. Contributions

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts)

School District employers are not required to make contributions to the plan.

The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of salary for the pension benefit.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the City as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

| | | |
|---|----|-----------------------|
| City's proportionate share of the net pension liability | \$ | - |
| State's proportionate share of the net pension liability associated with the City | | <u>124,296</u> |
| Total | \$ | <u><u>124,296</u></u> |

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. At June 30, 2017, the City has no proportionate share of the net pension liability.

For the year ended June 30, 2017, the City recognized pension expense and revenue of \$13,555 in Exhibit II for on-behalf amounts for the benefits provided by the State.

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.75% |
| Salary increase | 3.25-6.50%, including inflation |
| Investment rate of return | 8.00%, net of pension plan investment expense, including inflation |

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale, and further adjusted to grade in increased rates (5% for females and 8% for males) over age 80 for the period after service retirement and for dependent beneficiaries as well as for active members. The RPH-2014 Disabled Mortality Table projected to 2017 with Scale BB is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

For teachers who retired prior to September 1, 1992, pension benefit adjustments are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

For teachers who were members of the Teachers' Retirement System before July 1, 2007 and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%.

For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis 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. The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|--------------------------|---|
| Large Cap U.S. equities | 21.0 % | 5.8 % |
| Developed non-U.S. equities | 18.0 | 6.6 |
| Private equity | 11.0 | 7.6 |
| Emerging markets (non-U.S.) | 9.0 | 8.3 |
| Alternative investments | 8.0 | 4.1 |
| Core fixed income | 7.0 | 1.3 |
| Real estate | 7.0 | 5.1 |
| Liquidity fund | 6.0 | 0.4 |
| Emerging market bond | 5.0 | 3.7 |
| High yield bonds | 5.0 | 3.9 |
| Inflation linked bond fund | 3.0 | 1.0 |
| Total | <u>100.0 %</u> | |

F. Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined contribution rates in the future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

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

The City's proportionate share of the net pension liability is \$-0- and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

H. Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the City has no obligation to contribute to the plan.

14. LITIGATION

There are a number of suits and claims pending against the City, none of which, individually or in the aggregate is believed by counsel to result in a judgment or judgments that would materially affect the City's financial position.

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**Required Supplementary
Information**

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes: | | | | |
| General property taxes | \$ 107,427 | \$ 107,427 | \$ 108,976 | \$ 1,549 |
| Penalties and interest on delinquent taxes | 607 | 607 | 870 | 263 |
| Total | <u>108,034</u> | <u>108,034</u> | <u>109,846</u> | <u>1,812</u> |
| Licenses and permits: | | | | |
| Business licenses and permits | 26 | 26 | 51 | 25 |
| Non-business licenses and permits | 699 | 699 | 1,327 | 628 |
| Total | <u>725</u> | <u>725</u> | <u>1,378</u> | <u>653</u> |
| Intergovernmental revenues | <u>31,903</u> | <u>31,903</u> | <u>32,041</u> | <u>138</u> |
| Charges for services: | | | | |
| General government | 2,538 | 2,538 | 2,754 | 216 |
| Public safety | 1,267 | 1,267 | 1,599 | 332 |
| Culture and recreation | 302 | 302 | 399 | 97 |
| Total | <u>4,107</u> | <u>4,107</u> | <u>4,752</u> | <u>645</u> |
| Miscellaneous revenue: | | | | |
| Interest | 80 | 80 | 209 | 129 |
| Other | 4,178 | 4,789 | 4,574 | (215) |
| Total | <u>4,258</u> | <u>4,869</u> | <u>4,783</u> | <u>(86)</u> |
| Total revenues | <u>149,027</u> | <u>149,638</u> | <u>152,800</u> | <u>3,162</u> |
| Other financing sources: | | | | |
| Use of fund balance | 3,290 | 3,290 | | (3,290) |
| Transfers in | 518 | 518 | 521 | 3 |
| Total | <u>3,808</u> | <u>3,808</u> | <u>521</u> | <u>(3,287)</u> |
| Total | \$ <u>152,835</u> | \$ <u>153,446</u> | 153,321 | \$ <u>(125)</u> |
| Budgetary revenues are different than GAAP revenues because: | | | | |
| State of Connecticut "on-behalf" contributions to the Connecticut State Teachers' Retirement System for City teachers are not budgeted | | | 13,555 | |
| Premium on bonds not budgeted | | | <u>2,862</u> | |
| Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV | | | \$ <u>169,738</u> | |

