

*Moody's Investors Service: MIG 1
CUSIP – 981306 TU7*

FINAL OFFICIAL STATEMENT

Dated: April 25, 2018

***CITY OF WORCESTER
MASSACHUSETTS***

***\$34,334,000
BOND ANTICIPATION NOTES***

DATED
May 11, 2018

DUE
January 31, 2019

<u>Number</u>	<u>Denominations</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1	\$34,334,000	3.00%	1.75%

The provisions of the accompanying document, entitled "NOTICE OF SALE AND PRELIMINARY OFFICIAL STATEMENT" dated April 18, 2018, as supplemented and modified hereby, are incorporated in and made a part of the Final Official Statement.

Moody's Investors Service: MIG 1

In the opinion of Locke Lord LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Notes will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations. Under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. 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 Notes. See "Tax Exemption" herein. The Notes will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.



\$34,574,000*
CITY OF WORCESTER
MASSACHUSETTS
GENERAL OBLIGATION BOND ANTICIPATION NOTES
(Book-Entry-Only)

Dated: May 11, 2018

Due: January 31, 2019

The Notes, in book-entry form, are offered without the option of prior redemption. The principal on the Notes is payable at maturity. The interest on the Notes is payable at maturity.

Principal and interest on the Notes shall be payable in federal reserve funds at U.S. Bank, National Association, in Boston, Massachusetts, or its successor as Paying Agent.

The legality of the Notes will be approved by Locke Lord LLP, Boston, Massachusetts, Bond Counsel to the City. UniBank Fiscal Advisory Services, Inc., Whitinsville, Massachusetts serves as fiscal advisor to the City. It is expected that the Notes will be delivered to The Depository Trust Company, or the offices of its custodial agent, against payment to the account of the City in federal reserve funds on or about May 11, 2018.

Electronic Bids Via i-Deal®
or
Faxed Bids Received
at (508) 234-1938
Until 11:00 A.M. (Eastern Daylight Savings Time)
on
Wednesday, April 25, 2018

UFASI

UNIBANK FISCAL ADVISORY SERVICES, INC.
A SUBSIDIARY OF UNIBANK

* Preliminary, subject to change.

ISSUE SUMMARY STATEMENT

Issuer: City of Worcester, Massachusetts

Date of Sale: Wednesday, April 25, 2018 at 11:00 A.M. (Eastern Daylight Savings Time)

Method of Sale: Electronic Bids Via i-Deal® or Faxed Bids at (508) 234-1938
(Refer to Appendix C Bid Form)

Issue: \$34,574,000* General Obligation Bond Anticipation Notes
Book-Entry-Only

Dated Date of Notes: May 11, 2018

Maturity Date of Notes: January 31, 2019

Interest Calculation: 30/360 (260/360)

Security: The Notes are valid general obligations of the City of Worcester, Massachusetts and the principal of and interest on the Notes are payable from taxes which may be levied upon all property within the territorial limits of the City and taxable by it, subject to the limit imposed by Chapter 59, Section 21C of the Massachusetts General Laws, as amended, upon the amount of total taxes which may be assessed in any fiscal year on real estate and personal property within the City; provided that taxes levied on certain taxable property located within a development district established by the City pursuant to Chapter 40Q of the Massachusetts General Laws may be restricted and unavailable to pay the principal and interest on the Notes.

Basis of Award: Lowest net interest cost (NIC) after the subtraction of any premium offered.

Tax Exemption: Refer to Tax Exemption herein.

Material Events: Refer to Disclosure of Significant Events herein.

Bank Qualification: The Notes will **NOT** be “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Paying Agent: U.S. Bank National Association, Boston, Massachusetts, or its successor.

Legal Opinion: Locke Lord LLP, Boston, Massachusetts.

Delivery and Payment: It is expected that the Notes will be delivered to The Depository Trust Company, or the offices of its custodial agent, against payment to the account of the City in federal reserve funds on or about May 11, 2018.

Issue Contacts: Thomas F. Zidelis, Chief Financial Officer and Acting City Treasurer and Collector of Taxes, City of Worcester
Telephone (508) 799-1225
Kimberly W. Mooers, Senior Vice President, UniBank Fiscal Advisory Services, Inc., Whitinsville, MA
Telephone (508) 849-4307
Richard A. Manley, Jr., Esq., Locke Lord LLP, Boston, MA
Telephone (617) 239-0384

Additional Information: Refer to the Preliminary Official Statement dated April 18, 2018.

** Preliminary, subject to change.*

NOTICE OF SALE

\$34,574,000*
CITY OF WORCESTER
MASSACHUSETTS
GENERAL OBLIGATION BOND ANTICIPATION NOTES
(Book-Entry-Only)

The City of Worcester, Massachusetts, will receive Electronic Bids Via i-Deal[®] or faxed bids at (508) 234-1938 until 11:00 A.M. (Eastern Daylight Savings Time) on

April 25, 2018

for the purchase of \$34,574,000* General Obligation Bond Anticipation Notes dated May 11, 2018 (the “Notes”). The Notes will mature January 31, 2019 and interest will be payable at maturity and will be calculated on a 30-day month, 360-day year basis. Both principal and interest will be payable in federal reserve funds to DTC by U.S. Bank National Association, in Boston, Massachusetts or its successor as Paying Agent.

The Notes will be issued by means of a book-entry system evidencing ownership in principal amounts of \$1,000 or integral multiples thereof, and transfer of the Notes on the records of DTC and its Participants.

* Preliminary, subject to change.

Bank Qualification

The Notes will **NOT** be “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986.

Form of Bid and Basis of Award

Bids may be submitted electronically or via facsimile to (508) 234-1938. Electronic bids will be submitted through *i-Deal*[®]. If any provisions in this Notice of Sale conflict with information provided by *i-Deal*[®], this Notice of Sale shall control. Further information about *i-Deal*[®], including any fees charged, may be obtained from *i-Deal*[®] at (212) 849-5000. The City assumes no responsibility or liability for bids submitted through *i-Deal*[®]. An electronic bid made in accordance with this Notice of Sale shall be deemed an irrevocable offer to purchase the Notes in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the City.

Bids may be for all or part of the Notes at a single or various rates of interest in a multiple of one-eighth (1/8) or one-hundredth (1/100) of one percent (1%). No bid of less than par **plus a premium of not less than \$50,000** plus accrued interest to the date of delivery will be considered. **The minimum amount to be bid on at a single rate of interest on the Notes is \$1,000,000.**

The Notes will be awarded on the basis of the lowest net interest cost to the City after the subtraction of any premium offered. In the event a bidder offering a premium for the Notes is awarded a lesser amount of Notes than bid, the premium will be reduced proportionately. The award of the Notes to the winning bidder will not be effective until the bid has been approved by the Acting City Treasurer and Collector of Taxes and the City Manager.

Par Amount Subject to Change

The City reserves the right to adjust the aggregate par amount of the Notes. The purpose of such adjustment will be to limit the amount of Note proceeds, including premium, to an amount equal to approximately (i) the amount needed for costs of the projects being funded by the Notes, plus (ii) costs of issuance.

Any adjustment in the aggregate principal amount of the Notes will be in an amount of \$1,000 or an integral multiple thereof and will be made in order to avoid an over issuance of the Notes. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the Notes to be issued. The adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the per-bond underwriter's discount as calculated from the bid and reoffering price required to be delivered to the City as stated herein. The successful bidder may not withdraw its bid or change the interest rate bid or initial reoffering price as a result of any changes made to the principal amounts within these limits.

Immediately following the opening of the bids, the City, acting through its financial advisor, will contact the apparent successful bidder to obtain the initial "production sheet" in order to determine reoffering prices, bond insurance premium, if any, and other such information. Upon being supplied with the initial "production sheet", the City will determine the need to reduce the principal amount of the Notes. The City expects to advise the successful bidder as soon as possible, but no later than 3:00 p.m., Eastern Daylight Savings Time, on the date of the sale of the amount, if any, of any changes in the aggregate principal amount.

Bidders should be advised that the amount of the reduction in the principal amount of the Notes will be related to the amount of the premium bid on the Notes.

Legal Opinion

The initial purchaser will be furnished the opinion of Locke Lord LLP, of Boston, Massachusetts, approving the legality of the Notes. The opinion will also indicate that the Notes and the enforceability thereof may be subject to bankruptcy and other laws affecting creditor's rights and that their enforceability may also be subject to exercise of judicial discretion in appropriate cases. The Notes will be valid general obligations of the City of Worcester and that, except to the extent they are paid from the proceeds of bonds in anticipation of which they are issued or from any other sources, the principal of and interest on the Notes are payable from ad-valorem taxes which may be levied upon all taxable property in the City subject to the limit imposed by Chapter 59, Section 21C of the Massachusetts General Laws; provided that taxes levied on certain taxable property located within a development district established by the City pursuant to Chapter 40Q of the Massachusetts General Laws may be restricted and unavailable to pay the principal of and interest on the Notes. Payment of the principal and interest on the Notes is not limited to a particular fund or source of revenue nor is any lien or pledge for such payment created with respect to any fund or source.

Documents to be Delivered at Closing

The successful bidder shall assist the City in establishing the issue price of the Notes and shall execute and deliver to the City on the Closing Date an "issue price" or similar certificate, in the applicable form set forth in Exhibit 1 to this Notice of Sale, setting forth the reasonably expected initial offering price to the public or the actual sale price of the Notes, together with the supporting pricing wires or equivalent communications, or, if applicable, the amount bid, with such modifications as may be appropriate or necessary, in the reasonable judgment of the successful bidder, the City and Bond Counsel. All actions to be taken by the City under this Notice of Sale to establish the issue price of the Notes may be taken on behalf of the City by UniBank Fiscal Advisory Services Inc. ("Financial Advisor") and any notice or report to be provided to the City may be provided to the Financial Advisor.

Competitive Sale Requirements. If the competitive sale requirements ("competitive sale requirements") set forth in Treasury Regulation § 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Notes) have been satisfied, the City will furnish to the successful bidder on the Closing Date a certificate of the Financial Advisor, which will certify each of the following conditions to be true:

1. the City has disseminated this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;

2. all bidders had an equal opportunity to bid;
3. the City received 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 awarded the sale of the Notes to the bidder who submitted a firm offer to purchase the Notes at the highest price (or lowest interest cost), 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 Notes, as specified in the bid. Unless a bidder notifies the City prior to submitting its bid by facsimile (508-234-1938) or email (Kimberly.mooers@unibank.com) to the Financial Advisor or in its bid submitted via Parity, that it will not be an “underwriter” (as defined below) of the Notes, by submitting its bid, each bidder shall be deemed to confirm that it has an established industry reputation for underwriting new issuances of municipal bonds. Unless the bidder has notified the City that it will not be an “underwriter” (as defined below) of the Notes, in submitting a bid, each bidder is deemed to acknowledge that it is an “underwriter” that intends to reoffer the Notes to the public.

In the event that the competitive sale requirements are not satisfied, the City shall so advise the successful bidder.

Failure to Meet the Competitive Sale Requirements – Option A – The Successful Bidder Intends to Reoffer the Notes to the Public. If the competitive sale requirements are not satisfied and the successful bidder intends to reoffer the Notes to the public, the City will use the first price at which 10% of the Notes (the “10% test”) is sold to the public as the issue price of the Notes. The successful bidder shall advise the Financial Advisor if the 10% test is satisfied as of the date and time of the award of the Notes. The City will not require bidders to comply with the “hold-the-offering-price rule” set forth in the applicable Treasury Regulations and therefore does not intend to use the initial offering price to the public as of the Sale Date as the issue price of the Notes if the competitive sale requirements are not met.

If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to Notes or all of the Notes are sold to the public, the successful bidder agrees to promptly report to the Financial Advisor the prices at which the unsold Notes have been sold to the public, which reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied for the Notes or until all the Notes have been sold. The successful bidder shall be obligated to report each sale of Notes to the Financial Advisor until notified in writing by the City or the Financial Advisor that it no longer needs to do so.

By submitting a bid and if the competitive sale requirements are not met, 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 Notes 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 Notes allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the Notes or all of the Notes have been sold to the public, if and for so long as directed by the successful bidder and as set forth in the related pricing wires and (ii) any agreement among underwriters relating to the initial sale of the Notes 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 Notes 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 Notes allotted to it until it is notified by the successful bidder or such underwriter that either the 10% test has been satisfied as to the Notes or that all of the Notes have been sold to the public if and for so long as directed by the successful bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Notes to any person that is a related party 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 other than an underwriter or a related party,
2. “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person

described in clause (A) to participate in the initial sale of the Notes to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the public), and

3. a purchaser of any of the Notes is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

Failure to Meet the Competitive Sale Requirements — Option B — The Successful Bidder Intends to Reoffer the Notes to the Public and Agrees to Hold the Price of Maturities of Notes for Which the 10% Test in Option A Is Not Met as of the Sale Date. The successful bidder may, at its option, notify the Financial Advisor in writing, which may be by email (the "Hold the Price Notice"), not later than 4:00 p.m. (Eastern Daylight Savings Time) on the Sale Date, that it has not sold 10% of the maturities of the Notes listed in the Hold the Price Notice (the "Unsold Maturities") and that the successful bidder will not offer the Unsold Maturities to any person at a price that is higher than the initial offering price to the public during the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date or (ii) the date on which the successful bidder has sold at least 10% of the applicable Unsold Maturity to the public at a price that is no higher than the initial offering price to the public. If the successful bidder delivers a Hold the Price Notice to the Financial Advisor, the successful bidder must provide to the Issuer on or before the Closing Date, in addition to the certification described in Option A above, evidence that each underwriter of the Notes, including underwriters in an underwriting syndicate or selling group, has agreed in writing to hold the price of the Unsold Maturities in the manner described in the preceding sentence.

Failure to Meet the Competitive Sale Requirements and/or The Successful Bidder Does Not Intend to Reoffer the Notes to the Public – Option C. If the successful bidder has purchased the Notes for its own account and will not distribute or resell the Notes to the public, then, whether or not the competitive sale requirements were met, the reoffering price certificate will recite such facts and identify the price or prices at which the purchase of the Notes was made.

It shall be a condition to the obligation of the successful bidder of the Notes to accept delivery of and pay for the Notes that it shall be furnished, without cost, with (a) the approving opinion of the firm of Locke Lord LLP, (b) a certificate in form satisfactory to said firm dated as of the date of delivery of the Notes and receipt of payment therefor to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened affecting the validity of the Notes or the power of the City to levy and collect taxes to pay them, (c) a certificate of the Acting City Treasurer and Collector of Taxes to the effect that, to the best of his knowledge and belief, both as of the date of sale and of the date of delivery of the Notes, the Official Statement referred to below does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and (d) a Significant Events Disclosure Certificate in the form described in the Preliminary Official Statement.

CUSIP Identification Numbers

It is anticipated that CUSIP identification numbers will be printed on the Notes, but neither the failure to print such numbers on any Note, nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Notes. All associated with the assignment of such numbers shall be paid by the purchaser of the Notes. The City assumes no responsibility for any CUSIP Service Bureau or any other charge that may be imposed for the assignment of such numbers.

Significant Events Disclosure

In order to assist bidders in complying with the requirements of paragraph (b)(5)(i)(C) of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the City will undertake to provide notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement.

Delivery

The Notes will be delivered to The Depository Trust Company, or the offices of its custodial agent, against payment to the account of the City in federal reserve funds on or about May 11, 2018.

Additional Information and Copies of the Official Statement

Any questions regarding this Notice of Sale or the Preliminary Official Statement should be directed to Kimberly W. Mooers, Senior Vice President, UniBank Fiscal Advisory Services, Inc., Whitinsville, Massachusetts at (508) 849-4307 or Thomas F. Zidelis, Chief Financial Officer and Acting City Treasurer and Collector of Taxes, at (508) 799-1225. This Preliminary Official Statement is deemed final by the City except for the omission of the reoffering prices, interest rates, and any other terms of the Notes depending on such matters and the identity of the underwriters. Within seven business days following the award of the Notes and receipt of necessary information from the successful bidder, 10 copies of the Final Official Statement will be made available to the successful bidder or bidders. Upon request, additional copies will be provided at the expense of the successful bidder.

The right is reserved to reject any or all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any bid.

CITY OF WORCESTER
Massachusetts

/s/ Thomas F. Zidelis
Chief Financial Officer and Acting City Treasurer
and Collector of Taxes

Dated: April 18, 2018

Bond Counsel are not passing upon and do not assume any responsibility for the accuracy or adequacy of the following information contained in the Preliminary Official Statement other than matters expressly set forth as the opinion of Bond Counsel and they make no representation that they have independently verified the same.

The information set forth herein has been obtained from the City and from other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. Any statements made in this Preliminary Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Preliminary Official Statement nor any sale of the Notes described herein shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Worcester since the date hereof.

[Use if Competitive Sale Requirements are met]

\$34,574,000*

City of Worcester, Massachusetts

General Obligation Bond Anticipation Notes dated May 11, 2018

ISSUE PRICE CERTIFICATE AND RECEIPT

The undersigned, on behalf of [NAME OF SUCCESSFUL BIDDER] (the “Successful Bidder”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Notes”) of the City of Worcester, Massachusetts (the “Issuer”).

Reasonably Expected Initial Offering Prices.

- (a) As of the Sale Date, the reasonably expected initial offering prices of the Notes to the Public by the Successful Bidder are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Notes used by the Successful Bidder in formulating its bid to purchase the Notes. Attached as Schedule B is a true and correct copy of the bid provided by the Successful Bidder to purchase the Notes.
- (b) The Successful Bidder was not given the opportunity to review other bids prior to submitting its bid.
- (c) The bid submitted by the Successful Bidder constituted a firm offer to purchase the Notes.

Defined Terms.

- (a) *Maturity* means Notes with the same credit and payment terms. Notes with different maturity dates, or Notes with the same maturity date but different stated interest rates, are treated as separate Maturities.
- (b) *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. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.¹
- (c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of the Notes. The Sale Date of the Notes is April 25, 2018.
- (d) *Underwriter* means (i) any person, including the Successful Bidder, 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 Notes to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Notes to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Successful Bidder’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Notes, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Notes is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Notes. The Successful Bidder hereby acknowledges receipt of the

*Preliminary, subject to change as described in Notice of Sale.

Notes from the Issuer and further acknowledges receipt of all certificates, opinion and other documents required to be delivered to the Successful Bidder, before or simultaneously with the delivery of such Notes, which certificates, opinions and other documents are satisfactory to the Successful Bidder.

Dated: May 11, 2018

[SUCCESSFUL BIDDER]

By: _____
Name:
Title:

SCHEDULE A
EXPECTED OFFERING PRICES
(To be attached)

SCHEDULE B
COPY OF UNDERWRITER'S BID
(To be attached)

**[Use If the Competitive Sale Requirements Are Not Met
and the Hold the Price Rule Is Not Used]**

\$34,574,000*

**City of Worcester, Massachusetts
General Obligation Bond Anticipation Notes dated May 11, 2018**

ISSUE PRICE CERTIFICATE AND RECEIPT

The undersigned, on behalf of _____ (the (“Successful Bidder”), on behalf of itself and [NAMES OF OTHER UNDERWRITERS] hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Notes”).

1. Sale of the Notes. As of the date of this certificate, [except as set forth in paragraph 2 below,] [the first price at which at least 10% of the Notes was sold to the Public is ____%][all of the Notes were sold at the prices set forth in Exhibit A hereto] **ONLY USE THE SECOND CHOICE IF LESS THAN 10% OF THE NOTES WERE SOLD AT A SINGLE PRICE.**

[Only use the next paragraph if the 10% test has not been met or all of the Notes have not been sold as of the Closing Date.]

2. Until the 10% test has been satisfied for the Notes or all of the Notes are sold to the Public, the Successful Bidder agrees to promptly report to the Issuer’s financial advisor, UniBank Fiscal Advisory Services, Inc. (the “Financial Advisor”), the prices at which the Notes have been sold to the Public, which reporting obligation shall continue after the date hereof until the 10% test has been satisfied for the Notes or until all the Notes have been sold. The Successful Bidder shall continue to report each sale of Notes to the Financial Advisor until notified by email or in writing by the Issuer or the Financial Advisor that it no longer needs to do so.

3. Defined Terms.

(a) *Issuer* means the City of Worcester, Massachusetts.

(b) *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. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Underwriter* means (i) any person, including the Successful Bidder, 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 Notes to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Notes to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Successful Bidder’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Notes, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Notes is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Notes. The Successful Bidder hereby acknowledges receipt of the Notes from the Issuer and further acknowledges receipt of all certificates, opinion and

*Preliminary, subject to change as described in Notice of Sale.

other documents required to be delivered to the Successful Bidder, before or simultaneously with the delivery of such Notes, which certificates, opinions and other documents are satisfactory to the Successful Bidder.

Dated: May 11, 2018

[SUCCESSFUL BIDDER]

By: _____
Name:
Title:

[EXHIBIT A

If less than 10% of the Notes have been sold at a single price as of the Closing Date, but all of the Notes have been sold as of the Closing Date at a variety of prices, attach a list of the prices at which the Notes were sold as of the Closing Date. In that highly unlikely scenario, the issue price of the Notes will be the average sales price.]

AM 66437993.1

**Issue Price Certificate for Use If the Competitive Sale Requirements Are
Not Met and the Hold the Price Rule Is Used**

**City of Worcester, Massachusetts
\$34,574,000* General Obligation Bond Anticipation Notes dated May 11, 2018**

ISSUE PRICE CERTIFICATE AND RECEIPT

The undersigned, on behalf of _____ (the (“[Successful Bidder][Representative]”), on behalf of itself [and [NAMES OF OTHER UNDERWRITERS]] hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Notes”) of the City of Worcester, Massachusetts (the “Issuer”).

1. Sale of the Notes. As of the date of this certificate, [except as set forth in paragraph 2 below,] for each Maturity of the Notes, the first price at which at least 10% of such Maturity of the Notes was sold to the Public is the respective price listed in Schedule A.

[Only use the next paragraph if the 10% test has not been met as of the Sale Date.]