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------------|-------------------------|---------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures: | | | | |
| General government: | | | | |
| Mayor's Office | \$ 639 | \$ 621 | \$ 600 | \$ 21 |
| Finance | 2,844 | 2,922 | 2,587 | 335 |
| Town Clerk | 316 | 334 | 329 | 5 |
| City Attorney | 677 | 738 | 729 | 9 |
| Tax Collector | 398 | 436 | 436 | - |
| Registrar of Voters | 227 | 232 | 196 | 36 |
| Tax Assessor | 376 | 491 | 489 | 2 |
| Councilmen | 192 | 226 | 225 | 1 |
| Planning Conservation and Development | 756 | 724 | 722 | 2 |
| Personnel Department | 237 | 218 | 209 | 9 |
| Municipal Building | 232 | 223 | 219 | 4 |
| Other | 100 | 100 | 100 | - |
| P.C. Network | 989 | 959 | 952 | 7 |
| Total | <u>7,983</u> | <u>8,224</u> | <u>7,793</u> | <u>431</u> |
| Public safety: | | | | |
| Police | 12,854 | 13,979 | 13,723 | 256 |
| Office of Emergency Management | 62 | 62 | 55 | 7 |
| Canine Control | 205 | 205 | 195 | 10 |
| Parking Authority | 799 | 796 | 795 | 1 |
| Fire Alarms | 166 | 226 | 220 | 6 |
| Central Communications | 1,736 | 1,799 | 1,793 | 6 |
| Total | <u>15,822</u> | <u>17,067</u> | <u>16,781</u> | <u>286</u> |
| Public works: | | | | |
| Administration | 383 | 411 | 405 | 6 |
| Inspections and permits | 313 | 338 | 333 | 5 |
| Garage, highway and engineering | 3,331 | 3,522 | 3,504 | 18 |
| Building | 106 | 114 | 109 | 5 |
| Sanitation landfill | 151 | 155 | 153 | 2 |
| Traffic paint | 163 | 166 | 164 | 2 |
| Parking lots | | | | - |
| Recycling | 146 | 140 | 131 | 9 |
| Total | <u>4,593</u> | <u>4,846</u> | <u>4,799</u> | <u>47</u> |

(Continued on next page)

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|----------------------------|-------------------------|--------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures (continued): | | | | |
| Health | \$ 733 | \$ 764 | \$ 763 | \$ 1 |
| Parks and recreation | 2,275 | 2,290 | 2,259 | 31 |
| Russell Library | 2,833 | 2,780 | 2,777 | 3 |
| Education | 79,485 | 79,485 | 79,476 | 9 |
| Sundry municipal services: | | | | |
| Transit District | 270 | 270 | 270 | - |
| Senior affairs | 538 | 539 | 536 | 3 |
| Youth services | 217 | 167 | 162 | 5 |
| Human relations | 160 | 173 | 173 | - |
| Reserve for salaries | 900 | 564 | | 564 |
| Contingency Fund | 5 | 1 | | 1 |
| Total | 2,090 | 1,714 | 1,141 | 573 |
| Special accounts | 1,424 | 1,920 | 1,829 | 91 |
| Employee benefits | 17,756 | 17,814 | 17,807 | 7 |
| Insurance - bonds | 2,915 | 2,915 | 2,915 | - |
| Capital Outlay | - | - | - | - |
| Total expenditures | 137,909 | 139,819 | 138,340 | 1,479 |
| Other financing uses: | | | | |
| Transfers out | 14,926 | 14,926 | 14,889 | 37 |
| Total | \$ 152,835 | \$ 154,745 | 153,229 | \$ 1,516 |

Budgetary expenditures are different than GAAP expenditures because:
State of Connecticut on-behalf payments to the Connecticut State Teachers'
Retirement System for City teachers are not budgeted 13,555
Encumbrances for purchases and commitments ordered but not received are
reported in the year the order is placed for budgetary purposes, but in the
year received for financial reporting purposes (179)

Total Expenditures and Other Financing Uses as Reported on the Statement
of Revenues, Expenditures and Changes in Fund Balances - Governmental
Funds - Exhibit IV \$ 166,605

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS*
(In Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Total pension liability: | | | | |
| Service cost | \$ 8,184 | \$ 7,434 | \$ 6,840 | \$ 6,577 |
| Interest | 24,146 | 23,780 | 23,472 | 22,384 |
| Changes of benefit terms | 726 | | | |
| Differences between expected and actual experience | 995 | (6,518) | (2,268) | |
| Changes of assumptions | 4,305 | 9,310 | (692) | |
| Benefit payments, including refunds of member contributions | <u>(16,314)</u> | <u>(15,704)</u> | <u>(15,195)</u> | <u>(14,626)</u> |
| Net change in total pension liability | 22,042 | 18,302 | 12,157 | 14,335 |
| Total pension liability - beginning | <u>339,922</u> | <u>321,620</u> | <u>309,463</u> | <u>295,129</u> |
| Total pension liability - ending | <u>361,964</u> | <u>339,922</u> | <u>321,620</u> | <u>309,464</u> |
| Plan fiduciary net position: | | | | |
| Contributions - employer | 2,807 | 2,630 | 2,794 | 2,418 |
| Contributions - member | 2,488 | 2,410 | 2,282 | 2,269 |
| Net investment income (loss) | 44,095 | (758) | 10,260 | 53,223 |
| Benefit payments, including refunds of member contributions | <u>(16,314)</u> | <u>(15,704)</u> | <u>(15,195)</u> | <u>(14,626)</u> |
| Administrative expense | | (4) | (10) | (1) |
| Other | 10 | | | |
| Net change in plan fiduciary net position | <u>33,086</u> | <u>(11,426)</u> | <u>131</u> | <u>43,283</u> |
| Plan fiduciary net position - beginning | <u>366,544</u> | <u>377,970</u> | <u>377,839</u> | <u>334,556</u> |
| Plan fiduciary net position - ending | <u>399,630</u> | <u>366,544</u> | <u>377,970</u> | <u>377,839</u> |
| Net Pension Liability (Asset) - Ending | <u>\$ (37,666)</u> | <u>\$ (26,622)</u> | <u>\$ (56,350)</u> | <u>\$ (68,375)</u> |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 110.41% | 107.83% | 117.52% | 122.09% |
| Covered payroll | \$ 39,021 | \$ 38,802 | \$ 36,908 | \$ 34,606 |
| Net pension liability (asset) as a percentage of covered payroll | -96.53% | -68.61% | -152.68% | -197.58% |

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PENSION PLAN
LAST TEN FISCAL YEARS
(In Thousands)**

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|--------------|--------------|--------------|--------------|---------------|---------------|--------------|--------------|-------------|-------------|
| Actuarially determined contribution | \$ 2,807 | \$ 2,630 | \$ 2,794 | \$ 2,418 | \$ 2,205 | \$ 22,777 | \$ 1,933 | \$ 1,066 | \$ 585 | \$ 722 |
| Contributions in relation to the actuarially determined contribution | <u>2,807</u> | <u>2,630</u> | <u>2,794</u> | <u>2,418</u> | <u>1,388</u> | <u>22,777</u> | <u>1,933</u> | <u>1,066</u> | <u>585</u> | <u>722</u> |
| Contribution Deficiency (Excess) | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>817</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| Covered payroll | \$ 39,021 | \$ 38,802 | \$ 36,908 | \$ 34,606 | \$ 35,560 | \$ 35,327 | \$ 34,256 | \$ 33,664 | \$ 30,629 | \$ 29,625 |
| Contributions as a percentage of Covered payroll | 7.19% | 6.78% | 7.57% | 6.99% | 3.90% | 64.47% | 5.64% | 3.17% | 1.91% | 2.44% |

Notes to Schedule

| | |
|---|---|
| Valuation date: | July 1, 2016 |
| Measurement date: | June 30, 2017 |
| Valuation timing | Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported |
| Methods and assumptions used to determine contribution rates: | |
| Actuarial cost method | Entry Age Normal Actuarial Cost Method |
| Amortization method | Level dollar, open |
| Remaining amortization period | 15 years |
| Asset valuation method | Market Value over 4 year period, at 25% per year |
| Inflation | 2.50% |
| Salary increases | Graded salary growth with an ultimate rate of 3.0% |
| Investment rate of return | 7.00% (Prior: 7.10%) |
| Cost of living adjustment | 3.00% per year |
| Retirement age | Rates based on age and service |
| Turnover | Rates based on age |
| Mortality | RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA. |

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF INVESTMENT RETURNS
LAST FOUR FISCAL YEARS***

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 12.18% | -0.20% | 2.74% | 16.09% |

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS' RETIREMENT PLAN
LAST THREE FISCAL YEARS*
(In Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------------|------------------|------------------|
| City's proportion of the net pension liability | 0.00% | 0.00% | 0.00% |
| City's proportionate share of the net pension liability | \$ - | \$ - | \$ - |
| State's proportionate share of the net pension liability associated with the City | <u>124,296</u> | <u>93,951</u> | <u>86,839</u> |
| Total | <u>\$ 124,296</u> | <u>\$ 93,951</u> | <u>\$ 86,839</u> |
| City's Covered payroll | \$ 35,727 | \$ 34,804 | \$ 34,168 |
| City's proportionate share of the net pension liability as a percentage of its Covered payroll | 0.00% | 0.00% | 0.00% |
| Plan fiduciary net position as a percentage of the total pension liability | 52.26% | 59.50% | 61.51% |

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Notes to Schedule

| | |
|-------------------------------|---|
| Changes in benefit terms | None |
| Changes of assumptions | During 2016, rates of withdrawal, disability, retirement, mortality and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2015. During 2011, rates of withdrawal, retirement and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2010. |
| Actuarial cost method | Entry age |
| Amortization method | Level percent of salary, closed |
| Remaining amortization period | 20.4 years |
| Asset valuation method | 4-year smoothed market |
| Investment rate of return | 8.50%, net of investment related expense |

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR*
(In Thousands)

| | <u>2017</u> |
|---|-------------------|
| Total OPEB liability: | |
| Service cost | \$ 5,045 |
| Interest | 13,352 |
| Differences between expected and actual experience | 5 |
| Changes of assumptions | 108,209 |
| Benefit payments | <u>(8,516)</u> |
| Net change in total OPEB liability | 118,095 |
| Total OPEB liability - beginning | <u>189,886</u> |
| Total OPEB liability - ending | <u>307,981</u> |
| Plan fiduciary net position: | |
| Contributions - employer | 10,124 |
| Net investment income (loss) | 1,041 |
| Benefit payments | <u>(8,516)</u> |
| Net change in plan fiduciary net position | 2,649 |
| Plan fiduciary net position - beginning | <u>10,683</u> |
| Plan fiduciary net position - ending | <u>13,332</u> |
| Net OPEB Liability - Ending | <u>\$ 294,649</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 4.33% |
| Covered-employee payroll | \$ 39,083 |
| Net OPEB liability as a percentage of covered-employee payroll | 753.91% |