For each Maturity of the Notes as to which no price is listed in Schedule A (the “Unsold Maturities”), as set forth in the Notice of Sale for the Notes, the [Successful Bidder][Representative] and any other Underwriter did not reoffer the Unsold Maturities until the earlier of (i) _____, 2017 or (ii) the date on which the [Successful Bidder][Representative] or any other Underwriter sold at least 10% of each Unsold Maturity at a price that is no higher than the initial offering price to the Public.

2. Defined Terms.

(a) *Maturity* means Notes with the same credit and payment terms. Notes with different maturity dates, or Notes with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *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. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Underwriter* means (i) any person, including the [Successful Bidder][Representative], 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 Notes to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Notes to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Notes to the Public).

3. Receipt. The [Successful Bidder][Representative] hereby acknowledges receipt of the Notes from the Issuer and further acknowledges receipt of all certificates, opinion and other documents required to be delivered to the [Successful Bidder][Representative], before or simultaneously with the delivery of the Notes, which certificates, opinions and other documents are satisfactory to the [Successful Bidder][Representative].

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the [Successful Bidder’s][Representative’s] interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Notes, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Notes is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Notes.

Dated: May 11, 2018

[SUCCESSFUL BIDDER][REPRESENTATIVE]

By: _____

Name:

Title:

**Preliminary, subject to change.*

SCHEDULE A
SALE PRICES
(To be Attached)

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

\$34,574,000*

**CITY OF WORCESTER
MASSACHUSETTS
GENERAL OBLIGATION BOND ANTICIPATION NOTES
(Book-Entry-Only)**

INTRODUCTION

This Official Statement is provided for the purpose of presenting certain information relating to the City of Worcester, Massachusetts (the “City”) in connection with the issuance of \$34,574,000* General Obligation Bond Anticipation Notes (the “Notes”) of the City.

The Notes are being offered for sale at a public bidding and a Notice of Sale dated April 18, 2018 has been furnished to prospective bidders. Reference is hereby made to the Notice of Sale for the terms and conditions of bidding.

The Notes will be general obligations of the City for which its full faith and credit are pledged. They are not guaranteed by The Commonwealth of Massachusetts (the “Commonwealth”) or any other entity. Payment of the principal of and interest on the Notes is not limited to a particular fund or revenue source. The security for the Notes is more fully described under the caption Security and Remedies herein.

Questions regarding information contained in this Official Statement or other matters should be directed to the following: Thomas F. Zidelis, Chief Financial Officer and Acting City Treasurer and Collector of Taxes, City of Worcester, Telephone (508) 799-1225; Kimberly W. Mooers, Senior Vice President, UniBank Fiscal Advisory Services, Inc., (508) 849-4307; or Richard A. Manley, Jr., Esq., Locke Lord LLP (617) 239-0384.

The information contained herein has been obtained from the sources indicated or from the City.

* Preliminary, subject to change.

THE NOTES

DESCRIPTION OF THE NOTES

The Notes will be dated May 11, 2018 and will mature on January 31, 2019 with interest at the rate or rates determined upon their sale payable at maturity. The Notes will be issued in book-entry form in principal amounts of \$1,000 or integral multiples thereof, with transfer of the Notes on the records of The Depository Trust Company (“DTC”) and its Participants.

Interest will be computed on a 30/360 (260/360) day year basis. The Notes will be issued without the option of prior redemption. Both principal and interest will be payable to DTC by U.S. Bank National Association, in Boston, Massachusetts, or its successor as Paying Agent to the City.

AUTHORIZATION AND USE OF PROCEEDS

The proceeds of the Notes will be used to provide temporary financing for the projects described below. The City reserves the right to adjust the aggregate par amount of the Notes. The purpose of such adjustment will be to limit the amount of Note proceeds, including premium, to an amount equal to approximately (i) the amount needed for costs of the projects, plus (ii) costs of issuance.

Purpose	This Issue*	Original Authorization	Account Number	Date of Loan Order	Statutory Reference (MGL unless otherwise noted)
GENERAL FUND					
Nelson Place School	7,000,000	57,370,000	91C7113C	2/3/2015	Chapter 70B
Bikeway Master Plan	55,000	95,000	91C7414	6/28/2016	Chapter 44 s. 7(1)
Wawecus Rd Elem.	175,000	2,218,335	91C7113P	2/7/2017	Chapter 70B
Belmont Elem. Windows/Doors	350,000	4,098,317	91C7113O	2/7/2017	Chapter 70B
Gerald Creamer Center	245,000	3,135,855	91C7113N	2/7/2017	Chapter 70B
Chandler Elementary	75,000	1,492,594	91C7113M	2/7/2017	Chapter 70B
Park Improvements	1,845,000	11,185,000	91C784	7/18/2017	Chapter 44 s. 7(1)
Citywide Capital Equipment	1,530,000	3,156,978	91C7804	7/18/2017	Chapter 44 s. 7(1)
Guard Rails	22,000	25,000	91C741F	7/18/2017	Chapter 44 s. 7(1)
Private Street Conversion	750,000	1,000,000	91C741C	7/18/2017	Chapter 44 s. 7(1)
Street Resurfacing	1,000,000	4,000,000	91C741B	7/18/2017	Chapter 44 s. 7(1)
Street/Sidwalk Construction	900,000	6,600,000	91C7413A	7/18/2017	Chapter 44 s. 7(1)
Traffic Signal Improvements	150,000	1,025,000	91C724B	7/18/2017	Chapter 44 s. 7(1)
Public School Rehab	200,000	3,630,000	91C711E	7/18/2017	Chapter 44 s. 7(1)
Public School Equipment	75,000	500,000	91C780E	7/18/2017	Chapter 44 s. 7(1)
Citywide Building Rehab	450,000	1,033,350	91C7114	7/18/2017	Chapter 44 s. 7(1)
Elm Park School Rehab	200,000	3,000,000	91C7113S	9/5/2017	Chapter 44 s. 7(1)
Thorndyke Rd School Rehab	200,000	1,450,020	91C7113R	9/5/2017	Chapter 44 s. 7(1)
Lincoln Street School Rehab	250,000	1,514,812	91C7113Q	9/5/2017	Chapter 44 s. 7(1)
South High School Planning	2,500,000	13,000,000	91C7113L	12/12/2017	Chapter 70B
Total General Fund	17,972,000				

*Preliminary, subject to change

AUTHORIZATION AND USE OF PROCEEDS (cont'd)

Purpose	This Issue*	Original Authorization	Account Number	Date of Loan Order	Statutory Reference (MGL unless otherwise noted)
<i>SEWER</i>					
Route 20 Sewer	6,000,000	22,000,000	91C745B	7/21/2015	Chapter 44 s. 8(14)
Sewer Construction	2,800,000	10,500,000	91C745B	7/18/2017	Chapter 44 s. 7(1)
Sewer Capital Equipment	<u>500,000</u>	1,110,000	91C734A	7/18/2017	Chapter 44 s. 7(1)
Total Sewer	9,300,000				
<i>WATER</i>					
Reservoir Rehab	280,000	2,250,000	91C738	7/18/2017	Chapter 44 s. 8(4)
Water Meters	250,000	2,200,000	91C737A	7/18/2017	Chapter 44 s. 8(6)
Water Capital Equipment	250,000	763,000	91C731A	7/18/2017	Chapter 44 s. 8(7A)
Water Detection & Security	80,000	300,000	91C713F	7/18/2017	Chapter 44 s. 8(3A)
Water Mains	3,800,000	8,000,000	91C7134	7/18/2017	Chapter 44 s. 8(5)
Water Filtration Plant	<u>1,200,000</u>	3,000,000	91C7133A	7/18/2017	Chapter 44 s. 8(7A)
Total Water	5,860,000				
<i>GOLF</i>					
Greenhill Golf Improvements	<u>92,000</u>	600,000	91C7932A	7/19/2011	Chapter 44 s. 7(1)
Total Golf	92,000				
<i>DCU SPECIAL DISTRICT</i>					
DCU Rehab	<u>1,000,000</u>	30,000,000	75C504	2/27/2015	Chapter 416 of the Massachusetts Acts of 2014
Total DCU	1,000,000				
<i>CITY SQUARE</i>					
City Square - Delegated	<u>350,000</u>	89,085,000	04C750	7/19/2005	Chapter 40Q
Total Citysquare	350,000				
TOTAL BAN**	<u>34,574,000</u>				

*Preliminary, subject to change.

** \$240,000 premium received was applied to reduce the par amount of the Parks authorization..

SECURITY AND REMEDIES

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for “qualified bonds” and setoffs of state distributions (see “State Distributions” herein) no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year “all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for (and) all amounts necessary to satisfy final judgments”. Specific provision is also made for including in the next tax levy

payments of rebate amounts not otherwise provided for and payments of notes in anticipation of federal or state aid if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See “Tax Limitation” herein.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

No Lien. Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy or other funds of the City to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit (see Debt Limits herein). Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law (see “Tax Limitations” herein). In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, community preservation and affordable housing purposes, respectively and accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them, may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on “qualified bonds” and any other sums due and payable by the city or town to The Commonwealth of Massachusetts (the “Commonwealth”) or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority (the “MBTA”) or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resource Authority (the “MWRA”) if the city or town is within the territory served by the Authority, for any debt service due on obligations issued to the Massachusetts School Building Authority, or for charges necessary to meet obligations under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges

imposed by another local governmental unit that provides wastewater treatment or collection services or drinking water treatment services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act is often delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal of or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not generally authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy Laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings have been approved or made.

OPINION OF BOND COUNSEL

The original purchaser of the Notes will be furnished a copy of the opinion of Locke Lord LLP, of Boston, Massachusetts, approving the legality of the Notes. The opinion will be dated and given on and will speak only as of the date of original delivery. The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy of any statements made in the Official Statement other than matters expressly set forth as their opinion and they make no representation that they have independently verified the same.

TAX EXEMPTION

In the opinion of Locke Lord LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is of the further opinion that interest on the Notes will not be included in computing the alternative minimum taxable income of Noteholders who are individuals or, except as described herein, corporations. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on the Notes. The Notes will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

For taxable years that began before January 1, 2018, interest on the Notes owned by a corporation (other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum taxable income of such corporation. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. Failure to comply with these requirements may result in interest on the Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Notes. The City has covenanted to comply with such requirements to ensure that interest on the Notes will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Notes. Prospective Noteholders should be aware, however, that the Notes are included in the measure of Massachusetts estate and inheritance taxes, and the Notes and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Notes or the income therefrom or any other tax consequences arising with respect to the Notes under the laws of any state other than Massachusetts.

To the extent the issue price of any maturity of the Notes is less than the amount to be paid at maturity of such Notes (excluding amounts stated to be interest and payable at least annually over the term of such Notes), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Notes which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Notes is either the reasonably expected initial offering price to the public or the first price at which a substantial amount of such maturity of the Notes is sold to the public, as applicable. The original issue discount with respect to any maturity of the Notes accrues daily over the term to maturity of such Notes on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Notes to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Notes. Noteholders should consult their own tax advisors with respect to the tax consequences of ownership of Notes with original issue discount, including the treatment of purchasers who do not purchase such Notes in the original offering to the public at the reasonably expected initial offering price or, if applicable, the first price at which a substantial amount of such Notes is sold to the public.

Notes purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Notes, or, in some cases, at the earlier redemption date of such Notes ("Premium Notes"), will be treated as having amortizable note premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable note premium in the case of obligations, such as the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, a Noteholder's basis in a Premium Note will be reduced by the amount of amortizable note premium properly allocable to such Noteholder. Holders of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable note premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the value of, or the tax status of interest on, the Notes.

Although Bond Counsel is of the opinion that interest on the Notes is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect the federal or state tax liability of a Noteholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Notes, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Notes in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Noteholder or the Noteholder's other items of income, deduction, or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Noteholders should consult with their own tax advisors with respect to such consequences.

Risk of Future Legislative Changes and/or Court Decisions

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the Massachusetts legislature. Court proceedings may also be filed, the outcome of which could modify the

tax treatment of obligations such as the Notes. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Notes will not have an adverse effect on the tax status of interest on the Notes or the market value or marketability of the Notes. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Notes from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, H.R. 1, signed into law on December 22, 2017, reduces the corporate tax rate, modifies individual tax rates, eliminates many deductions, and raises the income threshold above which the individual alternative minimum tax is invoked, among other things. These changes may increase, reduce or otherwise change the financial benefits of owning state and local government bonds or notes. Additionally, Noteholders should be aware that future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Notes for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the Notes may be affected and the ability of Noteholders to sell their Notes in the secondary market may be reduced. The Notes are not subject to special mandatory redemption, and the interest rate on the Notes is not subject to adjustment, in the event of any such change in the tax treatment of interest on the Notes.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

BOOK ENTRY TRANSFER SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Notes. The Notes will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered certificate will be issued for each interest rate awarded for the Notes and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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 securities (including the Notes) under the DTC system must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each such security (“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 securities held by DTC 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 securities held by DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities 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 securities 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 securities deposited with it; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities 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.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the securities held by DTC unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities 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 such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the securities held by DTC 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 issuer of such securities or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying 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 Notes at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

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, physical certificates will be printed and delivered to Beneficial Owners.

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 Notes 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.

RATING

The City has obtained a rating of MIG 1 from Moody's Investors Service on the Notes. Such rating reflects only the view of the rating agency and is subject to revision or withdrawal, which could affect the market price of the Notes.

DISCLOSURE OF SIGNIFICANT EVENTS

In order to assist underwriters in complying with the requirements of paragraph (b)(5)(i)(C) of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission applicable to municipal securities having a stated maturity of 18 months or less, the City will covenant for the benefit of the owners of the Notes to file with the Municipal Securities

Rulemaking Board (“MSRB”) notices of the occurrence of any of the following events with respect to the Notes within ten business days of such occurrence: (a) principal and interest payment delinquencies; (b) non-payment related defaults, if material; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes; (g) modifications to rights of owners of the Notes, if material; (h) bond calls, if material, and tender offers; (i) defeasances; (j) release, substitution or sale of property securing the repayment of the Notes, if material; (k) rating changes on the Notes; (l) bankruptcy, insolvency, receivership or similar event of the City; (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The covenant will be included in a Significant Events Disclosure Certificate to be executed by the signers of the Notes and incorporated by reference in the Notes. The sole remedy available to the owners of the Notes for the failure of the Issuer to comply with any provision of the certificate shall be an action for specific performance of the City’s obligations under the certificate and not for money damages; no other person shall have any right to enforce any provision of the certificate.

The City believes that, for the past five years, the City has complied, in all material respects, with its previous undertakings to provide financial information and operating data or notices of significant events in accordance with the Rule. It has come to the City’s attention that certain notices of insurer ratings changes were either not filed in a timely manner or not filed at all. The City is taking steps to ensure that all filings are made in a timely manner and to ensure regular filing of any such changes in the future.

LITIGATION

At present there are a number of suits pending in which the City is a defendant. In the opinion of the City Solicitor, there is no litigation either pending or threatened, which is considered likely to result, either individually or in the aggregate, in final judgments which would materially affect the City's financial position.

CITY OF WORCESTER Massachusetts

/s/ Thomas F. Zidelis
Chief Financial Officer and
Acting City Treasurer and Collector of Taxes

Dated: April 18, 2018

[THIS PAGE INTENTIONALLY LEFT BLANK]

INFORMATION STATEMENT
FOR THE
CITY OF WORCESTER,
MASSACHUSETTS

Dated: April 18, 2018

[THIS PAGE INTENTIONALLY LEFT BLANK]

THE CITY

The City of Worcester, Massachusetts (the “City”) was established as a town in 1722 and incorporated as a city on February 29, 1848. The City is the industrial and commercial center of central Massachusetts, located in Worcester County. The City is 39 miles from Boston, 52 miles from Springfield and 43 miles from Providence, Rhode Island. It is bordered by Holden and West Boylston on the north, Shrewsbury and Grafton on the east, Millbury and Auburn on the south, Leicester on the west and Paxton on the northwest. By population, Worcester is the second largest city in Massachusetts and New England, with 182,544 people according to the 2013 federal census of population estimates. The City occupies a land area of 37.6 square miles.

Worcester has historically been a center for education at all levels from primary to post-secondary. The Higher Education Consortium of Central Massachusetts (“HECCMA”) is an association of public and private accredited colleges and universities in Worcester and the surrounding area which works collaboratively to further the missions of member institutions. These institutions include Anna Maria College in nearby Paxton, Assumption College, Becker College, Clark University, College of the Holy Cross, Massachusetts College of Pharmacy and Health Sciences University, Quinsigamond Community College, UMass Medical School, Worcester Polytechnic Institute, and Worcester State University which are all located in Worcester, and the Cummings School of Veterinary Medicine, Tufts University School, which is located in nearby Grafton. Business programs can be found at the New England School of Accounting/Salter Secretarial and Computer School in West Boylston, and at nearby Nichols College in Dudley. Total enrollment for these institutions is approximately 37,000 with the full time student population of the Worcester institutions, estimated from school websites, to be approximately 27,000 or 15.6% of the City’s population.

GOVERNING BODIES AND OFFICERS

Since 1950, the City has operated under the Council-Manager form of government. The City Council is made up of eleven members, six of whom are elected at-large and five of whom are elected from districts. Local legislative decisions are made by the City Council. The City Manager, appointed by the City Council, is the chief executive officer, and department heads are generally under his or her supervision. The Mayor is the City Councilor who receives the highest number of votes for Mayor provided he or she also is elected as one of the six at-large City Councilors. The Mayor serves as presiding officer of the City Council and, ex-officio, Chairman of the School Committee. The Vice Chairman acts for the Mayor only in the function as Chairman of the City Council.

The School Committee, whose members are also elected for two-year terms, has exclusive jurisdiction over the City's public school system and appoints a Superintendent to administer the day-to-day affairs of the school system.

The table on the following page lists key officials of the City.

<u>Office</u>	<u>Name</u>	<u>Manner of Selection/Term</u>
City Manager	Edward M. Augustus, Jr.	Appointed by City Council
City Councilor (1)	Joseph M. Petty * Morris A. Bergman Khrystian E. King Konstantina B. Lukes Candy F. Mero-Carlson Sarai Rivera Sean Rose Gary Rosen George J. Russell Kathleen M. Toomey Matthew E. Wally	Elected/Biennially Elected/Biennially Elected/Biennially Elected/Biennially Elected/Biennially Elected/Biennially Elected/Biennially Elected/Biennially Elected/Biennially Elected/Biennially
Chief Financial Officer, Acting City Treasurer and Collector of Taxes	Thomas F. Zidelis	Appointed by City Manager
City Auditor	Robert V. Stearns	Appointed by City Council/2 years
City Clerk	Susan M. Ledoux	Appointed by City Council/2 years
Superintendent of Schools	Maureen Binienda	Appointed by School Committee/3 years

* Mayor

(1) Current terms expire in January 2020.

PRINCIPAL GOVERNMENTAL SERVICES

The City provides general governmental services including police and fire protection, disposal of solid waste, public education in grades kindergarten through twelve, certain technical education beyond the high school level and a small pre-school program. Water services, streets, parks, recreation facilities, and a cemetery are also provided.

The City is a member of the Upper Blackstone Water Pollution Abatement District which provides all of the City's sewage treatment services. The City is also served by the Worcester Regional Transit Authority.

COLLECTIVE BARGAINING

City employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment.

The table on the following page lists the details of collective bargaining agreements maintained by the City.

<u>Unit</u>	<u>Union</u>	<u>Length of Contract</u>	<u>Contract Expires (1)</u>	<u>Number of Employees</u>
Teachers & Administrators	EAW - Group A & B	3 Years	08/31/20	2,422
Custodians	LIUNA - Local 176/AFL-CIO	3 Year	06/30/20	143
Storekeepers	LIUNA-Local 176/AFL-CIO Unit B	3 Year	06/30/30	0
Cafeteria Workers	NAGE – R1-16	3 Year	08/25/20	321
Plumbers and Steamfitters	School Plumbers and Steamfitters	1 Years	06/30/17	5
Tradesmen Association	Truck Drivers Union - Local 135	1 Year	06/30/17	30
Instructional Assistants	EAW	3 Years	08/31/20	599
Administrative Secretaries	NAGE R1-156	1.5 Years	06/30/17	55
Educational Secretaries	Local 176/AFL-CIO	3 Years	06/30/20	72
Parent Liaisons	EAW	3 Years	08/31/20	3
ESL Tutors	EAW	3 Years	08/31/20	5
School Nurses	MNA	3 Years	06/30/16	56
School Aids to Handicapped	EAW	1.5 Years	08/31/20	33
School Computer Techs	Local 176 – Unit D	3 Years	06/30/19	12
School Bus Monitors	EAW	1.5 Years	08/31/20	36
School COTA's	EAW	3 Years	08/31/20	15
Fire Dept. – Firefighters	IAFF - Local 1009	3 Years	06/30/20	408
Police Dept. - Police Officers	NEPBA – Local 911	1+3 Years	06/30/17	361
Police Dept. – Police Officials	IBPO – Local 504	1+3 Years	06/30/17	86
City Depts. - Clerical	NAGE Local 490	3+1 Years	06/30/20	78
Public Works – Clerical	Local 170, Teamsters Union	3+1 Years	06/30/20	25
Civilian Employees	NAGE - Local 495	3 Years	06/30/20	454
				<u>5,219</u>

(1) Expired contracts currently under negotiation

ECONOMY

Employment and Payrolls by Industry (1)

<u>Employment by Industry</u>	<u>Calendar Year Average</u>				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Construction & Natural Resources	3,195	3,188	2,928	2,836	3,071
Manufacturing	5,720	5,820	5,953	6,392	6,616
Trade, Transportation & Utilities	12,684	12,588	12,465	12,206	12,297
Financial Activities	6,196	6,486	6,568	6,493	6,501
Professional & Business Services	10,110	9,178	8,745	8,661	8,417
Education & Health Services	48,770	48,197	47,837	47,286	44,579
Leisure & Hospitality	7,814	7,559	7,517	7,349	7,304
Information & Other Services	4,404	4,368	4,308	4,728	6,070
Public Administration	3,456	3,348	3,391	3,345	3,136
Total Employment	<u>102,354</u>	<u>100,734</u>	<u>99,710</u>	<u>99,297</u>	<u>97,997</u>
Number of Establishments	6,645	6,294	5,857	5,431	5,100
Total Annual Wage (000)	\$5,623,839	\$5,488,056	\$5,256,803	\$5,202,272	\$5,064,139
Average Weekly Wage	\$1,057	\$1,048	\$1,014	\$1,008	\$994

(1) Source: Massachusetts Executive Office of Labor & Workforce Development.