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
OPEB
LAST TEN FISCAL YEARS
(In Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| Actuarially determined contribution (1) | \$ 13,728 | \$ 13,373 | \$ 11,808 | \$ 11,618 | \$ 10,990 | \$ 10,682 | \$ 12,400 | \$ 12,460 | \$ 11,583 | \$ N/A |
| Contributions in relation to the actuarially determined contribution | <u>10,124</u> | <u>9,765</u> | <u>8,250</u> | <u>9,238</u> | <u>7,624</u> | <u>6,296</u> | <u>10,314</u> | <u>6,230</u> | <u>6,713</u> | <u>N/A</u> |
| Contribution Deficiency (Excess) | \$ <u>3,604</u> | \$ <u>3,608</u> | \$ <u>3,558</u> | \$ <u>2,380</u> | \$ <u>3,366</u> | \$ <u>4,386</u> | \$ <u>2,086</u> | \$ <u>6,230</u> | \$ <u>4,870</u> | \$ <u>N/A</u> |
| Covered-employee payroll | \$ 39,083 | \$ 38,130 | \$ 38,130 | \$ 34,622 | \$ 34,622 | \$ 34,145 | \$ 33,804 | \$ 32,776 | \$ 32,185 | \$ N/A |
| Contributions as a percentage of covered-employee payroll | 25.90% | 25.61% | 21.64% | 26.68% | 22.02% | 18.44% | 30.51% | 19.01% | 20.86% | N/A |

(1) Actuarially Determined Contributions prior to fiscal year ending June 30, 2017 is based on the Annual Required Contribution (ARC) calculated in accordance with GASB No. 45

Notes to Schedule

Valuation date:

July 1, 2016

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

| | |
|-----------------------------|--|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Amortization period | 20 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.50% (Prior: 3.00%) |
| Healthcare cost trend rates | 7.50% for 2017, decreasing 0.50% per year to an ultimate rate of 4.50% for years 2023 and later. Prior: 8.00% for 2015, decreasing 0.50% per year to 5.00% for years 2021 and later. |
| Salary increases | 3.00%, average, including inflation |
| Investment rate of return | 3.79% (Prior: 7.00%), net of pension plan investment expense, including inflation |
| Retirement age | In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience |
| Mortality | RP-2000 Combined Mortality Table with separate male and female rates, with Total Dataset adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA. |

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF INVESTMENT RETURNS
OPEB
LAST FISCAL YEAR***

2017

Annual money-weighted rate of return,
net of investment expense

7.90%

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

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Appendix B

Form of Legal Opinion of Bond Counsel

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**FORM OF OPINION OF BOND COUNSEL
CITY OF MIDDLETOWN, CONNECTICUT
\$10,000,000 GENERAL OBLIGATION BONDS, ISSUE OF 2018**

April __, 2018

City of Middletown
City Hall
245 deKoven Drive
Middletown, Connecticut 06457

We have acted as Bond Counsel to the City of Middletown, Connecticut (the “City”) in connection with the issuance by the City of its \$10,000,000 General Obligation Bonds, Issue of 2018, dated April 12, 2018 (the “Bonds”). In such capacity, we have examined a record of proceedings of the City authorizing the Bonds, a Tax Compliance Agreement of the City dated April 12, 2018 (the “Agreement”), such law and such other proceedings, certifications, and documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We are of the opinion that when the Bonds are duly certified by U.S. Bank National Association, they will be valid and legally binding general obligations of the City payable as to both principal and interest from ad valorem taxes which may be levied on all taxable property subject to taxation by the City without limitation as to rate or amount except as to classified property such as certified forest lands taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts pursuant to Connecticut statutes. We are further of the opinion that the Agreement is a valid and binding agreement of the City and was duly authorized by the City.

The rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally and by equitable principles, whether considered at law or in equity.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be satisfied at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income under Section 103 of the Code. In the Agreement, the City has made covenants and representations designed to assure compliance with such requirements of the Code. The City has covenanted in the Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds.

In rendering the below opinions regarding the federal treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and

reasonable expectations, and certifications of fact contained in the Agreement, and (ii) continuing compliance by the City with the covenants set forth in the Agreement as to such tax matters.

In our opinion, under existing law, (i) interest on the Bonds is not included in gross income for federal income tax purposes, and (ii) such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations; however, for taxable years that began before January 1, 2018, such interest is taken into account in computing the corporation's federal alternative minimum tax liability. We express no opinion regarding other federal income tax consequences caused by the ownership or disposition of, or receipt of interest on, the Bonds.

We are further of the opinion that, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based for individuals, trusts and estates required to pay the federal alternative minimum tax. We express no opinion regarding other State income tax consequences caused by the ownership or disposition of, or receipt of interest on, the Bonds.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement dated March 28, 2018 and other offering material relating to the Bonds.

We have not undertaken to advise whether any events after the date of issuance of the Bonds, including the adoption of federal tax legislation, may affect the tax status of interest on the Bonds.

Although we have rendered an opinion that interest on the Bonds is not included in gross income for federal income tax purposes, federal income tax liability may otherwise be affected by the ownership or disposition of the Bonds. We express no opinion regarding any tax consequence caused by ownership or disposition of, or receipt of interest income on, the Bonds not specifically described herein.