Largest Employers (1)

<u>Company</u>	<u>Nature of Business</u>	<u>Number of Employees</u>
UMass Memorial Health Care, Inc.	Health Care	12,906
UMass Medical School	Medical School	4,445
Reliant Medical Group	Medical Services	2,500
Saint Vincent Hospital	Hospital	2,350
The Hanover Insurance Group, Inc.	Property & Casualty Insurer	1,900
Saint-Gobain	Manufacturing - Abrasives, Ceramics, Plastics	1,572
Seven Hills Foundation, Inc.	Nonprofit - Health/Human Services	1,236
Worcester Polytechnic Institute	Higher Education	1,150
Quinsigamond Community College	Higher Education	1,088
College of the Holy Cross	Higher Education	1,031
Bank of America	Bank	850
AbbVie, Inc.	Biopharmaceuticals	800
VNA Care Network & Hospice	Home Health Care	735
SimplexGrinnell LP	Fire & Life Safety	700
Clark University	Higher Education	685
Polar Beverages	Manufacturing - Soft Drinks	675
Youth Opportunities Upheld, Inc. (YOU, Inc.)	Human Services Agency	660
Unum	Employee Benefits	650
Worcester State University	Higher Education	625
Assumption College	Higher Education	617
YMCA of Central Massachusetts	Nonprofit - Community Based Organization	567
The Bridge of Central Massachusetts	Human Services Agency	550

Source: Worcester Business Journal, 2017 book of lists.

(1) Excludes employees of the City and City-run businesses, and state and federal employees.

Building Permits

<u>Fiscal Year</u>	<u>Permits Issued</u>	<u>Estimated Cost of Construction</u>
2018 (through 2/1/18)	2,113	\$163,837,983
2017	3,362	252,591,392
2016	3,619	317,135,684
2015	3,468	228,314,595
2014	2,897	140,541,066
2013	2,758	155,819,152

Public School Enrollments (1) (2)

						Projected		
	2013	2014	2015	2016	2017	2018	2019	2020
K-6	13,158	13,596	13,569	13,585	13,463	13,228	13,098	12,799
7-8	3,297	3,310	3,309	3,363	3,413	3,542	3,510	3,582
9-12	6,746	6,976	6,915	7,141	7,130	7,100	7,230	7,338
Total	23,201	23,882	23,793	24,089	24,006	24,757	24,743	23,719

(1) As of October 1 of each year. Excludes pre-school programs.

(2) Worcester Public Schools include 4 high schools (grades 9 to 12), 1 vocational high school, 4 middle schools (grades 7 to 8), 34 elementary schools (primarily grades K to 6), and two Grade 7 to Grade 12 schools. The City also maintains an adult education training school.

Source: Worcester School Department.

ECONOMIC DEVELOPMENT

MAJOR DEVELOPMENT PROJECTS

- CitySquare/Mercantile Center** – Since 2010, the City of Worcester has been diligently working with the developer, CitySquare II Development Co. LLC (“CSII”) to transform the downtown landscape. In addition to completing the demolition of the former Worcester Common Fashion Outlets mall, a new roadway network was constructed, creating an east–west connection through the downtown. Unum (Paul Revere Life Insurance) opened a \$70 million, 214,000 square foot office building and renovated an 860-car parking garage in 2013. Other investment in the project area includes an expansion of the Saint Vincent Hospital campus, with a 66,000 square foot \$30 million Cancer and Wellness Center. A new, two-level 550-car \$35 million underground public parking garage is now open to the public. Roseland Residential Trust, a Mack-Cali Company, is building a \$92 million, 365-unit luxury apartment complex known as 145 Front at City Square. The residential development, which broke ground in late 2015, is on target for an early 2018 occupancy and includes a dedicated 479 space parking structure and approximately 13,000 square feet of ground floor retail. Roseland Residential has signed leases with Protein House, a high-end, health-conscious restaurant chain, Fidelity Cooperative Bank, and Elizabeth Grady, a spa and skin-care product retailer. The construction of a \$33.1 million full-service 168 room AC Hotel by Marriot is underway, with a planned opening in April 2018. A 110 Grill restaurant, adjacent to the hotel, will open at the same time. The restaurant will have five seating areas: a dining room, a lounge, a U-shaped bar, a private dining room for up to 50 guests, and an outdoor patio with couches, torches and a fire pit. The restaurant will cover 6,000 square feet, not including the patio. The CitySquare project will leverage additional private investment in a final future phase envisioned to consist of the new construction of a 200,000 square foot office building. Due to the success of these investments, a private developer has purchased the remaining buildings in the CitySquare project area, now branded as Mercantile Center. Mercantile Center is a 640,000-square-foot office and retail complex composed of two best-in-class office towers at 100 and 120 Front Street, three commercial/retail redevelopment opportunities at 90/110 Front Street, and a 1,647 space structured parking garage. The new developer is investing approximately \$75 million between the purchase of the property and renovation of the complex, and has a lease executed with UMass Memorial Health Care for approximately 76,000 square feet of office space. This arrangement brought an additional 700 UMass workers to the downtown at the end of 2017.
- CSX/ Commuter Rail** – The City, Commonwealth of Massachusetts, and CSX signed a landmark agreement enabling CSX to expand operations in Worcester as part of an economic development project aimed to increase commuter and freight rail options to the City. As part of this agreement, CSX modernized and expanded its intermodal freight rail in Worcester with an investment of over \$100 million in 2012. The construction of a new facility generated 380 temporary jobs during the 24 month construction period, with 85 permanent jobs remaining at the yard. The facility generates approximately \$700,000 in net new real estate and personal property tax revenue for the City. The CSX yard in Worcester processes approximately 110,000 intermodal containers annually, and that number is expected to double over the long term. The overall agreement has resulted in State

ownership of the track and dispatching operations, and increased daily commuter rail/passenger trains to and from Boston. The agreement has also resulted in \$5 million of donations from CSX to the City including an Open Space Donation of \$1 million, a Community Space Donation of \$4 million and a “Container Fees” donation which is estimated to collect approximately \$2 million over a period of 20 years. This funding has allowed for improvements to Cristoforo Colombo Park and Holmes Field, streetscape improvements in the areas around the CSX facility, and a number of capital improvement projects as recommended by the CSX Neighborhood Improvement Advisory Committee including the ShotSpotter Program, purchase and installation of security cameras, streetscape improvements in various strategic areas, playground improvements, purchase of educational equipment, and beautification projects.

- **DCU Center Arena & Convention Center Complex** – The DCU Center, which averages over 700,000 attendees per year, underwent a \$32 million renovation project in 2013. Through the creation of the DCU Center finance district, pursuant to Chapter 422 of the Acts of 2006, the City was able to provide the revenue stream to finance the much needed capital investment for the complex. In December 2014, the Governor approved a Home Rule Petition amending Chapter 422 of the Acts of 2006 that allowed the City to expand the DCU Center finance district and increase the city's borrowing capacity from \$30 million to as much as \$60 million to support additional improvements at the facility. Recently completed arena work included interior and exterior architectural upgrades; building expansion for a new lobby, box office and concourse; upgrades to the mechanical, electrical, and plumbing systems; two new suites and revamped restrooms; and construction of a 1,100 square foot retail restaurant space within the facility at the intersection of Foster Street and Commercial Street. Figs & Pigs Kitchen + Pantry officially opened in this space in December 2015. The City has procured a design team to prepare for an additional phase of renovations with a budget of \$25 million. Areas identified for improvement include: ADA accessibility, a new scoreboard and electronic ribbon, upgraded Wi-Fi, electrical and mechanical upgrades, exterior improvements, additional luxury suites in the arena, additional meeting rooms for the convention center, and plumbing and fire protection. The City has also agreed to purchase approximately 4.5M kWhs of credits from a Nexamp solar array, which beginning in 2016 is set to save the DCU approximately \$210k per year in electricity costs over the next 20 years. In April 2017, the DCU Center announced the completion of a project to replace all 3,487 light bulbs in the building to energy efficient LEDs. This project will pay for itself through National Grid incentives and a one-third reduction of the facility's energy bill. It will also cut kilowatt usage by 42 percent, reducing the DCU Center's CO2 emissions equivalent by the same amount as 194 average homes.
- **Gateway Park** – Worcester Polytechnic Institute (WPI) remains focused on developing Gateway Park, a market-based brownfield redevelopment project located just north of the City's downtown core in Lincoln Square. A \$40 million, 125,000 square foot research and development building opened in Gateway Park in 2007, accompanied by an \$11 million, 680-car parking garage. In 2013, O'Connell Development Group Inc., operating as 50 Prescott Street LLC, completed construction of a second laboratory/office building at Gateway Park. This 92,000 square foot, \$32 million project created 120 construction jobs and 140 permanent, full-time jobs. 50 Prescott Street is the second of four new life sciences/office buildings planned for Gateway Park. In addition, WPI completed construction of an 89,000-square-foot LEED certified residence hall within Gateway Park. This third building in Gateway Park was a \$38 million project, and opened to upper class undergraduate and graduate students in August 2013. Construction of an \$11.5 million, 100-room Hampton Inn on the corner of Faraday Street and Prescott Street, adjacent to the existing Courtyard by Marriott hotel is now complete. The facility offers an indoor salt water pool, complimentary shuttle service throughout the city, and a meeting room for corporate gatherings. Two additional commercial development parcels remain in Gateway Park, totaling approximately 3.5 acres combined. With 240,000 square feet of built to suit space available in one or two buildings and new state-of-the-art labs and facilities, Gateway Park offers tenants the opportunity to partner with a leading STEM research institution in the discovery and creation of knowledge and transformational research.
- **Plantation Street Parcel, Biotech VI** – In collaboration with The Commonwealth of Massachusetts, the Worcester Business Development Corporation (WBDC) developed the Massachusetts Biotechnology Research Park (MBRP) in Worcester during the late 1980s and early 1990s. Several biotechnology and auxiliary uses now occupy the Park. In January 2011, the State legislature authorized the transfer of the final 32 acres of land within the MBRP to the WBDC. The WBDC has conveyed 26 acres of the 32-acre site to the University of

Massachusetts Medical School. WBDC has retained the remaining acreage of the site for future development. A conceptual proposed master plan includes a five-level, 100,000 square foot building to be known as Biotech VI. A second phase holds the potential for a 60,000 square foot building with approximately 180 parking spaces.

- **South Worcester Industrial Park (SWIP)** – The South Worcester Industrial Park (SWIP) is a former brownfield site located off of Southbridge Street. The City of Worcester has invested over \$6 million of federal, state, and local resources into the conversion of an approximately 8-acre brownfield site into six pad-ready parcels for light manufacturing/industrial use. Over the past decade, the City assembled the properties, completed necessary demolition and remediation, and performed extensive infrastructure improvements to prepare the parcels for redevelopment. During Fiscal Year 2016, the City secured agreements with three separate parties for the sale and development of all six parcels in the park. Construction of a new \$4.6 million, 50,000 square foot Table Talk Pies manufacturing facility is complete, resulting in the creation of 50 full-time jobs. Construction of Absolute Machinery’s \$2 million, 14,000 square foot facility expansion at 33 Southgate Street is underway. The Armory Business Center project at 49 Canterbury Street is also underway, which will create approximately 19,000 square feet of modern space for high-tech industrial, manufacturing, and research and development processes. Chacharone Properties, LLC is planning development of the remaining pad parcel. The overall new construction planned at these six parcels totals over 100,000 square feet and is programmed for light manufacturing/office space. The total revenue from the land sales exceeds \$550,000, in addition to the properties being put back on the tax rolls in perpetuity.
- **The Hanover Theatre for the Performing Arts** – The City of Worcester coordinated with the Worcester Center for the Performing Arts, a development group that has transformed the former Loew’s Poli Palace Theatre with a \$30 million renovation into the state-of-the-art Hanover Theatre for the Performing Arts. The theater boasts 2,300 seats and attracts patrons into the downtown core every year to see live performances of off-Broadway shows, concerts, recitals, and other live performances. Since the Theatre’s grand opening in March 2008, a schedule which includes a variety of cultural offerings has attracted nearly sold-out crowds to its performances totaling approximately 160 events per year and nearly 200,000 attendees annually. In October 2014, the Hanover Theatre purchased the adjacent vacant building for \$1.1 million and renovated the structure for the Hanover Theatre Conservatory, offices, function space, meeting space, and a restaurant. A ribbon cutting and block party to celebrate the new space was held in June 2016.
- **Union Station** – As the gateway to the Downtown from the east and the location of the region’s premier intermodal transportation center, Union Station serves as Central Massachusetts’ premier intermodal facility. Union Station boasts multiple options for travel including high speed rail, commuter rail, inter-and intra- city bus services, and taxi services as well as a parking garage with two electric vehicle charging stations. Currently Union Station has the following tenants: Amtrak, Massachusetts Bay Transportation Authority (MBTA), Peter Pan and Greyhound Bus Lines, Goodies by the Tracks, Vanasse Hangen Brustlin Inc., and Maxwell Silverman’s Banquet & Conference Center. In September 2017, Greyhound bus lines announced that it expanded its service from Worcester, adding departures to Boston, nonstop service to Springfield and Hartford, and one-stop service to New York City. With the completion of the MBTA Yawkey Way Station in March 2014, commuter rail service at Union Station increased to 20 daily round trips; and the commuter rail daily ridership is approximately 1,600 passengers. In late 2015 it was announced that the MBTA would begin completing \$18 million in track improvements to allow increased nonstop service on the Worcester/Framingham line and eliminate speed restrictions in hot weather. A nonstop train between Worcester and Boston began on May 23, 2016, with a commute time from Worcester to Yawkey Station in under 60 minutes. Over \$7 million in improvements have been made or are planned for the building. Completed work includes upgrades to the bathrooms, improvements to the Harding Street entrance for taxi queuing, and a comprehensive signage overhaul. The next slate of improvements to Union Station began in February 2018 and include refinishing the exterior stucco of the building, upgrading exterior lighting, repainting interior public spaces, installing automated lighting controls, and remediating water infiltration from the outdoor train platform and plaza.
- **Union Station Parking Garage** – The city constructed a \$20 million, 500-car parking garage to serve Union Station in July 2008. This garage, with 8,000 square feet of first floor commercial space and two electric vehicle charging stations, allows direct access to Union Station for commuters and patrons. In January 2014, the City

Council authorized a 30-year lease agreement with the WRA that allows the agency to sublease the vacant first floor commercial space in the Union Station Parking Garage, and directly negotiate with prospective tenants.

- **MassDOT District 3 Administration Building** – CTA Construction of Waltham and Helene-Karl Architects of Groton have been selected to build a new \$35.5 million, 78,000 square foot, four-story steel framed structure on a 6.5 acre site on Plantation Parkway for the Massachusetts Department of Transportation (MassDOT). The new facility is designed to be a Net Zero Energy Building and will also feature both lower and upper parking lots.
- **42 Quinsigamond Avenue** – The Worcester Regional Transit Authority (WRTA), the second largest regional transit authority in Massachusetts, maintains a fleet of 52 buses, including 6 electric, 17 diesel-electric hybrids, and 29 clean diesels. The WRTA employs 160 people. With 28 fixed routes in Worcester and 12 in surrounding communities, the WRTA services 3.8 million annual passenger trips. In October 2016, the WRTA opened a new \$90 million, 100,000 square foot, state of the art, LEED-designed, maintenance and operations facility at a formerly vacant brownfield site.
- **WRTA Administrative and Bus Transfer Station** – In addition to relocating its maintenance and operations facility, the WRTA recently constructed a 14,000 square foot administrative and transfer facility adjacent to Union Station. This state-of-the-art building consists of three stories and houses administrative offices, customer service operations, and amenities that include a public waiting area, Dunkin Donuts, and restroom facilities. The development also has a transfer hub consisting of eight (8) bus slips and provides riders with shelter in all types of weather. In an effort to accommodate customers and encourage alternate modes of transportation, the WRTA hub offers bicycle amenities at the site. This \$14 million facility completes the vision of Union Station as a true intermodal facility.
- **287 Grove Street (Former WRTA Site)** – Galaxy Development of Auburn has proposed a 65,000 square foot, four-building mixed-use plaza at the former WRTA site on Grove Street, which was purchased for \$3.8 million in 2016. Recent site plans presented to the Planning Board incorporate a strong pedestrian and city-oriented design, and include a medical office, mixed-used buildings, and drive-thru restaurant.
- **Worcester Ice Center/Worcester Railers** – The \$18 million, 110,000 square foot Fidelity Bank Worcester Ice Center opened in September 2017 and features two ice rinks, the Railers pro shop, Nonna’s Kitchen, Steam Energy Cafe, and a physical therapy center. In addition, owner Cliff Rucker has made additional investments into developing parts of the downtown and the Canal District, including owning and operating a new ECHL team, the “Worcester Railers HC,” purchasing a multi-story office building at 311 Main Street, opening the Railers Tavern behind the DCU Center in fall 2017, and purchasing a 25% ownership stake in the Worcester Palladium, a 2,000 seat music venue on Main Street.
- **Washington Square** – Washington Square has undergone a \$5.3 million reconfiguration that reduced the rotary to a much smaller roundabout and resulted in the creation of several new development parcels totaling more than three acres adjacent to Union Station that are either owned or will be owned by the WRA. In March 2015, the WRA authorized the execution of a Terms of Conveyance Agreement with First Bristol Corporation for the sale of a 40,000 square foot parcel in Washington Square to locate an extended stay hotel. The \$21 million, 118-room Homewood Suites Hotel opened in June 2017. The hotel has 115 parking spaces, a swimming pool, Jacuzzi spa and a fitness center.
- **Worcester Crossing** – A \$50+ million retail complex on a 44-acre brownfield site. Upon full build-out, this development created 1,000 jobs, and generates approximately \$1.65 million annually in taxes. A Walmart Supercenter, the first of several retailers and restaurants opened in May 2010. Walmart alone created 250 full-time equivalent positions. An Olive Garden opened in January 2011. A Sam’s Club opened in April 2012. Additionally, another 26,640 square foot building adjacent to Sam’s Club houses several newly opened businesses including Mattress Firm, Expressions, Weight Watchers, Hair Cuttery, Sprint, GameStop and Jack’s Wayback Burgers. In July 2014, Worcester Crossing was purchased by RK Centers, a privately held real estate firm, for \$49 million. In November 2015, Digital Federal Credit Union opened a branch location at Worcester Crossing.

- **Blackstone Gateway Park and Blackstone Heritage Corridor Visitor Center at Worcester** – Currently under construction, the Blackstone Heritage Corridor Visitor Center at Worcester will be a full service, multi-use facility, featuring a welcoming area, historic and cultural exhibits, a theater, a riverfront overlook, an adjacent passive recreation lawn, and office, classroom and meeting space. The surrounding park will provide recreational and educational opportunities by way of trails, boardwalks, observational platforms, interpretive signage and kiosks, and paths with connectivity to the Blackstone River Bikeway. The Visitor Center and Park site will be a connecting point to recreational, historical, cultural, and geographical attractions in Worcester, Central Massachusetts, and the Blackstone Valley. Site work for the Visitor Center is complete, and construction is anticipated to be complete in summer 2018. Upon completion of the facility, the Massachusetts Department of Conservation and Recreation (DCR) will be relocating its regional office to the new building and will be the future owner of the site. Construction of Blackstone Gateway Park began in April 2017 and is anticipated to be complete in May 2018. All told, the combined projects represent an investment total of approximately \$18 million. The Quinsigamond Bikeway portion of the Blackstone River Bikeway is now open to the public and extends from the town of Millbury along Route 146 (behind Worcester Crossing) to the Visitor Center site.
- **18-20 Franklin Street** – Formerly known as the Telegram & Gazette building, the Worcester Business Development Corporation (WBDC) acquired this vacant property in 2011. The building renovation cost \$42 million, including two floors which now comprise a satellite campus for Quinsigamond Community College (QCC). QCC leases approximately 70,000 square feet for its Allied Health programs, as well as additional Workforce Development and Training, Adult Basic Education and English as a Second Language programs. The new facility supports over 1,200 students and administrators. In addition, the WBDC recently celebrated the opening of the Innovation Center of Worcester, an accelerator space for start-up businesses on the first floor in April 2015. The launch of the Innovation Center follows the opening of Ten24, a digital software company, leasing 7,000 square feet of space on the fourth floor of the building. Renovation continues on the first floor to develop a 300 seat black box theater and gallery and subterranean levels to create a 2,600 square foot café and a community space open to the public.
- **Worcester County Courthouse** – The City of Worcester acquired the former Worcester County Courthouse from the Commonwealth of Massachusetts in August 2014. In conjunction with taking title, the City received a grant from the Commonwealth of \$3 million to assist with environmental remediation and selective demolition, if necessary, of the building. A majority of the environmental remediation has been completed in the building, with the remaining work to be coordinated with a future developer. A Request for Interest was advertised for the property and the City received interest from four (4) developers in March 2016. On June 26, 2017, the City announced that it had negotiated an agreement with Trinity Financial, Inc. Trinity will purchase the property for \$1.3 million and develop it into 114 units of mixed-income housing, with ancillary retail space. The estimated total cost for this project is \$53 million.
- **Osgood Bradley** - Vision Development, Inc. acquired 8 Grafton Street, a 190,000 square foot building adjacent to Union Station. This building is highly visible from I-290 and is within walking distance of downtown and the Canal District. This \$32.7 million investment involved the historic rehabilitation of the massive structure into a state-of-the-art 82 unit, 250 bedroom market-rate student housing complex. The units are open to full-time students enrolled in either four-year or graduate programs, medical students, and young professionals. Through the Commonwealth’s Housing Development Incentive Program (HDIP), the developer has received approval from the State for up to \$2 million in state tax credits. Now branded the “Edge at Union Station,” the building opened in August 2016 and is substantially leased at this time.
- **100 Wall Street** – Branded Realty Group, LLC has acquired 100 Wall Street, a 12,197 square foot blighted building which formerly housed the El Morocco restaurant. The developer plans to demolish the building and construct a new 60 unit energy efficient market-rate apartment building. The new, market-rate apartment building will consist of 18 one-bedroom units and 42 two-bedroom units. The estimated total project cost is \$7 million. This project has been approved as a certified project through the Commonwealth’s Housing Development Incentive Program (HDIP). In January 2017, the City Council approved an amendment to the certified project increasing the number of housing units from 60 to 72 and to reflect the new project schedule. Demolition is complete and construction is expected to occur within the next 18-24 months.