Respectfully,

PULLMAN & COMLEY, LLC

Appendix C

Form of Continuing Disclosure Agreement

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**FORM OF
CONTINUING DISCLOSURE AGREEMENT FOR BONDS
BY THE CITY OF MIDDLETOWN, CONNECTICUT**

**In Connection With The Issuance and Sale of
City of Middletown, Connecticut
\$10,000,000 General Obligation Bonds, Issue of 2018**

This Continuing Disclosure Agreement (“Agreement”) is made as of April 12, 2018, by the City of Middletown, Connecticut (the “Issuer”) acting by its undersigned officers, duly authorized, in connection with the issuance of its \$10,000,000 General Obligation Bonds, Issue of 2018, dated April 12, 2018 (the “Bonds”).

Section 1. Definitions. In addition to the terms defined above, the following capitalized terms shall have the meanings ascribed thereto:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Section 2 of this Agreement.

“EMMA” means the Electronic Municipal Market Access System as described in the 1934 Act Release #59062 and maintained by the Municipal Securities Rulemaking Board for the purposes of the Rule and as further described in Section 13 hereof.

“Final Official Statement” means the official statement of the Issuer dated March 28, 2018 prepared in connection with the issuance of the Bonds.

“Fiscal Year End” shall mean the last day of the Issuer’s fiscal year, currently June 30.

“Listed Events” shall mean any of the events listed in Section 4 of this Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any successor thereto.

“Rule” means rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

“SEC” means the Securities and Exchange Commission of the United States, or any successor thereto.

Section 2. Annual Reports.

(a) The Issuer shall provide or cause to be provided to the MSRB, in accordance with the provisions of the Rule and of this Agreement, the following annual financial information and operating data regarding the Issuer:

(i) Audited financial statements as of and for the year ending on its Fiscal Year End for the general fund, capital projects funds and special revenue funds, prepared in accordance with generally accepted accounting principles, as promulgated by the

Governmental Accounting Standards Board from time to time or mandated state statutory principles as in effect from time to time; and

(ii) Financial information and operating data as of and for the year ending on its Fiscal Year End of the following type to the extent not included in the audited financial statements described in (i) above:

(A) the amounts of the gross and net taxable grand list;

(B) a listing of the ten largest taxpayers on the grand list, together with each such taxpayer's taxable valuation thereon;

(C) the percentage or amount of the annual property tax levy collected and uncollected;

(D) a schedule of the annual debt service on outstanding long-term bonded indebtedness;

(E) a calculation of the direct debt, net direct debt and overall net debt (reflecting overlapping and underlying debt);

(F) the direct debt and overall net debt of the Issuer per capita;

(G) the ratios of direct debt and overall net debt of the Issuer to the Issuer's equalized net (taxable) grand list;

(H) a statement of statutory debt limitations and debt margins; and

(I) the funding status of the Issuer's pension benefit obligation.

(b) The above-referenced information is expected to be provided by the filing of and cross reference to the Issuer's audited financial statements. The information may be provided in whole or in part by cross-reference to other documents provided to the MSRB, including official statements of the Issuer which will be available from the MSRB's internet web site or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or the annual adopted budget.

(c) Subject to the requirements of Section 8 hereof, the Issuer reserves the right to modify from time to time the specific types of information or data provided or the format of the presentation of such information or data, to the extent necessary or appropriate; provided that the Issuer agrees that any such modification will be done in a manner consistent with the Rule. The Issuer also reserves the right to modify the preparation and presentation of financial statements described herein as may be required to conform with changes in Connecticut law applicable to municipalities or any changes in generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board from time to time.

Section 3. **Timing.** the Issuer shall provide the information and data referenced in Section 2(a) not later than eight months after each Fiscal Year End subsequent to the date of issuance of the

Bonds; provided, however, that if such financial information and data for the Fiscal Year End preceding the date of issuance of the Bonds is not contained in the Final Official Statement for the Bonds or has not otherwise been previously provided, the Issuer shall provide such information and data no later than eight months after the close of such preceding Fiscal Year End. The Issuer agrees that if audited information is not available eight months after the close of any Fiscal Year End, it shall submit unaudited information by such time and will submit audited information when available.

Section 4. Event Notices.

(a) The Issuer agrees to provide or cause to be provided to the MSRB, within ten (10) business days of the occurrence of any of the following events with respect to the Bonds, notice of the occurrence of such event:

- (i) principal and interest payment delinquencies;
- (ii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii) unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) substitution of credit or liquidity providers, or their failure to perform;
- (v) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds;
- (vi) tender offers;
- (vii) bankruptcy, insolvency, receivership, or a similar proceeding by the Issuer;
- (viii) Bond defeasances; and
- (ix) rating changes.

(b) The Issuer agrees to provide or cause to be provided to the MSRB, within ten (10) business days of the occurrence of any of the following events with respect to the Bonds, notice of the occurrence of such event, if material:

- (i) non-payment related defaults;
- (ii) modifications to rights of Bondholders;
- (iii) Bond calls;
- (iv) release, substitution, or sale of property securing repayment of the Bonds;
- (v) consummation of a merger, consolidation, acquisition involving the Issuer, other than the ordinary course of business, or the sale of all or substantially all the

assets of the Issuer, or the entry into a definitive agreement to engage in such a transaction, or a termination of such an agreement, other than in accordance with its terms; and

(vi) appointment of a successor or additional trustee, or the change in the name of the trustee.

Section 5. Notice of Failure. The Issuer agrees to provide or cause to be provided, in a timely manner to the MSRB, notice of any failure by the Issuer to provide the annual financial information described in Section 2(a) of this Agreement on or before the date set forth in Section 3 hereof.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Agent. The Issuer may, from time to time, appoint or engage an agent to assist it in carrying out its obligations under this Agreement, and may discharge any such agent, with or without appointing a successor agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Issuer, and is supported by an opinion of counsel expert in federal securities laws, to the effect that (i) such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds and (ii) the Agreement as so amended would have complied with the requirements of the Rule as of the date of the Agreement, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances. A copy of any such amendment will be filed in a timely manner with the MSRB. The annual financial information provided on the first date following adoption of any such amendment will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating or financial information provided.

Section 9. Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communications, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Indemnification. The Issuer agrees to indemnify and save its officials, officers and employees harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability hereunder, but excluding any such liabilities due to any such person's malicious, wanton, or willful act. The obligations of the Issuer under this Section shall survive, notwithstanding that such person may no longer be serving in such capacity.

Section 11. Enforceability. The Issuer agrees that its undertaking pursuant to the Rule set forth in this Agreement is intended to be for the benefit of and enforceable by the beneficial owners of the Bonds. In the event the Issuer shall fail to perform its duties hereunder, the Issuer shall have the option to

cure such failure after its receipt of written notice from any beneficial owner of the Bonds of such failure. The present address of the Issuer is City of Middletown, Finance Department, 245 deKoven Drive, Middletown, Connecticut 06457, Attn: Director of Finance & Revenue. In the event the Issuer does not cure such failure, the right of any beneficial owner of the Bonds to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder. No monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute default of the Issuer with respect to the Bonds.

Section 12. Governing Law. This Agreement shall be governed by the laws of the State of Connecticut.

Section 13. Method of Filing. To the extent filings are required to be made to the MSRB under this Agreement, the Issuer shall transmit such filings or notices in an electronic format to the continuing disclosure service portal provided through MSRB's EMMA as provided at <http://emma.msrb.org/> or any similar system that is acceptable to the SEC.

IN WITNESS WHEREOF, the Issuer has caused this Agreement to be executed in its name by its undersigned officers, duly authorized, all as of the date first above written.

CITY OF MIDDLETOWN, CONNECTICUT

By: _____
Daniel T. Drew
Mayor

By: _____
Quentin Phipps
City Treasurer

By: _____
Carl Erlacher
Director of Finance

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Appendix D

Notice of Sale

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NOTICE OF SALE

CITY OF MIDDLETOWN, CONNECTICUT
\$10,000,000 GENERAL OBLIGATION BONDS, ISSUE OF 2018 (the “Bonds”)

ELECTRONIC BIDS via *PARITY*[®] will be received by the **CITY OF MIDDLETOWN, CONNECTICUT**, (the “City”) at Middletown City Hall, Second Floor, Conference Room 208, 245 deKoven Drive, Middletown, Connecticut 06457, until **11:30 A.M. (Eastern Time), WEDNESDAY**

MARCH 28, 2018

(the “Bid Date”) for the purchase of all (but not less than all) of \$10,000,000 General Obligation Bonds, Issue of 2018, of the City (the “Bonds”), when issued, at not less than par and accrued interest from the date of the Bonds to the date of delivery, which mature on April 1 in the years and amounts as follows:

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2020 | \$1,000,000 | 2025 | \$1,000,000 |
| 2021 | \$1,000,000 | 2026 | \$1,000,000 |
| 2022 | \$1,000,000 | 2027 | \$1,000,000 |
| 2023 | \$1,000,000 | 2028 | \$1,000,000 |
| 2024 | \$1,000,000 | 2029 | \$1,000,000 |

The Issue

The full faith and credit of the City will be pledged for the prompt payment of the principal of, redemption premium, if any, and interest on the Bonds. The Bonds will be general obligations of the City payable, unless paid from other sources, from ad valorem taxes which may be levied on all taxable property subject to taxation by the City without limit as to rate or amount except as to classified property such as certified forest lands taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts pursuant to provisions of the Connecticut General Statutes, as amended. The Bonds will be dated April 12, 2018, with interest payable on October 1, 2018 and semiannually thereafter on each April 1 and October 1 in each year until maturity. The information in this Notice of Sale is only a brief summary of certain provisions of the Bonds. For further information about the Bonds, reference is hereby made to the Preliminary Official Statement, dated March 20, 2018.

Optional Redemption

The Bonds are not subject to redemption prior to maturity.

Ratings

The City has applied to S&P Global Ratings for assignment of their municipal bond rating to the Bonds. The assigned rating may be obtained from the respective rating agency or will be posted through the facilities of *PARITY*[®] prior to sale.

Official Statement and Continuing Disclosure Agreement

The City has prepared a Preliminary Official Statement for the Bonds which is dated March 20, 2018, which is deemed final as of its date for purposes of SEC Rule 15c2-12(b)(1), except for omissions permitted thereby, but is subject to revision or amendment. The City will make available to the winning purchaser 100 copies of the Official Statement at the City’s expense. The copies of the Official Statement will be made available to the winning purchaser at delivery of the Bonds or by the seventh business day after the day bids on the Bonds are received. If the City’s municipal advisor is provided with the necessary information from the

winning purchaser by noon of the date following the day bids on the Bonds are received, the copies of the Official Statement will include an additional cover page and other pages indicating the interest rates, ratings, yields or reoffering prices, the name of the managing underwriter, and any corrections. The purchaser shall arrange with the municipal advisor the method of delivery of the copies of the Official Statement to the purchaser. Additional copies of the Official Statement may be obtained by the purchaser at its own expense by arrangement with the printer.