- **Stearns Tavern/Coes Park** – With help from dozens of local companies and organizations providing in-kind donations of work, funding from the state, and an overall investment of about \$2.4 million, the City has moved the historic Stearns Tavern from its site at 651 Park Avenue to the new Coes Park site on Mill Street. The tavern, one of the oldest buildings in Worcester and listed on the National Historic Register, was set to be demolished until the City and its partners, including Preservation Worcester, stepped in to preserve it. At Coes Park, the city has created a four-season, multi-generational park and universally accessible playground, which opened in early September 2017. The Stearns Tavern will be turned into a workforce training, education, and community center overseen by Seven Hills Foundation, which will occupy the first floor operate a café and perform ordinary maintenance of the park and building on a year-round basis.
- **Greenwood Street Solar Farm** – On August 17, 2017, the largest municipally-owned solar array in New England was officially connected to the power grid at the former Greenwood Street landfill. The Greenwood Street Solar Farm covers 25 acres with 28,600 solar panels. It is anticipated to produce enough energy to power 1,340 homes per year, and is projected to save the City \$60 million or more over its expected 30 year life.
- **Castle Park** – On October 3rd, 2017, City officials and neighborhood residents gathered to celebrate a complete renovation of Castle Park. This \$2 million project, funded primarily with federal block grant dollars, features a new accessible entrance and walkways; a new multi-purpose court for basketball, soccer, and other sports; a new playground; lighting and landscape improvements; and first-in-the-city outdoor fitness equipment.

HIGHER EDUCATION INVESTMENT & EXPANSION

- **College of the Holy Cross** – The City of Worcester entered into a partnership with Holy Cross in 2012 where Holy Cross contributed \$80,000 annually for five years for operating costs, including staffing, fuel, insurance, and maintenance for the Worcester Public Library’s “Library Express” which had been off the road since 1991. In September 2016, Holy Cross announced a renewed sponsorship that is set to begin in 2017. The Library Express is a state-of-the-art mobile library and multi-media resource center. The College continues to work with the City to identify opportunities to strengthen the neighborhood including additional housing options for students. On April 29, 2017, Working for Worcester (W4W), an organization created and operated by Holy Cross students celebrated its fifth year. Over this span of time, W4W has raised more than \$500,000 in capital, invested more than \$1 million in the city in resources and services, mobilized more than 5,000 volunteers, including 3,500 from nine area colleges, and renovated more than 100 sites across the City. In January 2015, the College unveiled plans to construct a \$92 million, 62,000 square foot performing arts center with a 400 seat concert hall and theater and a 200 seat flexible performance space. Diller Scofidio + Renfro, a New York-based internationally acclaimed design firm, was chosen to design the newly dubbed Center for the Arts and Creativity. Holy Cross commenced a \$95 million renovation and expansion to the Hart Center which is now part of the newly named Luth Athletic Complex. Upgrades and additions to the facilities include 100 yards of wall-to-wall turf for an indoor practice area, a practice basketball gym, an expansion of the sports medicine and strength conditioning areas, upgrades to the hockey offices and women’s locker room, sound system upgrades, and a renovation of the field house. The anticipated opening of the Luth Athletic Complex is summer 2018. The new athletic complex is one of the six main initiatives of the college’s ongoing \$400 million fundraising campaign “Become More: Campaign for the Future of Holy Cross”, which has raised \$301 million to date.
- **Massachusetts College of Pharmacy and Health Sciences University (MCPHS) Worcester** – MCPHS has invested over \$350 million in downtown Worcester to date, acquiring 19 properties as well as approximately fifty residential condominium units. MCPHS-Worcester opened in September 2000 with a class of 125 students and one program. Today about 2,000 of the university’s students are enrolled in programs at the Worcester campus. MCPHS-Worcester employs 300 professionals in Worcester. In June 2010, MCPHS-Worcester purchased the 243-room Crowne Plaza hotel for \$16.8 million and has transformed the property into the Lincoln Square Living & Learning Center. The complex contains classrooms, student services, and academic and administrative offices to accommodate the addition of new degree programs as well as 423 furnished single-room residences with private baths, fitness center, laundry facilities, etc. In addition, MCPHS completed construction on a \$10 million, 54,000 square foot six-story building connected to the Lincoln Square Living & Learning Center, featuring an optometry school, as well as additional study and student spaces. In January 2013, MCPHS acquired another

downtown property at 15 Belmont Street, which includes a total of 90,000 square feet for \$2.9 million. In September 2016, MCPHS opened the New England School of Acupuncture (NESA) in downtown Worcester, completing a \$15 million renovation of a five-story, 34,000 square foot building at 19 Norwich Street. The renovated building features classrooms, a function room, and a ground-floor clinic with 11 treatment rooms. The NESA will bring approximately 200 additional students and 120 faculty and staff to downtown Worcester, with a goal of 500 additional students by 2019. The new Campus Wellness Center—a fully equipped, state-of-the-art gym and workout facility—also opened in the fall of 2016 for use by students 24 hours a day. In January 2017, the Historical Commission waived a one-year demolition delay waiver for the building on the corner of Mechanic and Commercial Streets, which is being renovated to include a basement parking garage accommodating the New England School of Acupuncture.

- **UMass Medical School Expansion (UMass)** – UMass Medical continues to grow with the completion of the Ambulatory Care Center, a seven-story, \$95 million, 258,000 square foot building that houses a mix of ambulatory clinical care and clinical and translational research programs. The Albert Sherman Center, a nine-story, 512,000 square foot, \$443 million center for cellular and gene research opened in 2013. In conjunction with the Sherman Center, UMass constructed a 1,400 space parking structure to support existing and future parking needs of medical school students and campus employees. In February 2013, UMass announced the acquisition of three properties within the Massachusetts Biotechnology Research Park for \$40 million, including the school’s New England Newborn Screening Program. The City continues to work with UMass to attract tenants to the buildings and UMass has agreed to make voluntary payments to the City over five years totaling nearly \$1.58 million to support additional services at the Worcester Public Library, as well as biotech and bioscience programs at Worcester Technical High School.
- **Worcester Polytechnic Institute (WPI)** – WPI opened a new \$53.2 million, 140,000 square foot Sports and Recreation Center in July 2012. The building features a four-court 29,000-square foot gymnasium, 11,000-square feet of fitness space, a 25-meter competition-length swimming pool, three-lane jogging track, racquetball and squash courts, rowing tanks, workout studios, and space for large-scale events such as robotics competitions. WPI also constructed a \$20 million, 534-car parking garage with rooftop athletic fields for softball, field hockey, soccer, lacrosse, rugby, and other recreational activities. In August 2013, WPI opened its new \$38 million, 89,000-square-foot LEED certified residence hall within Gateway Park. In summer 2016, WPI razed its old gymnasium and started construction on a five story, 78,000 square foot academic facility/residence hall. The building will include the Foisie Innovation Studio and the Messenger Residence Hall, which will house 140 students. The project cost is \$49 million and will open for the 2018-2019 academic year. In spring 2017, WPI announced it will construct a new facility at Gateway Park, to be known as PracticePoint, offering simulated health care settings. The Commonwealth has promised \$5 million to the initiative, with GE Healthcare Life Sciences promising another \$2.5 million, to complement WPI’s \$9.5 million contribution to the project.
- **Worcester State University (WSU)** – WSU held a grand opening celebration for its \$52.6 million, 101,000 square foot Wellness Center in September 2016. The Wellness Center houses exercise rooms, a multi-purpose gym, a competition gym, batting cages, an elevated track, instructional community space, and a lounge. In addition, WSU has completed construction on Sheehan Hall, a \$40 million student residence hall. The new facility accommodates 400 students and features a large community room and dining hall.
- **Quinsigamond Community College (QCC)** – In October 2014, QCC opened its new \$40 million Healthcare and Workforce Development Center located at 18-20 Franklin Street, occupying approximately 72,000 square feet of institutional space. The space houses the Allied Health programs, as well as Workforce Development and Training, Adult Basic Education and English as a Second Language programs, and will support over 2,000 students and administrators and represent a new downtown presence. In January 2016, QCC held a grand opening celebration for the \$23 million Quinsigamond Engineering, Science and Technology (QuEST) Center. The three-story, 30,000-square-foot QuEST Center provides students with state-of-the-art labs and facilities ranging from industrial robotics to pharmaceutical testing labs.
- **Becker College** – To keep up with the college’s demand for additional student housing, Becker College has marked a presence in the downtown by providing student housing for over 150 students within downtown

residential buildings since January 2014. Becker College has expanded its downtown presence through a lease of office space at the 20 Franklin Street Innovation Center. Becker-alumni led start-ups will occupy the space on a rotating basis. The first company to use the space is Petricore Inc., a game development company. Set to open in 2018, the new Colleen C. Barrett Center for Global Leadership will house the Yunus Social Business Centre, the Women's Emergent Leadership Program, and the Mass DiGI New Ventures Center, which recently received a \$35,000 grant awarded by the Baker-Polito Administration..

- **Clark University** – In an effort to reconnect and re-engage with alumni, Clark embarked on a \$23.8 million, 35,000-square-foot Alumni and Student Engagement Center in February 2015. The project, which opened in July 2016, marks Clark's first expansion across Main Street and includes additional parking, upgraded lighting, a plaza, and green space. The four-story building houses the Liberal Education and Effective Practice Center, provides alumni and classroom space, and has solar roof panels. This building complements streetscape work that is planned to begin in spring 2018 along Main Street, from Beaver Street to Woodland Street, through a \$2.3 million federal grant. In spring 2017, National Grid, in partnership with Clark University and the City of Worcester, announced the recent installation of the first Massachusetts solar awning system.
- **Assumption College** – In April 2016, Assumption broke ground on its first major construction project in nearly a decade – the state of the art, 60,000-square-foot Tsotsis Family Academic Center. This \$15 million energy efficient building features seminar rooms, common study spaces a 400-seat performance hall, and 13 classrooms. A ribbon cutting ceremony was held in October 2017 for the building, which now houses the college's Business Studies Department, Honors Program, the Center for Teaching Excellence, and a new center for the Study of Ethics.

RESIDENTIAL DEVELOPMENT

- **Former Vocational School Properties**
 - **26 & 34 Grove Street, Voke School Buildings B & C** – The former Worcester Vocational High School Buildings B & C were purchased by New Garden Park, Inc. a subsidiary of the WBDC, for environmental remediation and selective demolition. New Garden Park Inc. then sold the property to Winn Development for the \$33 million construction of an 84-unit mixed-income residential development. The project was completed in June 2014 with an 85% lease-up at opening. All units are fully leased at this time.
 - **16 Salisbury Street, Voke School Building A** – The City is working with WinnDevelopment on the acquisition and renovation of this historic building for commercial and office use.
- **Gardner-Kilby-Hammond Neighborhood Revitalization** - Gardner-Kilby-Hammond is a \$32 million brownfield revitalization project spearheaded through a public/private partnership involving the Main South Community Development Corporation, the Boys & Girls Club, Clark University, and the City of Worcester. This multi-phased neighborhood revitalization effort involves the redevelopment of 30 acres for recreational facilities, a Boys & Girls Club facility, bikeway/pedestrian path, and 80 affordable, energy efficient homeownership units for sale to first-time homebuyers. The housing portion of this initiative was completed in October 2012. The final component of the project is the construction of a bike path, playing fields, and street upgrades to include new pavement and sidewalks, which is now complete. The Clark University playing fields opened for use in October 2016.
- **The Grid District** - Mayo Group (MG2), a residential and commercial real estate firm based in Boston, continues the development of its properties adjacent to the Worcester Common. The construction of 70 new units of housing at the former Bancroft Motors property on Portland Street was completed. These new units join the 400+ units of housing which have been purchased, renovated, and rented out by MG2 over the past five years. In 2016, MG2 launched a new branding effort for their properties rechristening the area *The Grid District*. A craft coffee shop, Brew, opened in July 2016 and a Mediterranean restaurant, Techni, followed soon after. Four additional restaurants are planned in the area. MG2 recently started the renovation of 90 residential units in a historic building, Park Plaza, located at 507 Main Street. In summer 2017, the demolition of the old Paris Cinema began

to make room for MG2's 320-seat indoor/outdoor Brew Garden. MG2 continues to develop ground floor retail opportunities along Franklin Street, and has invested over \$30 million into the district.

- **371 - 379 Main Street** – In December 2012, SJ Realty LLC acquired 371-379 Main Street, two underutilized buildings with a combined gross area of more than 43,000 square feet. SJ Realty LLC has renovated the property into market-rate housing geared toward graduate students and young urban professionals. The first floor of both buildings has remained commercial while the upper floors have been converted into 55 micro-loft units, 26 of which have been committed to Massachusetts College of Pharmacy and Health Sciences. Both buildings have undergone approximately \$9 million in renovations and all the units are complete. Interior and exterior improvements have been made to the first floor storefronts. In March 2017, Zoup! – a fast-casual soup-focused restaurant with nearly 100 stores nationwide – opened its doors at 375 Main Street.
- **Junction Shops – 64 – 79 Beacon Street** – The historic Junction Shops mill complex was converted into 172 market rate apartments by Brady Sullivan Properties and Starr Development. Construction started in the spring of 2014 and was completed in 2015. Currently, the units are being actively marketed and rented, with only a few units available at this time.
- **93 Grand Street, Worcester Loomworks I & II** – The Worcester Loomworks project is one of the main components of the Main South/Loomworks Sustainable Communities Initiative and centers on a vacant mill building located in the Main South neighborhood. Originally part of the Crompton & Knowles manufacturing complex, the approximately 125,000 SF building has been converted for 94 units of affordable housing which will include one-, two- and three-bedroom apartments. Constructed to LEED green building standards, the total project cost is approximately \$27 million. The City contributed \$200,000 of loan proceeds through the Brownfields Cleanup Revolving Loan Fund Program to support the project. The construction is complete and leasing of all units is ongoing. Within a week of opening 400 people applied to live in the units. A one bedroom apartment in the Lofts starts at \$984, and units range in size up to a three-bedroom, two-bathroom unit at \$1,365. In the late spring of 2016, the celebration of the completion also marked the final vacant unit rent up.
- **Stratton Hill** – In October 2017, MassHousing closed \$22.5 million in financing for the purchase of the 156-unit Stratton Hill Park complex by Beacon Hill Communities LLC. The company is planning \$9.7 million in renovations to the properties, including eight accessible apartments, common area improvements, new roofs on townhouse buildings, drainage improvements, building façade and balcony repairs, and new windows. A significant portion of the units will be rented as affordable housing, with 28 units being rented at market rates.
- **261 Clover Street** - Botany Bay Construction Co. Inc. has proposed to demolish a one-story building on the nearly 5-acre property located at 261 Clover St., the former site of Creative Paper & Packaging, in order to construct 11 multifamily, low-rise buildings that would consist of roughly 90 residential units. The property is currently owned by the city. Through a Request for Proposal process, Botany Bay has been designated the preferred developer for the property and is seeking permitting approvals from the city before taking ownership of the property.

BUSINESS GROWTH

- **Biotechnology** - Biotechnology research and development has emerged as a major growth industry for the City in recent years. The Massachusetts Biotechnology Research Park (MBRP) is located on 75 acres of land in Worcester. Recently acquired by a subsidiary of UMass Medical School, the park is now known as the UMass Medicine Science Park. The park is home to approximately 20 companies, with over 2,500 jobs, filling 470,000 square feet with an investment of over \$300 million, and generating close to \$3 million in tax revenue to the City. In addition, Massachusetts Biomedical Initiatives (MBI) is a private, independent economic development organization dedicated to job creation and innovative healthcare throughout Massachusetts by promoting the growth of start-up biomedical companies. From 2000–2015, MBI accrued a 74% graduate company success rate, 550 total jobs created, and a \$550 million cumulative economic impact. At the end of 2016, MBI had 93 successful graduate companies, 28 current tenant companies employing 117 persons, and a 98 percent occupancy rate.
- **Biomanufacturing** – In November 2017, the Worcester Business Development Corporation (WBDC) and the State signed a land disposition agreement for the redevelopment of 44 acres of land on the former Worcester State Hospital Campus into biomanufacturing use as part of the Commonwealth’s ongoing “Open for Business” Initiative. The proposed 500,000 square feet of biotechnology facility space near the UMass Medical School in Worcester is expected to attract companies moving from the biomanufacturing research sector to the commercialization sector. At full capacity, the new site has the potential to create over 500 jobs.
- **Business Assistance Programs**
 - **Economic Development Incentive Program** - The Economic Development Incentive Program (EDIP) is a tax incentive program designed to foster full-time job creation and stimulate business growth throughout Massachusetts. Once designated as a Certified Project, participating companies may receive state and local tax incentives in exchange for full-time job creation, manufacturing job retention, and private investment commitments. These incentives include a state Investment Tax Credit up to 10%, a state 10% Abandoned Building Tax Deduction, and local tax relief through a Tax Increment Financing (TIF) Plan. The City of Worcester has been one of the Commonwealth’s leaders in providing local tax incentives to support business expansion. To date, the City has a total of 60 Certified Projects.
 - **Facade Program** - The Facade Program leverages private investment in the physical and aesthetic improvement of commercial properties and enhances the attractiveness of targeted areas within the City. Since its inception, the City has supported 34 facade improvement projects. The public investment totals approximately \$520,000 and has leveraged over \$382,000 in private investment. There are currently two façade projects underway and two pending applications.
 - **HUD Section 108 Loan Guarantee Program** - Through the U.S. Department of Housing and Urban Development Section 108 Loan Guarantee Program, the City provides loan guarantees to promote growth in both emerging and maturing industries. To date, Worcester has provided close to \$30 million in loan guarantees to 10 businesses and developers, and has leveraged approximately \$84 million in private investments. The projects are expected to result in the creation of a minimum of approximately 485 full-time jobs and generate more than \$1 million annually in tax revenues. The city’s Business & Community Development Division monitors the Section 108 Loans and Loan Guarantees for HUD compliance and due diligence on an annual basis.
 - **Microloan Program** - The Microloan Program assists new and existing businesses by providing short- and long-term, fixed-rate, low-interest loans to qualified borrowers. Since its inception, the City has awarded 41 loans. Public funding totals approximately \$860,000 while leveraging over \$6.9 million in private investment. At present, the City has two pending applications.
 - **Quinsigamond Village Financial Assistance Programs** – The City’s Business & Community Development Division has been administering a Storefront & Façade Improvement Program, a Small Business Deferred

Loan Program, and a Microloan Program to support the revitalization efforts in the Quinsigamond Village neighborhood. To date, nine projects have been completed with a total public investment of approximately \$168,000; leveraging over \$146,000 in private investment. The City looks forward to completing at least two additional projects in the coming months. In the first quarter of 2017, the neighborhood committee unanimously approved an application for \$75,000 in favor of Raymond James Restoration to support a complete interior and exterior restoration of the historic Blackstone Firehouse at 15 Blackstone River Road.

- **Small Business Grant Program** – The City’s Business & Community Development Division recently launched a new Small Business Grant Program to incentivize and support new tenancies in vacant storefronts as well as existing businesses that are expanding. Three small business grants have been awarded totaling \$55,000 in public investment and leveraging over \$800,000 in private investment. The City is currently working with two new applicants in the second quarter of 2017.
- **Site Search Assistance** - The City’s Business & Community Development Division helps retain existing businesses that are relocating or expanding as well as attracting new businesses to Worcester. Based on site requirements and business needs, staff members work with the real estate community to identify appropriate locations in the city. The Business & Community Development Division has also helped facilitate filming locations and office space for Worcester’s burgeoning film industry.

DEVELOPMENT INITIATIVES

- **Expedited Permitting** – The Worcester City Council adopted the provisions of Chapter 43D of the Massachusetts General Laws, which was modified to improve the expedited permitting process within the Commonwealth and to create a more development-friendly environment by establishing a 180-day timeline for municipal permitting decisions for Priority Development Sites. The City of Worcester has over twenty-five (25) approved Priority Development Sites, located within Gateway Park, North Main, CitySquare, and the South Worcester Industrial Park.
- **Gateway Cities Compact** – The Gateway Cities Compact for Community and Economic Development was executed on May 19, 2008. This initiative continues to prosper with papers, conferences, and legislation being produced to support the cause. While there were originally eleven Gateway Cities, including the City of Worcester, the definition of a Gateway City has been revised by the legislature to include twenty-four communities. In December 2014, MassDevelopment announced the award of ten Gateway City Districts identified for enhanced assistance through its Transformative Development Initiative (TDI). Worcester was named as a recipient, for an application concentrating on the Theatre District Master Plan area. The ten TDI Districts in Development receive enhanced technical assistance, real-estate services, and equity investments in real estate to support local visions for redevelopment, and to catalyze and leverage investments and economic activities.
- **North Main Economic Development Strategy Area** – The North Main/Lincoln Square area of Downtown has undergone substantial changes in recent history. The relocation of the Worcester County Courthouse and Vocational School as well as the construction of Gateway Park have had a major impact on the area, leaving a number of historically and architecturally significant buildings within Lincoln Square vacant. In 2008, the City of Worcester worked in coordination with consultant VHB to conduct an economic strategy study of the area. The purpose of the study was to identify new opportunities for development that will be integrated with the various existing projects and plans in the area into a market-driven, financially-responsible, and sustainable redevelopment strategy. The effort resulted in a comprehensive plan that identified short-term, mid-term and long-term development concepts for both public and private properties within the area. In 2016, the Worcester Memorial Auditorium was opened to the public for tours and special events which resulted in hundreds of people visiting the building. Due to the increased interest in the building, the City of Worcester has entered into a one-year exclusivity agreement with the Architectural Heritage Foundation (AHF) to conduct a feasibility study for the building. Previous projects for the AHF include Quincy Market and Boston’s Old City Hall. AHF will spend up to \$250,000 of its own funding to complete its feasibility study and redevelopment plan.