The purchaser agrees to promptly file a final Official Statement with the Municipal Securities Rulemaking Board and to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to the ultimate purchasers.

The City will enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the form attached as Appendix C to the Official Statement (the "Continuing Disclosure Agreement"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12(b)(5), (i) annual financial information and operating data including audited financial statements, (ii) notice of the occurrence of certain events with respect to the Bonds within ten (10) business days of such event, and (iii) timely notice of a failure by the City to provide the required annual financial information. The winning bidder's obligation to purchase the Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement for the Bonds.

Electronic Proposals Bidding Procedure

Electronic bids for the purchase of the Bonds must be submitted electronically via **PARITY**[®], in accordance with this Notice of Sale, until 11:30 A.M. (Eastern Time) on Wednesday, March 28, 2018, but no bid will be received after the time for receiving bids specified herein. To the extent any instructions or directions set forth in **PARITY**[®] shall conflict with information in this Notice of Sale, the terms of this Notice of Sale shall control. For further information about **PARITY**[®], including any fee charged, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, telephone: (212) 849-5021. Any prospective bidder must be a subscriber of i-Deal LLC's BiDCOMP competitive bidding system. The City neither will confirm any subscription nor be responsible for any failure of a prospective bidder to subscribe.

Once an electronic bid made through the facilities of **PARITY**[®] is communicated to the City, it shall constitute an irrevocable offer, in response to this Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the City. By submitting a bid for the Bonds via **PARITY**[®], the bidder represents and warrants to the City that such bidder's bid for the purchase of the Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder by an irrevocable offer and that acceptance of such bid by the City will bind the bidder by a legal, valid and enforceable contract, for the purchase of the Bonds on the terms described in this Notice of Sale. **The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY[®], or the inaccuracies of any information, including bid information or worksheets supplied by PARITY[®], the use of PARITY[®] facilities being the sole risk of the prospective bidder. Each Bidder is solely responsible for knowing the terms of the sale as set forth herein.**

For the purpose of the electronic bidding process, the time maintained on **PARITY**[®] shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the City, as described under "Award, Delivery and Payment" below, represented by the rate or rates of interest and the bid price specified in their respective bids. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale.

Disclaimer. Each **PARITY**[®] prospective electronic bidder shall be solely responsible to make necessary arrangements to access **PARITY**[®] for the purposes of submitting its bid in a timely manner and in

compliance with the requirements of this Notice of Sale. Neither the City nor **PARITY**[®] shall have any duty or obligation to undertake such arrangements to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the City nor **PARITY**[®] shall be responsible for a bidder's failure to make a bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, **PARITY**[®]. The City is using **PARITY**[®] as a communication mechanism, and not as the City's agent, to conduct the electronic bidding for the Bonds. The City is not bound by any advice and determination of **PARITY**[®] to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the bid requirements herein set forth. All costs and expenses incurred by prospective bidders in connection with their subscription to, arrangements with and submission of bids via **PARITY**[®] are the sole responsibility of the bidders; and the City is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in arranging to bid or submitting, modifying or withdrawing a bid for the Bonds, the prospective bidder should telephone **PARITY**[®] at (212) 849-5021.

Bid Requirements

Each proposal for the purchase of the Bonds must specify the amount bid for the Bonds (which shall be the aggregate par value of the Bonds, and, at the option of the bidder, a premium), and shall specify in a multiple of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%) the rate or rates of interest per annum which the Bonds are to bear, but shall not specify (a) more than one interest rate for any Bonds having a like maturity, or (b) any interest rate for any Bonds which exceeds the interest rate specified in such proposal for any other Bonds by more than three percent (3%). Interest shall be computed on the basis of twelve 30 day months and a 360 day year. In addition to the amount bid for the Bonds, the purchaser must pay an amount equal to the interest on the Bonds accrued to the date of delivery, if any. No bid for less than par and accrued interest will be considered.

Award, Delivery and Payment

Unless all bids are rejected, the Bonds will be awarded to the bidder whose bid will result in the lowest true interest cost ("TIC") to the City. The TIC will be the annual interest rate, compounded semiannually, which, when used to discount all payments of principal and interest payable on the Bonds to April 12, 2018, the date of the Bonds, results in an amount equal to the purchase price for the Bonds, excluding interest accrued to the date of delivery. In the event that two or more bidders offer bids at the same lowest TIC, the City will determine by lot which of such bidders will be awarded the Bonds. It is requested that each proposal be accompanied by a statement of the percentage of true interest cost computed and rounded to four decimal places. Such statement shall not be considered as a part of the proposal. The purchase price must be paid in Federal Funds.

Promptly upon verbal notification that a bidder's proposal may be accepted, the bidder shall confirm to the City the reoffering prices of all the Bonds of each maturity.

Bids will be finally accepted or rejected promptly after opening and not later than 3:00 p.m. (Eastern Time) on the Bid Date in accordance with the provisions herein.

At or prior to the delivery of the Bonds the successful bidder shall be furnished, without cost, with the approving opinion of Pullman & Comley, LLC, of Bridgeport and Hartford, Connecticut, Bond Counsel, substantially in the form set out in Appendix B to the Official Statement. The successful bidder will also be furnished with a receipt of payment for the Bonds, and a Signature and No Litigation Certificate dated as of the date of delivery of the Bonds, stating that there is no litigation pending, or to the knowledge of the signers thereof, threatened, affecting the validity of the Bonds or the power of the City to levy and collect taxes to pay them. A copy of the final Official Statement prepared for this Bond issue will also be furnished together with a certificate of City Officials relating to the accuracy and completeness of the Official Statement.

The City will have no responsibility to pay for any expenses of the purchaser except to the extent specifically stated in this Notice of Sale. The purchaser will have no responsibility to pay for any of the City's costs of issuance except to the extent specifically stated in this Notice of Sale.

The purchaser will be responsible for the clearance or exemption with respect to the status of the Bonds for sale under securities or "Blue Sky" laws and the preparation of any surveys or memoranda in connection with such sale. The City shall have no responsibility for such clearance, exemption or preparation.

The Bonds will be delivered to The Depository Trust Company, New York, New York ("DTC") or its agent via Fast Automated Securities Transfer ("FAST") on or about April 12, 2018 against payment in immediately available Federal Funds. The deposit of the Bonds with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the winning bidder or bidders to obtain CUSIP numbers for the Bonds prior to delivery, and the City will not be responsible for any delay occasioned by the inability to deposit the Bonds with DTC due to the failure of the winning bidder or bidders to obtain such numbers and to supply them to the City in a timely manner. The City assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the purchaser.

Right to Reject Bids; Waiver

The right is reserved to reject any and all proposals and to reject any proposal not complying with this Notice of Sale and to waive any irregularity or informality with respect to any proposal.

Postponement; Change of Terms

The City reserves the right to alter any terms of the Bonds or this Notice of Sale and to postpone, from time to time, the date or time established for the receipt of the bids.

Establishment of Issue Price

In order to provide the City with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion of interest on the Bonds from the gross income of their owners, the winning bidder will be required to complete, execute, and deliver to the City at or prior to the delivery of the Bonds an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the Public (the "Initial Offering Price") or the actual sales price or prices of the Bonds, as circumstances may determine, together with the supporting pricing wires or equivalent communications, with such modifications as may be appropriate or necessary, in the reasonable judgment of Bond Counsel. For purposes of this "Establishment of Issue Price" section, Bond Counsel may act on behalf of the City.

The City intends that the provisions of Treasury Regulations Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "Competitive Sale Rule") because:

- (1) The City shall disseminate, or have disseminated on its behalf, this Notice of Sale to potential bidders in a manner that is reasonably designed to reach potential bidders;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City anticipates receiving bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the lowest TIC, as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid. Acceptance by the City of a bid pursuant to this Notice of Sale shall constitute a written contract between the City and the winning bidder.

In the event that the competitive sale requirements are not satisfied, the City shall so advise the successful bidder in writing on the sale date. The City may treat the first price at which 10% of a maturity of the bonds (the "Actual Sale Rule") is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis. The successful bidder shall advise the City if any maturity of the Bonds satisfies the Actual Sale Rule as of the date and time of the award of the Bonds.

Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied.

If the competitive sale requirements are not satisfied, then until the Actual Sale Rule has been satisfied as to each maturity of the bonds, the successful bidder agrees to promptly report to the City the prices at which the unsold Bonds of each maturity have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until the Actual Sale Rule has been satisfied for each maturity or until all Bonds of that maturity have been sold.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the Actual Sales Rule has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the Actual Sales Rule has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public.

Sales of any Bonds to any person that is a Related Party (as defined below) to an Underwriter shall not constitute sales to the Public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (1) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.
- (2) *Related Party* generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.
- (3) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Bonds to the Public (including a member of the

selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

Book-Entry-Only Form

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in registered form and one bond certificate for each maturity will be issued to DTC, registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Bonds in the principal amount of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures adopted by DTC and its Participants. The purchaser, as a condition to delivery of the Bonds, will be required to deposit the bond certificates with DTC, registered in the name of Cede & Co. Principal of, redemption premium, if any, and interest on the Bonds will be payable by the City or its agent to DTC or its nominee as registered owner of the Bonds. Principal, redemption premium, if any, and interest payments by DTC to Participants of DTC will be the responsibility of DTC; principal, redemption premium, if any, and interest payments to Beneficial Owners by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The City will not be responsible or liable for payments by DTC to its Participants or by DTC Participants to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds and the City fails to identify another qualified securities depository to replace DTC, or (b) the City determines to discontinue the book-entry system of evidence and transfer of ownership of the Bonds, the City will authenticate and deliver replacement Bonds in the form of fully registered Bond certificates directly to the Beneficial Owners of the Bonds or their nominees. (The record dates for the Bonds will be the close of business on the fifteenth day of March and September in each year, or the preceding business day if such fifteenth day is not a business day.)

Additional Information

For more information regarding the Bonds and the City, reference is made to the Official Statement. Copies of the Official Statement may be obtained from Mr. Matthew A. Spoerndle, Senior Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, CT 06460, Tel. (203) 878-4945.

DANIEL T. DREW
Mayor

QUENTIN PHIPPS
City Treasurer

CARL ERLACHER
Director of Finance

March 20, 2018