- **Theatre District Initiative** – The City and the WBDC have entered into a partnership to strategically focus on master planning and infrastructure improvements to promote economic development within an approximately 30+ acre area surrounding the Hanover Theatre for the Performing Arts. A draft Master Plan was completed and City Council approved the plan in concept in December 2013. Since 2014, the City’s Executive Office of Economic Development partnered with various property owners to run the Worcester PopUp. The PopUp concept is to offer a free, collaborative space for artists and creative entrepreneurs to share their arts & crafts, host a creative workshop, or perform a concert, stage-reading, or poetry slam. The Theatre District Master Plan area served as the basis for the creation of the Downtown Worcester Urban Revitalization Plan. A Theatre District Alliance has been established and is currently working to brand the District and program the area with cultural opportunities, block parties, and other unique events. The Theatre District was awarded a “Find it Local” grant in 2017 to develop a placemaking kit for area businesses that will include the necessary tools to host small and large scale events. With the help of City staff, it will also provide technical assistance and guidance on special event permits, branded materials, and information on how to successfully engage an audience to bring additional life to the streets and storefronts in the Theatre District. In August 2017, MassDevelopment announced that it purchased 526-538 Main Street through its TDI Equity Investment program. The building, located across from the historic Hanover Theatre, was identified by Worcester’s TDI program partnership and the city’s Downtown Urban Revitalization plan as a key site for development in the downtown. MassDevelopment issued a Request for Proposals and Qualifications for the redevelopment of the property in November 2017.
- **Wayfinding** - The City of Worcester is partnering with the Worcester Cultural Coalition to develop a wayfinding system focused on highlighting the cultural, civic and district assets of the community with an emphasis on district identification. The Wayfinding system will incorporate over a dozen unique pieces of public art and a digital application exclusive to Worcester that will allow users to create trails that define their favorite routes of the city. MassDOT has awarded the City a \$2 million grant for the program. The City will contribute an additional \$1 million to the project.
- **Urban Revitalization** – The Worcester Redevelopment Authority (WRA) and the Worcester City Council recently approved the Downtown Worcester Urban Revitalization Plan (URP), as established by M.G.L. Chapter 121B, for strategic portions of the City’s downtown and its surrounds. The Plan identifies critical properties within the URP boundary that have suffered ongoing disinvestment and decay. It builds upon the prior development efforts of the Theatre District Master Plan. This 118 acre, \$100 million plan was approved by the Massachusetts Department of Housing and Community Development in September 2016.
- **Housing Development Incentive Program (HDIP)** – The Commonwealth of Massachusetts, Department of Housing and Community Development (DHCD), approved the City’s application to create a Housing Development Incentive Program (HDIP). The HDIP is an economic development incentive, providing Gateway Cities an additional development tool to increase residential growth, expand diversity of the housing stock, support economic development and promote neighborhood stabilization in designated target areas. It provides qualified projects with a local real estate tax exemption as well as a State Investment Tax Credit. The City’s first project, the Osgood Bradley building at 8 Grafton Street, was approved by the state in September 2015. Another project, Branded Realty Group LLC’s 100 Wall Street property received approval from the State in late 2015.
- **Worcester Energy Program** – Worcester Energy is a municipal initiative with the following goals: 1) to lead by example and improve the energy efficiency of municipal operations; 2) to communicate the City’s efforts related to energy efficiency, conservation and sustainability; and 3) to provide resources and information in order to encourage residents, businesses and institutions to take action to reduce their energy use and carbon footprint. The revised Worcester Energy municipal website (www.WorcesterEnergy.org) that launched in December 2015 communicates information about municipal initiatives and pertinent information for the community, including comprehensive energy conservation efforts, building modernization projects, solar power installations, and lighting retrofit projects. The City was designated a Green Community in 2010 and is tracking its progress toward a 20% energy use reduction goal set by the designation and expected to be achieved, in large part, through the aforementioned municipal energy saving projects. The Green Community Grant funded a Residential Rebate Pilot, which the City designed and administered between 2012 and 2014, distributing \$631,364 for 168 energy

efficiency and renewable energy residential projects that leveraged \$1.85 million in energy efficiency improvements.

- **Worcester Lead Abatement Program (WLAP)** – The Worcester Lead Abatement Program (WLAP) is a federally funded grant program that is designed to assist property owners with the cost of lead paint abatement. Massachusetts Law requires the abatement of lead paint hazards wherever children under six years of age reside. Since 2007, over 1,100 housing units have been de-leaded in the city. In August 2015, the City was selected to receive \$3.7 million in Lead Hazard Reduction Demonstration grant program funding to aid over 218 additional units over 36 months. Entering its third year, the program is on schedule to conclude in February 2019. To date, 148 units of housing have been de-leaded.
- **Buy Worcester Now (BWN)** – For nearly a decade, the Buy Worcester Now initiative has encouraged a collaboration of public, nonprofit and private sector organizations to preserve and promote homeownership opportunities in all corners of the city of Worcester. There are several incentive programs and services available as part of BWN, including down payment assistance for income qualified first-time homebuyers. By using one of the participating preferred lenders and purchasing a home in Worcester, first-time homebuyers receive information about loan programs available in the market and a reduction in closing costs through the lender. The Central Massachusetts Association of REALTORS®, MassHousing, and the Worcester Regional Chamber of Commerce have been a core partner in focusing on affordable and sustainable homeownership for Worcester buyers. This program is currently being revamped and will be reactivated in the near-term, to be known as *Live Worcester Now*.
- **Down Payment Assistance** - The City of Worcester's Executive Office of Economic Development, through its Housing Development Division, offers financial assistance to low-to-moderate income first time homebuyers through the Down Payment Assistance Program. Under the program, eligible down payment and closing costs (not to exceed \$5,000) are paid for with funds available under the U.S. Department of Housing & Urban Development's (HUD) Community Development Block Grant (CDBG) program. First-time homebuyers must meet HUD eligibility standards. In the current Fiscal Year, close to \$100,000 has been provided to 24 homebuyers to achieve homeownership and over \$4.8 million in first mortgage loans has been leveraged. Three additional families are closing on homes in the coming months. Approved MassHousing and Massachusetts Housing Partnership lenders can also utilize the down payment program, thereby allowing homebuyers to choose from a variety of lending institutions. Preferred lenders include: MassHousing, the Massachusetts Housing Partnership (MHP), Bank of Canton, Bay State Savings Bank, Clinton Savings Bank, Southbridge Savings Bank, and Millbury Federal Credit Union/Security First Mortgage Funding LLC. Each lender offers innovative loan products to promote sustainable homeownership.
- **Salisbury Cultural District** – On May 19, 2015, the Massachusetts Cultural Council Board of Directors approved the state designation for the Worcester Salisbury Cultural District (SCD.) The goal of the district, the first in the city, is to foster economic development and engagement in the arts and cultural life of the district. The SCD spurs on creative activity in an area with 14 cultural and civic institutions, seven specialty galleries/gift shops, and 15 National Historic Register properties within the Salisbury/North Main Street area. In 2016 the SCD launched a website and social media outreach campaign to promote events in the district which encouraged thousands of visitors to attend the multitude of cultural events in the district.
- **Union Hill Revitalization** – The Union Hill neighborhood is the focus of a targeted, block by block strategy across multiple City departments seeking to improve the quality of life in the neighborhood. Since 2013, \$5 million in investments has been completed, programmed, or are underway. The City's Economic Development Office is spearheading this effort. The Neighborhood Development Division, in coordination with the city's Department of Public Works and Parks, oversaw three phases of strategic improvements to major arterials and residential streets in Union Hill utilizing Community Development Block Grant funds. The Housing Development Division has expended over \$1,000,000 in CDBG and HOME funds in Union Hill to demolish two blighted structures and rehabilitate 20 low-to moderate-income owner occupied properties. An additional \$67,000 in lead abatement funding has been used to de-lead seven housing units as part of the city's efforts to promote safe and healthy homes. In November 2015, the City received a Community Development Achievement Award from the

National Community Development Association Region 1 (New England) for the Union Hill Neighborhood Revitalization Initiative.

- **Land Acquisition for Conservation and Passive Recreation** – The Conservation Commission acquired rights to three properties in 2014 and 2015, adding to the diversity of open space in the City. Crow Hill North (13.7 acres) was purchased in December 2014 and features a unique black oak savannah habitat and many trails. Donker Farm (23 acres) was purchased in April 2015, which preserves the last operating farm in Worcester, a managed forest, and a rich habitat. A Conservation Restriction for a 6.3 acre Ecotarium West property was purchased in May 2015, which adds to the continuity of the natural habitat and serves as a welcoming access point to the Crow Hill Conservation Area. In 2016, the City completed a visitor parking area and is now working to incorporate an informational kiosk (in collaboration with EcoTarium) with other public amenities at the site.

CITY INDEBTEDNESS

Bonds and notes are generally authorized on behalf of the City by vote of two-thirds of all the members of the City Council. Provision is made in the City Charter for a referendum upon the filing of a petition bearing the requisite number of signatures within 20 days of final passage of a loan order. Borrowings for certain purposes require state administrative approval. Temporary loans in anticipation of certain state and federal reimbursements or for temporary loans in anticipation of current revenues and may generally be incurred by the City Treasurer and Collector of Taxes and City Manager without City Council authorization.

The general debt limit of the City consists of a normal debt limit and a double debt limit. The normal debt limit is 5 per cent (\$611,883,110 based on the 2016 equalized valuation) of the valuation of taxable property as last equalized by the State Department of Revenue. The City can authorize debt up to this amount without state approval. It can authorize debt up to twice this amount (the double debt limit) with the approval of a State Municipal Finance Oversight Board comprised of the State Treasurer, State Auditor, the Attorney General and Director of Accounts.

There are many categories of general obligation debt which are exempt from and do not count against either the normal debt limit or double debt limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, water and sewer bonds, bonds for gas, electric and telecommunication systems and, subject to special debt limits, bonds for housing, urban renewal and economic development (limited to 5 1/2 per cent). Industrial revenue bonds and electric revenue bonds are not subject to these debt limits. The general debt limit applies at the time debt is authorized.

TYPES OF OBLIGATIONS

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue (“DOR”). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or

notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as “qualified bonds” with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as “tax credit bonds” to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed ten years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition to general obligation bonds and notes, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. The City does not have an electric department.

DEBT (1)

The following shows the direct debt to be outstanding as of May 11, 2018:

General Obligation Bonds:**Within General Debt Limit (2)**

Sewers and Drains	\$ 9,516,466
Land Acquisition	2,698,504
Schools	55,234,854
Other Building	82,701,437
Streets, Sidewalks & Parking	56,818,039
Departmental Equipment	6,839,036
Cemetery	402,000
Architectural & Engineering Services	321,688
Athletic & Recreational Facilities	24,651,097
Other Inside General	<u>3,467,058</u>

Total Within the General Debt Limit \$242,650,179

Outside General Debt Limit:

Sewers	\$ 89,225,963
Schools (3)	63,358,018
Industrial Economic Development	57,124,566
Other Outside General	48,065,320
Water	50,725,286
Other Enterprise	39,600
Pension Obligation Bonds	<u>121,025,000</u>

Total Outside the General Debt Limit \$429,563,753

Total Outstanding Long-Term Indebtedness \$672,213,933

Temporary Loans in Anticipation of:

Revenue	\$ 0
Bonds (4)	68,356,000
Grants	<u>0</u>

Total Temporary Loans \$ 68,356,000

\$740,569,933

Less Deduction for Self-Supporting

Water	\$ 53,470,633
Sewer	93,316,510
CitySquare	64,504,116
Off Street Parking	7,459,436
DCU Special District	34,512,238
Other Enterprise	1,471,443
CSX	915,000
Pilot	2,084,000
North High Fund	16,752,667
HUD	1,802,000

Total Self Supporting \$278,288,043

Total Net Direct Debt \$462,281,890

Footnotes on the following page

(1) Principal amount only. Excludes lease and installment purchase obligations, any unfunded pension liability (see "Retirement Plan" herein), other post-employment benefits liability, and the Bonds.

(2) At the present time based on the 2016 equalized valuation, the normal general debt limit is \$611,883,110 and the double general debt limit is \$1,223,766,220.

(3) The unpaid balance of pre-Massachusetts School Building Authority approved construction projects receive state school construction grants payable at 90% of the eligible construction and interest costs of the outstanding school construction bonds. The current grant program releases progressive payments of grants throughout the approved project until the MSBA approved grant percentage has been reached. The City may only bond its share of the project. (See "School Aid" herein.)

(4) Includes the Notes.

Temporary Loan Maturities

After the issuance of the Notes, the City will have \$68,356,000 outstanding Bond Anticipation Notes.

Authorized Unissued Debt

The City has \$473,557,190 of authorized unissued debt of which \$254,816,557 is outside the debt limit and \$218,740,633 is inside the debt limit. The City expects to issue this debt over the next several years, in large part, for projects that are either self-supporting from user fees or eligible for state reimbursements.

In an attempt to stabilize the effect of debt service on the operating budget the City has implemented two initiatives. While all bonds and notes of the City (unless otherwise specifically noted in the offering documentation, closing documents and bonds or notes themselves) are general obligations of the City and, with certain limited exceptions, are payable from taxes which may be levied upon all taxable property of the City, subject to the limit imposed by Chapter 59, Section 21C of the General Laws, the administration, as part of the Five Point Plan (see "Long Term Financial Plan" herein) had initially imposed policies intended to try to limit the debt service related to any borrowing which is reliant on the general fund to approximately \$17,000,000 with allowed increases for inflation. The policies require that borrowings are to be accompanied by an expected revenue stream to support the debt.

Five Years Outstanding Debt (1)

	As of June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Long-Term Indebtedness					
Within the General Debt Limit:					
Sewers & Drains	\$ 8,631,292	\$ 6,051,364	\$ 5,755,884	\$ 5,429,091	\$ 5,402,849
Land Acquisition	3,076,062	3,292,686	3,431,910	3,871,000	4,061,600
Schools	28,708,347	5,462,626	25,462,151	27,054,182	18,895,694
Other Building	85,490,337	75,451,255	9,925,031	86,424,232	79,346,391
Streets Sidewalks & Parking	55,096,446	55,038,289	5,020,965	48,741,725	39,652,140
Departmental Equipment	5,830,746	5,871,000	,606,000	6,578,375	6,220,750
Cemetery	493,000	25,000	0	0	0
Architectural & Engineering					
Services	526,531	569,060	822,836	777,208	564,875
Athletic & Recreational Facilities	24,833,866	23,289,011	21,282,437	19,445,422	5,882,208
Other Inside General	<u>3,748,751</u>	<u>4,153,695</u>	<u>3,829,209</u>	<u>3,660,000</u>	<u>3,632,000</u>
Total Within the General Debt Limit	<u>\$216,435,378</u>	<u>\$199,203,986</u>	<u>\$201,136,423</u>	<u>\$201,981,235</u>	<u>\$173,658,507</u>
Outside the General Debt Limit:					
Sewers	\$ 82,675,722	\$ 77,277,586	\$ 72,304,377	\$ 65,852,423	\$ 59,798,875
Schools	64,513,014	76,196,311	84,011,238	95,970,527	107,790,140
Industrial Economic & Urban					
Development	29,662,301	31,410,611	14,954,790	16,922,780	19,221,066
Other Outside General	43,055,194	44,419,886	46,034,379	27,296,324	22,848,510
Water	51,122,960	51,410,094	55,951,017	59,337,063	64,515,830
Other Enterprise	46,300	95,900	566,000	1,050,000	1,526,000
Pension Obligations	<u>129,565,000</u>	<u>137,605,000</u>	<u>145,170,000</u>	<u>152,290,000</u>	<u>155,063,454</u>
Total Outside the General Debt Limit	<u>\$400,640,491</u>	<u>\$418,415,388</u>	<u>\$418,991,801</u>	<u>\$418,719,117</u>	<u>\$430,763,875</u>
Total Long-Term Indebtedness	<u>\$617,075,869</u>	<u>\$617,619,374</u>	<u>\$620,128,224</u>	<u>\$620,700,352</u>	<u>\$604,422,382</u>
Short-Term Indebtedness					
Revenue Anticipation Notes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Grant Anticipation Notes	0	0	0	0	0
Bond Anticipation Notes	<u>103,730,533</u>	<u>27,440,000</u>	<u>64,179,000</u>	<u>72,325,000</u>	<u>70,013,000</u>
Total Short-Term Indebtedness	<u>\$103,730,533</u>	<u>\$ 27,440,000</u>	<u>\$ 64,179,000</u>	<u>\$ 72,325,000</u>	<u>\$ 70,013,000</u>
Total Outstanding Indebtedness	<u>\$720,806,402</u>	<u>\$645,059,374</u>	<u>\$684,307,224</u>	<u>\$693,025,352</u>	<u>\$674,435,382</u>

(1) Excludes lease and installment purchase obligations, overlapping debt, any unfunded pension liability and other post-employment benefits liability.

Bonded Debt vs. Population, Valuation and Income

	As of June 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Amount (1)	\$617,075,869	\$617,619,374	\$620,128,224	\$620,700,352	\$604,422,382
Per Capita (2)	\$3,344	\$3,342	\$3,355	\$3,392	\$3,311
Percent of Assessed Valuation (3)	5.03	5.50	5.55	5.63	5.56
Percent of Equalized Valuation (4)	5.04	5.32	5.34	5.10	4.97
Per Capita as a percent of Personal Income (2) per capita	13.62	13.63	13.66	13.81	13.48

(1) Outstanding principal on general obligation bonds. Excludes lease and installment purchase obligations, overlapping debt, unfunded pension liability and other post-employment benefits liability.

(2) Source: U.S. Department of Commerce, Bureau of the Census - latest applicable actuals or estimates.

(3) Source: Board of Assessors - assessed valuation as of the prior January 1.

(4) Source: Massachusetts Department of Revenue. The equalized valuation used here is the equalized valuation in effect for that fiscal year.

ANNUAL DEBT SERVICE (1) MAY 11, 2018

<u>Fiscal Year</u>	<u>Principal (2)</u>	<u>Interest (2)</u>	<u>Total Debt Service (3)</u>	<u>Cumulative % Principal Retired</u>
2018	\$ 4,150,000	\$ 5,880,331	\$ 10,030,331	0.6%
2019	59,566,589	28,923,654	88,490,243	9.5
2020	54,040,928	26,235,833	80,276,762	17.5
2021	52,050,783	23,692,746	75,743,529	25.3
2022	46,905,333	21,236,893	68,142,226	32.2
2023	46,144,990	18,974,430	65,119,420	39.1
2024	45,680,167	16,761,705	62,441,872	45.9
2025	44,142,004	14,590,501	58,732,505	52.5
2026	43,072,410	12,545,862	55,618,272	58.9
2027	41,262,932	10,589,566	51,852,499	65.0
2028	38,733,574	8,775,713	47,509,287	70.8
2029	20,984,339	7,026,748	28,011,087	73.9
2030	19,205,229	6,275,933	25,481,162	76.8
2031	18,061,248	5,551,703	23,612,951	79.4
2032	17,323,023	4,900,610	22,223,633	82.0
2033	16,489,211	4,286,614	20,775,825	84.5
2034	16,098,395	3,693,593	19,788,988	86.9
2035	16,325,656	3,098,301	19,423,957	89.3
2036	15,611,114	2,531,566	18,142,680	91.6
2037	13,610,666	1,961,529	15,572,195	93.6
2038	12,398,333	1,487,7896	13,886,229	95.5
2039	9,253,333	1,084,218	10,337,551	96.9
2040	7,938,333	759,304	8,697,637	98.0
2041	6,263,343	488,982	6,752,325	99.0
2042	4,145,000	257,268	4,402,268	99.6
2043	<u>2,760,000</u>	<u>100,848</u>	<u>2,860,848</u>	<u>100.0%</u>
Total	<u>\$672,213,933</u>	<u>\$231,712,346</u>	<u>\$903,926,279</u>	

(1) Excludes revenue anticipation notes, grant anticipation notes, bond anticipation notes, lease and installment purchase obligations, overlapping debt, any unfunded pension and other post-employment benefits.

Overlapping Debt (1)

The following table sets forth the portion of overlapping debt assessed to the City as of May 11, 2018:

	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated Share of Worcester</u>	<u>Assessments for Operations and Debt Service Fiscal Year 2018</u>
Upper Blackstone Water Pollution Abatement District (2)	\$139,988,983	\$58,379,950	90.0%	\$20,278,959
Worcester Regional Transit Authority	0	2,052,047	68.1	3,151,781

(1) Excludes temporary loans in anticipation of revenue. Omits debt of the Commonwealth.

(2) Source: Treasurer, Upper Blackstone Water Pollution Abatement District. Authorized unissued debt is primarily for incinerator upgrade project. Debt is issued through the Massachusetts Water Pollution Abatement Trust and by the District itself. In order to meet current and future requirements under EPA regulations, the District is in the process of upgrading its facilities. The District and the EPA are negotiating a schedule of improvements, anticipated to take 10-15 years, at an estimated cost up to \$100 million.

RETIREMENT PLAN

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

In 1990, the City accepted Chapter 32, Section 22D of the Massachusetts General Laws effective for fiscal 1992. This provision required the City to adopt a funding schedule to meet its pension costs and amortize its unfunded pension liability. The statute requires that for the first six years, a pension system must use the higher of the Public Employee Retirement Administration (PERAC) "cost of benefit" or an actuarial funding schedule. The City adopted a funding schedule, approved by PERAC, which provided for a systematic reduction of the City's unfunded pension liability each year until full funding is achieved in the year 2028. With the enactment of Chapter 188 of the Acts of 2010, the City took advantage of the option to extend its funding schedule to 2040.

Since fiscal year 1982, cost of living adjustments (COLA) for local employees mandated by the State Legislature have been borne by the State. Chapter 17 of the Acts of 1997 provides that future COLAs be borne by the respective retirement system. Chapter 17 of the Acts of 1997 was accepted by the retirement system and the City Council on September 24, 1997 and June 30, 1998. To meet this obligation, on May 29, 1998 the City's Retirement Board approved a new funding schedule.

Legislation provided that upon local acceptance and subject to certain conditions and limitations, a municipality may establish and implement an early retirement incentive program. Any plan for such program must be submitted to PERAC by September 27, 2010. The City accepted this legislation and submitted its plan which was subsequently approved by PERAC.

On December 1, 1998, the City issued approximately \$221.0 million Pension Obligation Bonds to extinguish its estimated unfunded accrued actuarial liability as of December 1, 1998.

The City's latest actuarial valuation and review, as of January 1, 2017, estimated that the Worcester Retirement System (WRS) had an unfunded actuarial accrued liability of \$462 million based on an asset value of \$837 million (on a GAAP

basis) for a 62.2% funded ratio. This represented an increase of \$24 million from the prior valuation based on a discount rate of 7.375% (compared to 7.500% in the previous valuation) and changes to mortality tables. The annual required contribution (ARC) was made in 2016 totaling \$43 million (the City's share was \$39 million) representing 25% of covered payroll. The target year for full funding remained at 2033; however the ARC annual increase changed from 5.85% to 6.30%. The funding schedule is presented in the table below.

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of 2002 ERI Liability	(4) Amortization of 2010 ERI Liability	(5) Amortization of Remaining Unfunded Liability	(6) Total Plan Cost: (2) + (3) + (4) + (5)	(7) Total UAAL at the Beginning of the Fiscal Year	(8) Total Plan Cost % Increase
2018	\$12,149,003	\$1,534,338	\$547,217	\$31,957,912	\$46,188,470	\$478,411,221	--
2019	12,680,965	0	547,217	35,870,162	49,098,344	494,683,542	6.30%
2020	13,172,023	0	547,217	38,472,299	52,191,539	516,415,876	6.30%
2021	13,681,994	0	547,217	41,250,395	55,479,606	529,875,357	6.30%
2022	14,211,602	0	0	44,763,220	58,974,822	525,179,401	6.30%
2023	14,761,602	0	0	47,928,633	62,690,235	515,846,875	6.30%
2024	15,332,774	0	0	51,306,946	66,639,720	502,427,212	6.30%
2025	15,925,931	0	0	54,912,092	70,838,023	484,390,385	6.30%
2026	16,541,913	0	0	58,758,905	75,300,818	461,152,318	6.30%
2027	17,181,595	0	0	62,863,174	80,044,769	432,069,927	6.30%
2028	17,845,886	0	0	67,241,704	85,087,590	396,435,751	6.30%
2029	18,535,727	0	0	71,912,381	90,448,108	353,472,108	6.30%
2030	19,252,097	0	0	76,894,242	96,146,339	302,324,757	6.30%
2031	19,996,012	0	0	82,207,546	102,203,558	242,056,016	6.30%
2032	20,768,526	0	0	87,873,856	108,642,382	171,637,294	6.30%
2033	21,570,734	0	0	89,940,991	111,511,725	89,940,991	2.64%
2034	22,403,771	0	0	0	22,403,771	0	-79.91%

Notes: Fiscal 2018 contribution set at budgeted amount.

Recommended contributions are assumed to be paid at the beginning of the fiscal year.

Item (2) reflects 2.5% growth in payroll for 2017 and 3.5% growth in payroll thereafter, as well as a 0.15% adjustment to total normal cost to reflect the effects of mortality improvements due to the generational mortality assumption.

Projected normal cost does not reflect the future impact of pension reform for future hires.

Projected unfunded actuarial accrued liability reflects deferred investment losses. Recognizing deferred investment losses means the System is anticipating investment losses on an actuarial basis.

For additional information see notes 5, 6, and 7 found on pages 65-79 of the 2017 audited financial statements and the "Required Supplementary Information – Schedule of Funding Progress and Contributions from Employers" included in Appendix B.

Other Post-Employment Benefits

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis.

The pay-as-you-go cost to the City for such benefits in recent years has been as follows:

<u>Year</u>	<u>Amount</u>
2018 (budgeted)	\$22,678
2017	23,173
2016	22,043
2015	23,986
2014	23,131
2013	20,380

The Governmental Accounting Standards Board (“GASB”) Statement Nos. 43 and 45 require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Although cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding this liability in the same manner as traditional pension benefits.

The City was required to implement the GASB reporting requirements for other post-employment benefits beginning in fiscal year 2008. The City has performed an actuarial valuation of its non-pension, post-employment benefit liability in 2016. This report provides the estimated costs of providing benefits – other than pensions – to retired and active employees and their spouses as of July 1, 2015. Using the “pay as you go” method Worcester’s unfunded accrued actuarial liability is \$860 million, and the annual required contribution (ARC) would be \$52 million. Of this amount \$21 million represents “normal cost”, or the amount of funding for all active employees and their spouses. This leaves a net OPEB obligation as of June 30, 2015 of \$249 million, using a discount rate of 4%. The City is still studying the results of this OPEB valuation and the financial challenges that correlate with funding this employee benefit. The City has established a Trust Fund as part of its Five Point Plan as referenced herein. The balance in the trust fund as of June 30, 2017 is \$11.8 million. (See “Long Term Financial Plan” herein and page 79 of the City’s audited June 30, 2017 financial statements in Appendix B for additional information.)

The following is the breakdown by City function of the Actuarial Accrued Liability as of June 30, 2017 as well as the Annual OPEB Expense as of July 1, 2017 (the most recent information available):

<u>Department</u>	<u>Actuarial Accrued Liability</u>	<u>OPEB Expense</u>
Airport	\$ 1,431,489	\$ 50,592
DPW - Parks	8,246,631	556,077
Fire	110,671,111	5,967,555
Golf	310,484	28,440
Library	9,930,719	652,938
Other	39,351,388	2,315,493
Police	113,484,867	6,268,476
Public Works	26,725,780	1,514,831
School	509,807,319	33,509,536
Sewer	7,707,260	488,680
Water	17,004,178	989,748
HHS	4,774,515	228,753
Inspectional Services	7,200,423	492,194
Communications	4,226,936	312,118
	<u>\$860,873,100</u>	<u>\$53,375,431</u>

PROPERTY TAXATION AND VALUATION

Tax Rate and Valuation-General. Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 percent of its share of the total taxable valuation; the effective rate for open space must be at least 75 percent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer’s principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years, or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five percent of fair cash value but not less than ten dollars per acre.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality. This is known as the “equalized valuation”. See “Debt Limits” herein.

VALUATIONS

The following shows the assessed and equalized valuations for the current and most recent fiscal years:

	For Fiscal Year (000)				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Real Property (1)	\$11,997,424	\$11,491,118	\$10,483,164	\$10,470,359	\$10,437,494
Personal Property (1)	<u>767,225</u>	<u>774,345</u>	<u>753,717</u>	<u>700,912</u>	<u>592,517</u>
Total	<u>\$12,764,649</u>	<u>\$12,265,463</u>	<u>\$11,236,881</u>	<u>\$11,171,271</u>	<u>\$11,030,011</u>
Equalized Value (2) (3)	\$12,237,662	\$12,237,662	\$11,615,944	\$11,615,944	\$12,173,645
Percent of Total Assessed to Equalized Valuation	104.3%	100.2	96.7	96.2	90.6

(1) As of January 1, 2017, 2016, 2015, 2014 and 2013 respectively.

(2) Based on equalized valuation in effect for each year as determined biennially by the State Department of Revenue as of January 1 of even numbered years effective for the next two fiscal years.

(3) All values are updated yearly. In addition, the City has a cyclical reappraisal program whereby a portion of the City is reappraised each year.

Classification of Property

The following table shows the breakdown of the total assessed valuation for fiscal years 2018, 2017 and 2016 by classification:

<u>Type of Property</u>	<u>For Fiscal Year (000)</u>					
	<u>2018</u>	<u>% of Total</u>	<u>2017</u>	<u>% of Total</u>	<u>2016</u>	<u>% of Total</u>
Residential	\$ 9,314,530	73.0	\$ 8,868,132	72.3	\$ 8,000,021	71.2
Open Space	0	0.0	0	0.0	0	0.0
Commercial	2,176,407	17.1	2,125,651	17.3	1,977,339	17.6
Industrial	506,488	4.0	497,336	4.1	505,804	4.5
Personal	<u>767,225</u>	<u>6.0</u>	<u>774,345</u>	<u>6.3</u>	<u>753,717</u>	<u>6.7</u>
Total	<u>\$12,764,649</u>	<u>100.0</u>	<u>\$12,265,463</u>	<u>100.0</u>	<u>\$11,236,881</u>	<u>100.0</u>

Tax Rates (1)

The following shows the actual tax rates per \$1,000 of assessed valuation and the estimated full value rate based on the equalized valuation in effect for the current and most recent fiscal years:

<u>Type of Property</u>	<u>For Fiscal Year</u>					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Residential	\$18.91	\$19.22	\$20.61	\$20.07	\$19.54	\$18.58
Open Space	18.91	19.22	20.61	20.07	19.54	18.58
Commercial	34.03	32.93	33.98	31.73	30.83	30.85
Industrial	34.03	32.93	33.98	31.73	30.83	30.85
Personal	<u>34.03</u>	<u>32.93</u>	<u>33.98</u>	<u>31.73</u>	<u>30.83</u>	<u>30.85</u>
Average Tax Rate	<u>\$23.00</u>	<u>\$23.02</u>	<u>\$24.46</u>	<u>\$23.44</u>	<u>\$22.74</u>	<u>\$22.03</u>

(1) Source: Massachusetts Department of Revenue.

Largest Taxpayers (1)

The following is a list of the ten largest taxpayers for fiscal year 2018:

Name	Nature of Business	Fiscal 2018		% of Tax Levy
		Assessed Valuation	Amount of Tax	
Massachusetts Electric	Electric Company	\$ 408,336,400	\$ 3,895,708	4.7%
NSTAR Gas	Utility	182,940,600	6,225,469	2.1%
St. Vincent Hospital	Medical Care	146,514,100	4,985,875	1.7%
Lincoln Plaza (Shopping Mall)	Real Estate	64,281,000	2,187,482	0.7%
Worcester TC LLC (Abbvie)	BioTech	59,838,500	2,036,304	0.7%
Hanover Insurance Group	Insurance	58,707,800	1,997,826	0.7%
RK Worcester Crossing LLC	Real Estate	42,679,400	1,452,380	0.5%
Front Street Associates LLC	Real Estate	42,402,900	1,442,971	0.5%
Verizon	Communication	40,402,900	1,374,911	0.5%
S-BNK Worcester Main LLC	Real Estate	30,686,800	1,044,272	0.4%
		<u>\$1,076,790,400</u>	<u>\$ 6,643,198</u>	<u>12.5%</u>

(1) All of the largest taxpayers listed above are current on their real estate and personal property taxes.

TAX LEVIES

Levy - General. The principal tax of Massachusetts cities and towns is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see “Tax_Limitations” herein. As to the inclusion of debt service and final judgments, see “Security and Remedies” herein.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the “free cash” as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see “Abatements and Overlay” herein) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see “Taxation to Meet Deficits” herein).

Taxation to Meet Deficits. As noted elsewhere (see “Abatements and Overlay” herein) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as “free cash” deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations. Chapter 59, Section 21C of the General Laws, known as “Proposition 2 1/2”, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7 1/2 percent by majority vote of the voters, or to less than 7 1/2 percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 percent subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation in its assessed valuation over the prior year's valuation.

This “growth” limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the “growth” limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund. The applicable tax limits may also be reduced in any year by a majority of the voters.

The State Commissioner of Revenue may adjust any tax limit “to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year”.

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculations of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2 1/2 limits the amount required to pay specified capital outlay expenditures. In addition, the city council of a city, with the approval of the Mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2 1/2 limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2 1/2 limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2 1/2 percent of the prior year's assessments and (b) “any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option”. Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory

procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

Pledged Taxes. Taxes on certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes.

Initiative Petitions. Various other proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

CALCULATION OF TAX LEVIES AND LEVY LIMITS

The following table shows the details of the calculation of the tax levies for the current and most recent fiscal years (1):

	For Fiscal Year (000)				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross Amount to be Raised:					
Appropriations	\$686,836	\$666,578	\$654,203	\$620,894	\$616,069
Other Local Expenditures	811	715	703	943	1,398
State & County Charges	34,498	31,043	31,142	30,557	30,250
Overlay Reserve	<u>4,047</u>	<u>3,368</u>	<u>3,560</u>	<u>3,003</u>	<u>3,234</u>
Total Gross Amount to be Raised	\$723,192	\$701,704	\$689,607	\$655,396	\$650,951
Less Estimated Receipts & Other Revenue:					
Estimated Receipts from State	297,516	291,686	286,406	273,747	277,939
Estimated Receipts - Local	115,872	113,890	112,144	108,885	106,001
Available Funds Appropriated:					
Free Cash	8,958	5,489	1,007	4,657	9,102
Revenue Sharing	0	0	0	0	0
Other Available Funds	7,050	8,319	15,181	6,229	7,069
Free Cash & Other Revenue Used to Reduce the Tax Rate	<u>250</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Estimated Receipts & Revenue	<u>429,646</u>	<u>419,384</u>	<u>414,738</u>	<u>393,517</u>	<u>400,111</u>
Net Amount to be Raised (Tax Levy)	<u>\$293,545</u>	<u>\$282,320</u>	<u>\$274,869</u>	<u>\$261,878</u>	<u>\$250,840</u>

(1) Totals may not add due to rounding.

The following shows the calculation of levy limits for the current and most recent fiscal years:

	For Fiscal Year (000)				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Primary Levy Limit (1)	\$319,116	\$306,637	\$280,922	\$279,282	\$275,750
Prior Fiscal Year Levy Limit	293,409	280,922	271,963	260,881	250,135
2.5% Levy Growth	7,335	7,023	6,799	6,522	6,253
New Growth (2)	6,452	5,464	6,178	4,560	4,492
Overrides	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Growth Levy Limit	307,195	293,409	280,922	271,963	260,881
Debt Exclusions	0	0	0	0	0
Capital Expenditure Exclusions	0	0	0	0	0
Other Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Tax Levy Limit	\$307,195	\$293,409	\$280,922	\$271,963	\$260,881
Tax Levy	<u>293,545</u>	<u>282,320</u>	<u>274,869</u>	<u>261,878</u>	<u>250,840</u>
Unused Levy Capacity (3)	<u>\$ 13,650</u>	<u>\$ 11,089</u>	<u>\$ 6,053</u>	<u>\$ 10,085</u>	<u>\$ 10,041</u>
Unused Primary Levy Capacity (4) (5) (6)	<u>\$ 11,921</u>	<u>\$ 13,228</u>	<u>\$ 0</u>	<u>\$ 7,319</u>	<u>\$ 14,870</u>

(1) 2.5% of assessed valuation.

(2) Allowed addition for new valuations certified by the Department of Revenue.

(3) Tax Levy Limit less Tax Levy. The additional amount which may be levied without voter approval.

(4) Primary Levy Limit less Growth Levy Limit.

(5) Totals may not add due to rounding.

(6) The City reached the Primary Levy Limit in FY16 due to overly conservative assessed valuation practices.

TAX COLLECTIONS & ABATEMENTS

Payment Dates. The taxes for each fiscal year are due in two installments on November 1 (subject to deferral if tax bills are sent out late) and May 1, unless the city or town accepts a statute providing for quarterly tax payments. Under that statute, preliminary tax payments are due on August 1 and November 1 with payment of the actual tax bill (after credit is given for the preliminary payments) in installments on February 1 and May 1 if actual tax bills are mailed by December 31. Interest accrues on delinquent taxes at the rate of 14 per cent per annum. The City voted to institute quarterly tax billing beginning in fiscal 1993.

Lien. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment.

Personal Liability. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws.) In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described herein.

The table below compares the City's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

	For Fiscal Year (000)				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Tax Levy	\$293,545	\$282,319	\$275,035	\$261,902	\$250,927
Overlay Reserve for Abatements	<u>4,047</u>	<u>3,368</u>	<u>3,560</u>	<u>3,003</u>	<u>3,664</u>
Net Tax Levy (1)	\$289,499	\$278,951	\$271,475	\$258,899	\$247,263
Amount Collected					
During Fiscal Year Payable (2)	n.a	\$273,712	\$267,061	\$252,185	\$244,003
Percent of Net Tax Levy	n.a	98.1%	98.4%	97.4%	98.7%
Amount Collected Through 3/31/18	\$212,760	\$276,651	\$271,293	\$256,975	\$245,436
Percent of Net Tax Levy	73.3%	99.2%	99.9%	99.3%	99.3%

(1) Net after deduction of overlay reserve for abatements.

(2) Actual collections of levy less refunds and amounts refundable, including proceeds of tax titles and tax possessions attributed to such levy, but not including abatements or other credits.

Abatements and Overlay. A city or town is authorized to increase each tax levy by an amount approved by the State Commissioner of Revenue as an “overlay” to provide for tax abatements and to fund personal tax exemptions. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. Personal exemptions are statutory tax credits granted to qualifying taxpayers who are either blind, were veterans, or are elderly and impoverished.

Uncollected real property taxes are ordinarily not written off until they become municipal “tax titles” by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The table below sets forth the amount of the overlay reserve for the following fiscal years and actual abatements granted during the fiscal year against each levy.

	For Fiscal Year (000)				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Tax Levy (1)	\$293,545	\$282,319	\$275,035	\$261,902	\$250,827
Overlay Reserve for Abatements (1) (2)	4,047	3,368	3,560	3,391	4,620
Percent of Tax Levy	1.4%	1.2%	1.3%	1.3%	1.8%
Abatements Granted:					
During Fiscal Year of Levy	n.a	\$2,120	\$1,770	\$2,466	\$3,088
Through 3/31/18	\$4,800	\$2,120	\$2,071	\$3,391	\$4,715

(1) Includes abatements and exemptions.

(2) In August, 2016, these figures were augmented due to an overlay transfer that occurred for fiscal year ending 2016 effecting the years 2013 (increase of \$271,001) and 2014 (increase of \$202,525).

Taking and Sale. Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for nonpayment of taxes. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments), it can be foreclosed by petition to the Land Court. Upon foreclosure, a tax title purchased or taken by the municipality becomes a “tax possession” and may be held and disposed of in the same manner as other land held for municipal purposes.

Sale of Tax Receivables. Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Outstanding Taxes (1)

<u>Date</u>	<u>Aggregate Overdue Property Taxes</u>	<u>Outstanding Tax Titles</u>	<u>Outstanding Tax Possessions</u>
2017	\$14,423,709	\$ 854,663	\$2,907,360
2016	11,276,785	866,207	3,401,533
2015	10,849,229	839,034	3,316,239
2014	8,630,466	1,725,647	2,402,263
2013	8,311,459	1,257,549	2,280,236

(1) Excludes tax titles, tax possessions and abated taxes. Includes taxes in litigation if any.

CITY FINANCES

Budget Process

Within 170 days after the annual organization of the City government (which is ordinarily in early January), the City Manager submits a budget of proposed expenditures for the fiscal year beginning on the next July 1st. The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without the recommendation of the Manager, the Council may not increase any item or make an appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Manager to recommend an appropriation for such a purpose within seven days after a request from the Council). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect.

If the Manager does not make a timely budget submission, provisions are in place for the preparation of a budget by the City Council.

City department heads are generally required to submit their budget requests to the City Manager between November 1st and December 1st. This timeframe does not apply to the School Department that must submit its request in time for the Manager to include it in his submission to the Council.

Mandatory items, such as state and county assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget, but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy.

Budget Comparison

The following table sets forth the allocation by purpose of the City’s adopted general fund budget for Fiscal Years 2017 and 2018, with actual results for 2016. These budgets have been prepared in a manner consistent with the method required by the State’s Bureau of Accounts and are used by the City in formulating both its appropriations and the calculation of its property tax levy.

	<u>FY16</u> <u>Actual</u>	<u>%</u> <u>of budget</u>	<u>FY17</u> <u>Budget</u>	<u>%</u> <u>of budget</u>	<u>FY18</u> <u>Budget</u>	<u>%</u> <u>of budget</u>
<i>REVENUES</i>						
Property taxes	\$ 271,518,195	44.3%	\$ 278,951,369	45.5%	\$ 290,154,831	45.9%
State Aid:						
Education	233,657,819	38.2%	237,217,701	38.7%	247,105,031	39.1%
Municipal	40,614,189	6.6%	42,225,598	6.9%	44,104,956	7.0%
Municipal - Other	<u>11,575,058</u>	1.9%	<u>11,575,058</u>	1.9%	<u>5,662,262</u>	0.9%
Total - State Aid	285,847,066	46.7%	291,018,357	47.4%	296,872,249	46.9%
Local Receipts	46,119,296	7.5%	42,200,027	6.9%	44,474,536	7.0%
Other Financing Sources /Transfers In	<u>8,926,726</u>	1.5%	<u>1,197,519</u>	0.2%	<u>1,197,519</u>	0.2%
Total revenues	\$ 612,411,283	100.0%	\$ 613,367,272	100.0%	\$ 632,699,135	100.0%
<i>EXPENDITURES</i>						
General government:	18,396,925	3.0%	19,714,851	3.2%	20,431,593	3.2%
Public Safety	87,649,670	14.5%	93,390,525	15.2%	93,244,459	14.7%
Health and human services	3,196,095	0.5%	3,312,153	0.5%	3,714,843	0.6%
Education	318,291,992	52.7%	322,895,803	52.6%	334,276,837	52.8%
Intergovernmental Ed. Assessments	27,642,771	4.6%	27,496,626	4.5%	27,558,214	4.4%
Public Works	18,673,162	3.1%	20,386,409	3.3%	21,838,737	3.5%
Culture and Recreation	9,713,649	1.6%	10,919,514	1.8%	11,423,122	1.8%
Debt - Capital	37,018,276	6.1%	34,041,933	5.6%	34,796,476	5.5%
POB	10,470,831	1.7%	10,300,316	1.7%	10,209,733	1.6%
Fringe Benefits	50,640,501	8.4%	52,029,807	8.5%	54,667,050	8.6%
Contingency	-	0.0%	500,000	0.1%	1,250,000	0.2%
Intergovernmental Muni. Assessments	3,522,811	0.6%	3,594,233	0.6%	3,640,660	0.6%
Other Financing Uses/Transfers Out	<u>18,427,199</u>	3.1%	<u>14,785,102</u>	2.4%	<u>15,647,411</u>	2.5%
Total expenditures	\$ 603,643,883	100.0%	\$ 613,367,272	100.0%	\$ 632,699,135	100.0%
Excess of revenues over expenditures	<u>\$ 8,767,400</u>		<u>\$ -</u>		<u>\$ -</u>	

Fiscal Year 2018 Budget

The Fiscal Year 2018 budget is an increase over the previous year budget of 2.4%. The revenue side of the budget assumes capturing the entire 2 ½ % property tax levy and new growth with an estimated amount of \$4.75 million (of note, this amount is approximately \$750,000 less than the FY17 actual new growth in the amount of \$5.5 million). State Aid estimates were predicated on the House Budget estimates which were sustained with the recently released Conference Committee budget. The City still has a general fund “9c cut” reserve in the amount of \$1.1 million which was established approximately seven years ago in the event the Commonwealth finds itself in need of reducing municipal state aid. Planned MSBA funding revenue estimates were reduced from \$11.6 million to \$5.7 million to recognize expiring reimbursements under the old MSBA program. Local receipts are conservatively budgeted at approximately 8% lower than FY17 actuals.

On the expense side, the budget contains provisions for a 2% cost of living adjustment for municipal employees funded in the contingency account and the health insurance appropriation. Similar to previous years, the City’s bargaining strategy ties any cost of living adjustments to health insurance adjustments. Currently the Fire Union, the union with which the City previously went to arbitration to settle, has accepted the model contract. The budget also contains fully funding its retirement system ARC, the scheduled deposits to the OPEB Trust and all financial reserves, and the creation of a new stabilization fund, a New School Construction reserve, to forward fund the possible construction of two replacement high schools through the new MSBA program. The FY18 budget funds the Worcester Public Schools at a level that is \$1.5 million above the minimum contribution level. The FY18 budget also provides for recruit classes for both the Worcester

Police Department (10 recruits) and Worcester Fire Department (20 recruits) in anticipation of their normal attrition (retirements). The FY18 budget does not rely on the use of any of the anticipated free cash, nor does it assume any unscheduled draws on other reserves.

FEDERAL AID

School Aid

Worcester annually receives school aid for various purposes from the United States Government. Among other items, the aid supports education for economically disadvantaged, special education, and English language learner students. The City received between \$29,677,191 and \$31,943,215 during each of the past five years to support these programs.

Community Development Block Grants

In August 1974 Congress passed the Housing and Community Development Act of 1974 which makes funds available to cities and towns as Community Development Block Grants. Disbursements of these funds during fiscal years 2014 through 2017, and estimated amounts for fiscal year 2018 are as follows:

	<u>Estimated Fiscal 2018</u>	<u>Fiscal 2017</u>	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>
Housing	\$ 989,557	\$ 0	\$1,249,526	\$1,343,545	\$1,530,431
Economic Development (1)	0	350,000	250,000	250,000	200,000
Parks and Recreation	225,000	0	0	0	0
Human Services & Public Health	593,088	899,574	605,721	616,728	628,712
Public Works Facilities	1,235,493	1,994,683	1,000,264	953,943	901,922
Public Safety	120,000	0	125,000	125,000	100,000
Administration/Contingency	<u>790,785</u>	<u>811,064</u>	<u>807,627</u>	<u>822,304</u>	<u>840,267</u>
Total	<u>\$3,953,923</u>	<u>\$4,055,322</u>	<u>\$4,038,138</u>	<u>\$4,111,520</u>	<u>\$4,201,332</u>

(1) Economic Development activities are being funded with prior year unexpended balances.

During the fall of 2012, through early summer of 2013, the City of Worcester worked closely with the U.S. Department of Housing & Urban Development (HUD), Office of Inspector General as part of a comprehensive audit of the City’s Community Development Block Grant and HOME Programs. The primary focus of the audit was related to housing activities and specific public service programs funded during Program Years 35- 37, which encompasses calendar years 2009 – 2012. The audit highlighted a number of issues with past management of the program. The City worked closely with the HUD Region I (Boston) office to confirm eligibility determinations and provide required substantiation for unsupported funding activities. Simultaneously, the City implemented a number of corrective actions throughout all of its Federal grant programs to eliminate the potential recurrence of findings of this nature including staffing changes, the creation of a grant compliance program, clear operating policies and procedures, and significantly refined payment requirements. The audit found \$2.6 million in ineligible funding determinations and in unsupported funding activity. The City repaid HUD the \$2.6 million in October of 2015. Upon repayment, the City’s entitlement was increased by the same \$2.6 million.

The total amount of federal aid received by the City in fiscal year 2016 was \$60,522,503 of which \$45,573,613 was received from the Commonwealth as pass-through aid. The City’s total operating budget as adopted for fiscal year 2016 was \$612,169,962. The federal aid received by the City in fiscal year 2017 is expected to be in a similar amount, to be used for educational purposes, community development, emergency preparedness, fire staffing and other municipal purposes.

On January 25, 2017, President Trump issued an Executive Order (the “Order”) intended to enforce the U.S. immigration laws. The Order includes a provision directing the Attorney General and the Secretary of Homeland Security to ensure that state and local jurisdictions that willfully refuse to comply with federal law concerning the provision of information on individuals’ immigration status will not be eligible to receive federal grants except as deemed necessary for law

enforcement purposes. A resolution was placed before the City Council at its meeting on January 31, 2017, in which the City was requested to go on record that the City “does hereby support federal law and does not join other communities in declaring themselves sanctuary cities and the ambiguity surrounding Worcester’s position as a sanctuary city is to be cleared once and for all.” The resolution was defeated by a 9-2 roll call vote.

The City cannot predict how the federal government will apply the Order, whether it will characterize the City as a “sanctuary jurisdiction,” the extent of the impact that enforcement of the Order would have on the City’s financial condition, or what other actions, if any, the City might take in response to the Order or any action under it.

OTHER TAXES

Chapter 145 of the Acts of 1985 permits municipalities to impose a local room occupancy excise of up to four percent upon the transient rental of rooms in hotels, motels, lodging houses and bed and breakfast rooms. The tax is paid by the operator of the establishment to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located. The City Council voted to implement the tax at four percent effective April 1, 1986. Chapter 154 of the Acts of 2009 was enacted by the Commonwealth which allows municipalities to impose a maximum of 6% Local Option Room Occupancy Tax. On August 11, 2009, the City Council voted this local option statute to a maximum of 6%.

Chapter 156 of the Acts of 2009 was enacted by the Commonwealth which allows municipalities to impose an excise tax of 0.75% on sales of restaurant meals originating within the municipality. On August 11, 2009, the City Council voted this local option.

The following table sets forth the room occupancy and meals excise received for the most recent fiscal years, and the amount budgeted for fiscal year 2018:

<u>Fiscal Year</u>	<u>Room Occupancy Excise Tax (1)</u>	<u>Meals Excise Tax</u>
2018 (budgeted)	\$1,007,618	\$2,542,382
2017	1,131,741	2,855,564
2016	867,001	2,727,742
2015	794,633	2,502,544
2014	746,178	2,367,579
2013	716,214	2,304,570

(1) Does not include taxes collected in Special Finance District.

Motor Vehicle Excise

An excise is imposed on the registration of motor vehicles (subject to exemptions) at the rate of \$25 per \$1,000 of valuation. The excise is collected by and for the benefit of the municipality in which the motor vehicle is customarily kept. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills are payable within 30 days of their issue and when not paid bear interest at 12 percent per annum. Provision is also made, after notice to the owner, for suspension of the owner's operating license or registration by the registrar of motor vehicles.

The following table sets forth the amount of motor vehicle excise taxes received for the most recent fiscal years, and the amount budgeted for fiscal 2018:

<u>Fiscal Year</u>	<u>Motor Vehicle Excise Taxes</u>
2018 (budgeted)	\$15,250,000
2017	15,845,641
2016	15,410,932
2015	14,113,156
2014	13,300,714
2013	12,689,898

SPECIAL FINANCE DISTRICT ZONE

The City, through special legislation in January of 2007, created a Special Finance District Zone to revitalize the DCU Arena and Convention Center Complex. This home rule legislation designates a fixed geographic area (Special Finance District Zone) which includes the Hilton Garden Inn, the Marriott Residence Inn on Plantation Street, the DCU Center Arena and Convention Center and the Worcester Center Boulevard Garage retail space and parking operations. State hotel/motel occupancy taxes, food and beverage taxes, and taxes from sales of services generated by these and other properties within the geographic boundaries of the District are redirected back to the City to support the debt service on the capital improvements made to the Arena and Convention Center.

The following table sets forth the revenues to the City from the Special Finance District Zone for the most recent fiscal years, and the amount estimated for fiscal 2018:

<u>Fiscal Year</u>	<u>Room Occupancy Excise Tax</u>	<u>Meals Excise Tax</u>	<u>Sales Use Tax</u>	<u>Total</u>
2018 (est.)	\$1,541,678	\$774,962	\$28,895	\$2,345,535
2017	1,491,725	821,741	20,392	2,333,858
2016	1,455,342	737,743	27,380	2,220,465
2015	1,357,860	683,629	53,002	2,094,491
2014	1,259,279	448,067	47,902	1,755,248
2013	1,224,085	381,614	45,352	1,651,051

FREE CASH AND UNASSIGNED GENERAL FUND BALANCE

Under Massachusetts law an amount known as “free cash” is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years. As part of the City’s Five Point Plan Reserve Policy (see “Long Term Financial Plan” herein), the City established a reserve policy which places a spending limit on “net” free cash use in any given fiscal year. The Policy requires 50% of annual “net” free cash be appropriated into the City’s Bond Rating Stabilization Fund until such time as said Fund obtains a balance of 5% of General Fund revenue. With the 2017 revision to the plan, the Bond Rating Stabilization Fund and Undesignated General Fund Balance together are targeted to achieve 10% of general fund revenues. Additionally, the Policy requires 30% of the annual “net” free cash be appropriated to the City’s OPEB Trust established under M.G.L. Chapter 32B Section 20. The residual 20% of “net” free cash may be used for operational or capital projects.

The following table sets forth the certified free cash and unassigned general fund balance for the most recent fiscal years (000 omitted):

<u>July 1</u>	<u>Unassigned General Fund Balance</u>	<u>Free Cash</u>
2017	\$40,881	\$9,208
2016	33,948	5,489
2015	26,513	1,007
2014	27,870	4,657
2013	27,869	9,102
2012	25,520	4,284

LONG TERM FINANCIAL PLAN

The City's Five Point Plan, which was initially adopted by the City Council on November 21, 2006, provided for the funding of the City's Capital Campaign Stabilization Fund while tax levy support for the supported projects was increased by \$1 million annually until the debt service was fully covered by tax levy appropriations. Furthermore, the plan called for the creation of a fund to support the debt service associated with construction of North High School, and a Bond Rating Stabilization Fund to increase the City's overall reserve levels. The funding plan for all three funds was based on the receipt of reimbursements from the Massachusetts School Building Authority which also approved the City for a low-interest loan to complete the North High School project. In addition, 50% of free cash generated in each fiscal year would be placed into the Bond Rating Stabilization Fund until the City's reserve accounts (Fund Balance and Bond Rating Stabilization) increase to 5% of the overall City general fund revenues.

The Capital Campaign Stabilization Fund, North High School Construction Stabilization Fund, and the Bond Rating Stabilization Fund were established pursuant to Massachusetts General Laws, Chapter 40, Section 5B and any monies deposited into such funds may be appropriated for any lawful purpose at any time by the City, notwithstanding the provisions of the City's Five Point Plan.

In the ten years since the Five Point Plan was adopted, the City has adhered to it and, except for one amendment which established a forward funding mechanism for the City's Other Post -Employment Benefits (discussed in greater detail below), the plan remained unchanged in spite of changes in the financial climate in which the City operates.

On October 2, 2012 the Worcester City Council amended the City's Five Point Plan with the adoption of M.G.L. Chapter 32B Section 20, Other Post Employment Benefits Liability Trust Fund; local option: funding schedule. The amendment called for the Other Post Employment Benefit Liability (OPEB) Trust Fund to be funded from proceeds of the sale of the Worcester Regional Airport associated with the retirees of the facility. Furthermore, the amendment requires 30% of the annual "net" free cash to be appropriated into the OPEB Trust Fund. Commencing with fiscal year 2012, and in each subsequent fiscal year, the City has appropriated the required 30% of the "net" free cash to the OPEB Trust Fund. As of the end of fiscal year 2016, the fund has accumulated assets in the amount of \$8,805,067. With the adoption of the fiscal year 2017 Operating Budget, the City commenced with the appropriation of \$500,000 of general fund revenues into the OPEB Trust in addition to the required contribution from "net" free cash.

In March of 2017, recognizing the current economic climate, the City Manager proposed, and the City Council adopted, a revision to the City's Five Point Plan. The basic premise of the initial plan, namely ensuring long term financial stability, remains intact, but specific goals such as reserve level balances have been increased to bolster the City's financial position. The primary provision of the initial Five Point Plan involving the appropriation of 50% of any available net free cash to reserves and 30% of any available net free cash to the City's OPEB Trust was carried forward.

Highlights of the revised long term financial plan include: 1) increasing the goal of general fund reserve levels from its current level of 5% to a level of 10%; 2) creating a new stabilization fund, the "New School Construction Fund," to begin to forward fund the possible debt service associated with the construction of two replacement high schools in the City; 3) re-adopting the provisions of the Massachusetts General Laws related to the Other Post Employment Benefit Trust and providing a budgetary funding line item in addition to any free cash appropriation; 4) revising the City's borrowing cap

from an inflationary increased fixed amount to one based on the City’s ability to repay debt obligations; 5) memorializing fixed cost budgetary assumptions; and 6) enhancing financial reporting and transparency.

The following are the audited balances in each fund at the end of fiscal year 2016 and fiscal year 2017:

<u>Fund</u>	<u>6/30/16</u>	<u>6/30/17</u>
Capital Campaign Stabilization	\$ 3,108	\$ 3,108
North High School Construction Stabilization Fund	12,852,846	11,518,140
Bond Rating Stabilization Fund	19,584,216	24,509,843
Emergency Stabilization Reserve	1,108,692	1,108,692
OPEB Trust	8,805,067	11,753,588

INVESTMENT POLICY

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government of an agency thereof with a maturity of not more than one year, in repurchase agreements, with a maturity of not more than 90 days secured by federal or federal agency securities, or in participation units in the Massachusetts Municipal Depository Trust (“MMDT”), or in shares of SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with section 54 of Chapter 44, which permits a broader range of investments than section 55, including any bonds or notes that are legal instruments for savings banks in the Commonwealth. The restrictions imposed by sections 54 and 55 do not apply to city and town retirement systems.

To ensure compliance with statutory requirements and prudent fiscal management, the City has adopted a policy governing the Treasurer’s investment of City funds. The goals of the policy are to achieve a market rate of return on investment of City funds consistent with safety of principal and sufficient liquidity to meet operating requirements.

Bank Deposits

Under the policy, the City seeks diversity in its selection of banks for investments by requiring that the City will limit its deposits in any bank to 60 percent of the bank’s capital and surplus and 60 percent of the bank’s net equity. Also, at no time shall any single bank or bank holding company hold in excess of 75 percent of the Treasurer’s cash balance for greater than three consecutive days.

State Treasurer’s Investment Pool

The City invests funds in the State Treasurer’s investment pool – the Massachusetts Municipal Depository Trust (MMDT) – as part of its investment strategy. The MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole trustee, and the funds are managed under contract by an investment firm under the supervision of the State Treasurer’s office. The MMDT invests the combined funds of Massachusetts municipalities in short-term instruments of the U.S. Treasury and Government agencies, and large corporations and financial institutions. The City believes that the fund is a highly liquid vehicle which gives the City Treasurer and Collector of Taxes immediate access to City funds to meet operating needs. The fund is neither fully collateralized nor backed by the full faith and credit of The Commonwealth of Massachusetts. The safety of the fund is maintained through diversity of its investments, full disclosure of investment practices and policies, collateralization of repurchase agreements and limiting investments to high quality marketable securities as defined in the State enabling legislation. According to the State Treasurer, the fund’s investment policy is designed to maintain an average weighted maturity of 90 days or less and limited to high-quality readily marketable fixed-income instruments, including U.S. Government obligations and highly rated corporate securities with maturities of one year or less.

U.S. Treasury and Agency Securities

For purposes of security, diversification and liquidity the City invests in U.S. Treasury and Government agency securities. Treasury securities are purchased either at auction or through the secondary market. Agency securities are purchased only through registered dealers.

Repurchase Agreements

The City's investment policy permits investment in repurchase agreements on a limited basis, for a period of less than 90 days. Except in the case of overnight repurchase agreements used for the investment of available float in the City's operating accounts, any agreement entered into by the City will be on a delivery versus payment basis and in the format of the Public Securities Association Master Repurchase Agreement. Collateral is in the form of U.S. Treasury or Government Agency securities delivered to the City's third party custodian.

OTHER DATA (1)

<u>Calendar Year (2)</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment Rate (%)</u>			
			<u>City</u>	<u>County</u>	<u>State</u>	<u>US</u>
2017 (November)	90,719	87,362	3.7	3.4	3.3	3.9
2016	90,469	86,505	4.4	3.9	3.7	4.9
2015	90,852	85,513	5.9	5.2	4.9	5.3
2014	90,442	84,094	7.0	6.1	5.8	6.2
2013	89,809	82,388	8.3	7.2	6.7	7.4

(1) Source: Massachusetts Executive Office of Labor & Workforce Development.

(2) Full year averages except for 2017 which is for the month indicated.

Population (1)

<u>Year</u>	<u>Worcester</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>% Change</u>	<u>Number</u>	<u>% Change</u>	<u>Number</u>	<u>% Change</u>
2016 estimate	184,508	1.9	819,589	2.6	6,811,779	4.0
2010	181,045	4.9	798,552	6.3	6,547,629	3.1
2000	172,648	1.7	750,963	5.8	6,349,097	5.5
1990	169,759	4.9	709,705	9.8	6,016,425	4.9
1980	161,799	0.0	646,352	0.0	5,737,037	0.0

(1) Source: U.S. Department of Commerce for actuals and estimates.

Population Density (1)

<u>Year</u>	<u>Worcester</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Density (2)</u>	<u>Number</u>	<u>Density</u>	<u>Number</u>	<u>Density</u>
2016 estimate	184,508	4,912.6	819,589	541.6	6,811,779	869.1
2010	181,045	4,820.4	798,552	527.7	6,547,629	835.4
2000	172,648	4,596.8	750,963	496.3	6,349,097	810.0
1990	169,759	4,519.9	709,705	469.0	6,016,425	767.6
1980	161,799	4,308.0	646,352	427.2	5,737,037	732.0

(1) Source: U.S. Department of Commerce for actuals and estimates.

(2) Based on 37.6 square miles.

Population Composition By Age (1)

<u>Age</u>	<u>Worcester</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5 Years	10,876	5.9	44,901	5.5	363,610	5.4
5 Years to 19 Years	35,235	19.2	159,218	19.6	1,236,509	18.3
20 Years to 64 Years	114,259	62.2	494,622	60.8	4,125,345	61.2
65 Years and Over	23,307	12.7	114,848	14.1	1,016,679	15.1
Total	183,677	100.0	813,589	100.0	6,742,143	100.0
Median Age	34.0		39.9		39.4	
Median Age (2000)	33.4		36.3		36.5	

(1) Source: U.S. Department of Commerce. 2016 5-year estimates.

Per Capita Income Levels (1)

<u>Year</u>	<u>Worcester</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>
2016 5-year estimates	\$25,224	35.5	\$33,272	44.8	\$38,069	46.7
1999	18,614	39.0	22,983	48.3	25,952	50.7
1989	13,393	107.9	15,500	124.4	17,224	131.0
1979	6,443	0.0	6,908	0.0	7,457	0.0
% Below Poverty Level (2016 5-year estimates)	22.1		11.4		11.4	

(1) Source: U.S. Department of Commerce.

Family Income Distribution (1)

Income for Families	Worcester		Worcester County		Massachusetts	
	Families	Percent	Families	Percent	Families	Percent
Less than \$10,000	2,551	6.7	6,349	3.2	57,671	3.5
10,000 - 24,999	5,524	14.5	15,880	7.9	126,193	7.8
25,000 - 49,999	8,420	22.0	32,436	16.2	248,686	15.3
50,000 - 74,999	6,801	17.8	32,035	16.0	242,008	14.9
75,000 - 99,999	5,246	13.7	29,771	14.9	223,897	13.8
100,000 - 149,999	5,801	15.2	43,673	21.8	336,990	20.7
150,000 or more	<u>3,875</u>	<u>10.1</u>	<u>40,126</u>	<u>20.0</u>	<u>391,749</u>	<u>24.1</u>
Total	<u>38,218</u>	<u>100.0</u>	<u>200,270</u>	<u>100.0</u>	<u>1,627,194</u>	<u>100.0</u>
Median Income	\$58,604		\$85,560		\$90,180	

(1) Source: U.S. Department of Commerce. 2016 5-year estimates.

Household Income Distribution (1)

Income for Households	Worcester		Worcester County		Massachusetts	
	Households	Percent	Households	Percent	Households	Percent
Less than \$10,000	7,367	10.6	16,584	5.5	153,029	6.0
10,000 - 24,999	13,925	20.1	42,065	13.9	337,371	13.2
25,000 - 49,999	15,608	22.6	57,253	18.9	451,168	17.6
50,000 - 74,999	11,686	16.9	49,837	16.5	396,468	15.5
75,000 - 99,999	7,477	10.8	39,302	13.0	318,777	12.5
100,000 - 149,999	8,241	11.9	53,164	17.6	439,085	17.2
150,000 or more	<u>4,900</u>	<u>7.1</u>	<u>44,589</u>	<u>14.7</u>	<u>462,991</u>	<u>18.1</u>
Total	<u>69,204</u>	<u>100.0</u>	<u>302,794</u>	<u>100.0</u>	<u>2,558,889</u>	<u>100.0</u>
Median Income	\$45,599		\$67,005		\$70,954	

(1) Source: U.S. Department of Commerce. 2016 5-year estimates.

Value Distribution Of Specified Owner-Occupied Housing Units (1)

Units	Worcester		Worcester County		Massachusetts	
	Number	Percent	Number	Percent	Number	Percent
Less than \$100,000	2,036	6.9	9,844	5.0	66,304	4.2
100,000 - 199,999	11,647	39.7	49,397	25.2	216,109	13.6
200,000 - 299,999	11,519	39.3	65,192	33.3	369,287	23.2
300,000 - 499,999	3,420	11.7	53,367	27.2	562,205	35.4
500,000 - 999,999	579	2.0	16,205	8.3	308,410	19.4
1,000,000 or more	<u>119</u>	<u>0.4</u>	<u>1,872</u>	<u>1.0</u>	<u>66,428</u>	<u>4.2</u>
Total	<u>29,320</u>	<u>100.0</u>	<u>195,877</u>	<u>100.0</u>	<u>1,588,743</u>	<u>100.0</u>
Median Value	\$206,500		\$254,100		\$341,000	

(1) Source: U.S. Department of Commerce. 2016 5-yr estimates.

Age Distribution Of Housing Units (1)

Year Built	Worcester		Worcester County		Massachusetts	
	Number	Percent	Number	Percent	Number	Percent
2000 or later	4,842	6.4	33,948	10.3	250,599	8.8
1980 to 1999	10,513	13.8	70,902	21.5	519,467	18.3
1940 to 1979	24,537	32.2	119,431	36.3	1,111,262	39.2
1939 or Earlier	<u>36,281</u>	<u>47.6</u>	<u>105,004</u>	<u>31.9</u>	<u>955,330</u>	<u>33.7</u>
Total	<u>76,173</u>	<u>100.0</u>	<u>329,285</u>	<u>100.0</u>	<u>2,836,658</u>	<u>100.0</u>

(1) Source: U.S. Department of Commerce. 2016 5-yr estimates.

Housing Unit Inventory (1)

Units in Structure	Worcester		Worcester County		Massachusetts	
	Number	Percent	Number	Percent	Number	Percent
1, Detached	23,877	31.3	185,324	56.3	1,480,037	52.2
1, Attached	4,964	6.5	20,365	6.2	150,133	5.3
2 to 4	25,810	33.9	67,264	20.4	595,093	21.0
5 to 9	6,577	8.6	18,483	5.6	165,245	5.8
10 to 19	4,029	5.3	11,728	3.6	121,059	4.3
20 or More	10,620	13.9	23,268	7.1	300,652	10.6
Mobile Home, Trailer, Other	<u>296</u>	<u>0.4</u>	<u>2,853</u>	<u>0.9</u>	<u>24,439</u>	<u>0.9</u>
Total	<u>76,173</u>	<u>100.0</u>	<u>329,285</u>	<u>100.0</u>	<u>2,836,658</u>	<u>100.0</u>

(1) Source: U.S. Department of Commerce. 2016 5-yr estimates.

Educational Attainment (1)

Years of School Completed	Worcester		Worcester County		Massachusetts	
	Number	Percent	Number	Percent	Number	Percent
Less than 9th Grade	7,811	6.6	20,883	3.8	216,787	4.7
9th to 12th Grade, No Diploma	10,673	9.0	34,290	6.2	245,598	5.3
High School Graduate	35,977	30.3	159,828	28.9	1,167,098	25.1
Some College, No Degree	19,778	16.6	96,183	17.4	743,934	16.0
Associate's Degree	9,274	7.8	49,172	8.9	359,774	7.7
Bachelor's Degree	21,921	18.4	117,602	21.3	1,072,120	23.1
Graduate or Professional Degree	13,395	11.3	74,957	13.6	844,686	18.2
Total	<u>118,829</u>	<u>100.0</u>	<u>552,915</u>	<u>100.0</u>	<u>4,649,997</u>	<u>100.0</u>
High School Graduate or Higher	100,345	84.4	497,742	90.0	4,187,612	90.1
Bachelor's Degree or Higher	35,316	29.7	192,559	34.8	1,916,806	41.2

(1) Source: U.S. Department of Commerce. 2016 5-year estimates

COMPARATIVE FINANCIAL SCHEDULES

The following comparative balance sheets and schedules of revenues and expenditures of the general fund of the City of Worcester have been prepared from audited statements for the fiscal years 2013 through 2017.

The fiscal 2013 through 2017 City financial statements were audited by CliftonLarsonAllen LLP. The audited statements have been prepared in accordance with accounting principles generally accepted in the United States, which, as indicated above, differ in certain respects from the uniform Municipal Accounting System utilized by the City. The fiscal 2017 audit is reproduced in Appendix B. The City's prior audits may be obtained from the Municipal Securities Rulemaking Board's EMMA website, or from UniBank Fiscal Advisory Services, Inc.

Certificate of Achievement for Excellence in Financial Reporting

The Certificate of Achievement for Excellence in Financial Reporting has been awarded to the City by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) each year from 1993 through 2016. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. The City also received a Certificate of Achievement for the Retirement System for December 31, 2003 through 2015.

**CITY OF WORCESTER
GENERAL FUND
COMPARATIVE BALANCE SHEETS
JUNE 30,
(000 omitted)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Assets:</u>					
Cash and Cash Equivalents	\$ 87,328	\$ 85,461	\$ 75,481	\$ 73,528	\$ 72,039
Restricted Cash and Cash Equivalents	-	-	-	-	2,652
Restricted Investments	11,754	8,896	8,425	7,020	
Receivables (net of allowance for uncollectibles)	16,881	15,583	16,293	16,167	15,445
Due from other funds	221	405	190	0	0
Intergovernmental Receivables	<u>25,072</u>	<u>33,108</u>	<u>42,295</u>	<u>51,453</u>	<u>64,407</u>
Total Assets	<u>\$141,256</u>	<u>\$143,454</u>	<u>\$142,684</u>	<u>\$148,169</u>	<u>\$154,543</u>
<u>Liabilities</u>					
Accounts Payable	\$ 44,117	\$ 47,654	\$ 42,207	\$ 38,786	\$ 37,920
Due to Internal Service Fund	-	-	-	-	-
Deferred Revenues	-	-	-	-	75,235
Other Liabilities	<u>7,280</u>	<u>6,308</u>	<u>9,850</u>	<u>10,143</u>	<u>10,867</u>
Total Liabilities	51,397	53,963	52,057	48,929	124,022
<u>Deferred Inflows of Resources (1):</u>					
Unavailable revenue-school construction reimb.	22,100	31,173	40,246	49,319	-
Unavailable revenue-property taxes	6,665	7,432	7,609	6,836	-
Unavailable revenue-other	<u>8,959</u>	<u>7,338</u>	<u>7,524</u>	<u>8,194</u>	-
Total Deferred Inflows of Revenue	37,723	45,943	55,379	64,349	-
<u>Fund Balances:</u>					
Restricted	11,754	8,896	8,425	7,020	2,652
Committed	-	-	-	-	-
Unassigned	<u>40,383</u>	<u>34,652</u>	<u>26,823</u>	<u>27,870</u>	<u>27,869</u>
Total Fund Balances	<u>52,136</u>	<u>43,548</u>	<u>35,248</u>	<u>34,890</u>	<u>30,521</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$141,256</u>	<u>\$143,454</u>	<u>\$142,684</u>	<u>\$148,169</u>	<u>\$154,543</u>

Source: Extracted from the City's audited financial statements.

(1) Prior to fiscal 2014, Deferred Revenues were recorded in total.

CITY OF WORCESTER
COMPARATIVE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND (000 omitted)
Year Ending June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:					
Real and Personal					
Property Taxes	\$276,746	\$271,977	\$256,652	\$246,742	\$233,328
Motor Vehicle Excise	16,027	15,346	14,265	13,281	12,843
Other Taxes, Assessments and in Lieu and Taxes	5,270	5,083	4,777	4,804	4,413
Licenses, Permits & Other Fees	6,713	6,388	5,795	5,274	4,992
Interest & Penalties on Taxes and Assessments	2,316	2,530	2,107	2,440	2,532
Intergovernmental	297,397	291,662	278,742	342,950	332,726
Fees & Charges	5,866	8,384	8,663	8,834	8,340
Investment Earnings	1,097	1,005	555	484	318
Other Revenue	<u>2,998</u>	<u>1,368</u>	<u>1,727</u>	<u>1,246</u>	<u>1,112</u>
Total Revenues	<u>\$616,836</u>	<u>\$603,743</u>	<u>\$573,282</u>	<u>\$626,055</u>	<u>\$600,604</u>
EXPENDITURES:					
General Government	\$ 19,374	\$ 18,397	\$ 17,930	\$ 16,809	\$ 15,570
Public Safety	93,297	95,321	83,930	82,546	80,413
Health & Human Services	3,652	3,196	860	730	926
Public Works	22,755	18,673	20,758	19,739	18,995
Education	260,466	259,527	247,223	250,819	235,106
Culture and Recreation	10,445	9,714	9,385	8,951	8,467
Debt Service	50,748	52,672	52,677	48,997	47,510
Fringe Benefits	109,888	105,732	103,581	157,319	148,073
Intergovernmental	<u>31,102</u>	<u>31,166</u>	<u>30,660</u>	<u>30,627</u>	<u>31,243</u>
Total Expenditures	<u>\$601,728</u>	<u>\$594,397</u>	<u>\$567,003</u>	<u>\$616,537</u>	<u>\$586,303</u>
Excess (Deficiency) of Revenues and Transfers Over Expenditures	<u>15,108</u>	<u>9,345</u>	<u>6,278</u>	<u>9,518</u>	<u>14,301</u>
Other Financing Sources (Uses)					
Capital Lease	0	7,671	0	5,609	0
Premium on issuance of bonds & notes	1,739	1,532	994	877	2,697
Transfers In (Out) - Net	<u>(8,259)</u>	<u>(10,248)</u>	<u>(6,915)</u>	<u>(11,635)</u>	<u>(13,441)</u>
Total Other Financing Sources (uses) Net	<u>(6,520)</u>	<u>(1,045)</u>	<u>(5,921)</u>	<u>(5,149)</u>	<u>(10,744)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$ 15,108	\$ 8,300	\$ 358	\$ 4,369	\$ 3,557
Beginning Balance	<u>43,548</u>	<u>35,248</u>	<u>34,890</u>	<u>30,521</u>	<u>26,964</u>
Ending Balance	<u>\$ 52,136</u>	<u>\$ 43,548</u>	<u>\$ 35,248</u>	<u>\$ 34,890</u>	<u>\$ 30,521</u>

Source: Extracted from the City's audited financial statements.

[THIS PAGE INTENTIONALLY LEFT BLANK]

ANNUAL AUDITS

The City's accounts were most recently audited for the fiscal year ended June 30, 2017 by CliftonLarsonAllen LLP. These audited financial statements are contained in Appendix B.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in this Report. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in this Report and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented.

[THIS PAGE INTENTIONALLY LEFT BLANK]

CITY OF WORCESTER

Massachusetts



Ice Skating at the Worcester Common Oval

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2017**

[THIS PAGE INTENTIONALLY LEFT BLANK]



CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Prepared by:
The Office of the City Auditor
City of Worcester, Massachusetts

Robert V. Stearns, CPA
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Table of Contents

Page

INTRODUCTORY SECTION

Letter of Transmittal	1 - 5
List of Elected and Appointed Officials	6
Organization Chart – Worcester City Government	7
Certificate of Achievement	8

FINANCIAL SECTION

Independent Auditors' Report	9 - 11
Management's Discussion and Analysis – Required Supplementary Information	12 - 28

Exhibit

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position	1	29
Statement of Activities	2	30 - 31

Fund Financial Statements:

Balance Sheet – Governmental Funds	3	32
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to The Statement of Net Position	4	33
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5	34
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	35
Statement of Net Position – Proprietary Funds	7	36
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	8	37
Statement of Cash Flows – Proprietary Funds	9	38
Statement of Fiduciary Net Position	10	39
Statement of Changes in Fiduciary Net Position	11	40

Notes to the Basic Financial Statements	41 - 114
---	----------

Required Supplementary Information:

General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budgetary Basis	116 - 123
Schedule of Changes in Employers' Net Pension Liability and Related Ratios	124
Schedule of Employer Contributions (WRS)	125
Schedule of Investment Returns (WRS)	125
Schedule of City's Proportionate Share of the Net Pension Liability (WRS)	126
Schedule of City's Contributions (WRS)	127
Schedule of City's Proportionate Share of the Net Pension Liability (MTRS)	128
Schedule of City's Contributions (MTRS)	128

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Table of Contents

	Statement/ Schedule	Page
Schedule of District's Proportionate Share of the Net Pension Liability		129
Schedule of District's Contributions		129
OPEB – Schedules of Funding Progress		130
Notes to Required Supplementary Information		131 - 133
Supplementary Statements and Schedules:		
Narrative – Nonmajor Governmental Funds, Enterprise Funds, Capital Assets and Agency Funds		134 - 135
Combining Balance Sheet – Nonmajor Governmental Funds	A-1	136 - 141
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	A-2	142 - 147
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgetary Basis:		
Golf Course Enterprise Fund (nonmajor)	B-1	148
Sewer Enterprise Fund	B-2	149
Water Enterprise Fund	B-3	150
Capital Assets Used in the Operation of Governmental Activities:		
Schedule by Function and Activity	C-1	152 - 153
Schedule of Changes by Function and Activity	C-2	154
Agency Fund – Schedule of Changes in Assets and Liabilities	D-1	155

STATISTICAL SECTION

Graph / Table

Narrative and Table of Contents:		157
Net Position by Component – Accrual Basis of Accounting – Last Ten Fiscal Years	1	159
Changes in Net Position – Accrual Basis of Accounting – Last Ten Fiscal Years	2	160 - 161
Governmental Activities Tax Revenues by Source – Accrual Basis of Accounting – Last Ten Fiscal Years	3	162
Fund Balances of Governmental Funds – Modified Accrual Basis of Accounting – Last Ten Fiscal Years	4	163
Changes in Fund Balances of Governmental Funds – Modified Accrual Basis of Accounting – Last Ten Fiscal Years	5	164 - 165
Governmental Funds Tax Revenues by Source – Modified Accrual Basis of Accounting – Last Ten Fiscal Years	6	166
General Fund Expenditures – Modified Accrual Basis of Accounting	1	168
General Fund Expenditures – Modified Accrual Basis of Accounting – Last Ten Fiscal Years	7	169

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Table of Contents

	Graph / Table	Page
General Fund Revenues – Modified Accrual Basis of Accounting	2	170
General Fund Revenues – Modified Accrual Basis of Accounting – Last Ten Fiscal Years	8	171
Assessed Valuation – Last Ten Fiscal Years	3	172
Tax Levy, Unused Capacity and Ceiling	4	173
Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	9	174
Direct Property Tax Rates – Last Ten Fiscal Years	10	175
Principal Taxpayers – Current Year and Nine Years Ago	11	176
Property Tax Levies and Collections – Last Ten Fiscal Years	12	177
Ratio of Outstanding Debt by Type – Last Ten Fiscal Years	13	178
Ratio of Governmental Funds General Bonded Debt Outstanding – Last Ten Fiscal Years	14	179
Legal Debt Margin – Last Ten Fiscal Years	15	180
Demographic and Economic Statistics – Last Ten Fiscal Years	16	181
Full Time Employees – Last Ten Fiscal Years	17	182
Principal Employers – Current Year and Nine Years Ago	18	183
Operating Indicators by Function – Last Ten Fiscal/Calendar Years	19	184
Capital Asset Statistics by Function – Last Ten Fiscal Years	20	185

GLOSSARY

Glossary of terms

187 - 194

INTRODUCTORY SECTION



CITY OF WORCESTER, MASSACHUSETTS
AUDITING DEPARTMENT

Robert V. Stearns, CPA
City Auditor

December 19, 2017

To the Honorable Members of the City Council
City of Worcester, Massachusetts:

The Comprehensive Annual Financial Report (CAFR) of the City of Worcester, Massachusetts (the City) for the fiscal year ended June 30, 2017 is presented for your review. The report was prepared by the Auditing Department in accordance with accounting principles generally accepted in the United States of America. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been made.

In evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed their anticipated benefits. Also, the evaluation of costs and benefits requires estimates and judgments by management.

CliftonLarsonAllen LLP, a firm of licensed certified public accountants, has audited the City's basic financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2017 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. CliftonLarsonAllen LLP has issued an unqualified opinion on the City of Worcester's basic financial statements for the fiscal year ended June 30, 2017. The independent auditors' report is presented as the first component of the financial section of this report. A management letter is issued for any matters that come to the attention during the course of the audit including special projects that are conducted each year by the CPA firm.

Pursuant to the Uniform Guidance 2 CFR 200, the City is also required to have an annual audit of the federal financial assistance it has received. In addition to a financial statement audit, the Uniform Guidance requires that an internal control review and a compliance audit be performed on selected major programs covering 40% of all federal expenditures. The United States Department of Housing and Urban Development was assigned as the cognizant audit agency. The requirements of the Uniform Guidance have been met. The auditors' reports on internal control and compliance have been furnished separately to the City.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

City of Worcester Government

Worcester was settled in 1673 and incorporated as a town in 1722 and as a city in 1848 under Acts of the Commonwealth of Massachusetts (the Commonwealth), which as amended, constitute the City's charter. The City is located in the east central part of Massachusetts. It is 39 miles west of Boston, 52 miles east of Springfield, and 40 miles north of Providence, RI. The City occupies 39 square miles and is the second largest populated city in New England with a population of just over 184,000 according to estimates since the last federal census in 2010. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City is also empowered to levy an excise tax on motor vehicles whose owner is a resident or business located in the City. Additionally, the City is allotted a portion of the hotel, meals and sales taxes collected within its jurisdiction by the state.

The City has operated under the council-manager form of government since 1950. An eleven-member City Council, six of whom are elected at-large and five of whom are elected from districts, performs the legislative function and policy-making. The City Council is responsible, among other things, for passing ordinances and adopting the budget. City Council members are elected biennially on a non-partisan basis.

The City Manager, appointed by the City Council, is the chief executive officer with appointive and removal authority over department heads and other employees of the City. The City Manager is responsible for the implementation of policies established by the City Council and for overseeing the day-to-day operations of the government. The City Auditor and City Clerk are elected by and are employees of the City Council.

The Mayor is the councilor who receives the highest number of votes for mayor provided he or she is also elected as one of the six at-large councilors. The Mayor serves as presiding officer of the council and ex-officio Chairperson of the School Committee.

An elected six-member School Committee, whose members are elected biennially on a non-partisan basis, has exclusive jurisdiction over the City's public school system and appoints a superintendent to administer the system's day-to-day affairs.

The City provides a full range of services including public safety, public education grades pre-K through 12 and certain technical education beyond high school, public roads, sanitation, water, sewer, health and social services, culture, recreation, municipal golf course, civic and convention center, public improvements, planning and zoning, and general administrative services. The City is also financially responsible for the legally separate Worcester Retirement System (WRS), Upper Blackstone Water Pollution Abatement District (the District) and Worcester Redevelopment Authority (WRA), all of which are reported within the City's basic financial statements. Additional information on these legally separate entities can be found in the notes to the basic financial statements.

All department operating and capital budget requests are required to be submitted to the City Manager by mid-January. The City Manager then reviews these requests with every department head during a series of meetings. In accordance with MGL Chapter 44, the City Manager must then submit his proposed budget within 170 days after the City Council organizes in early January. The Council is required to hold public hearings and to adopt a final budget no later than 45 days after the budget is submitted to them. Budgetary control is centralized and enforced on a statutory account basis. Statutory accounts are maintained on a departmental level and consist of salary, capital and ordinary maintenance accounts. Purchase requisitions and payrolls, which would result in an overrun of an account balance, are not processed until additional appropriations are made available. Transfers between statutory accounts within a department require a simple majority approval by the City Council and transfers from one department to another require a two-thirds majority. Open encumbrances are reported as liabilities. All expenditures are subject to a pre-audit before being processed.

Budget-to-actual comparisons for the general fund are presented on pages 116 through 123 as part of required supplementary information.

Local economy

Worcester has nearly 6,700 establishments in multiple industries of construction, manufacturing, transportation, utilities, trade and retail, information, financial, professional, education, health, hospitality and government. Employment is over 103,000 with health and higher education making up the largest percentage at 48% of employment by industries and representing nine of the top fifteen employers in the City while providing stability to the local economy. Worcester is home to nine colleges and universities with over 36,000 full and part-time students and 10,000 employees. Also located within Worcester are two major hospitals serving central Massachusetts. The UMass Memorial Health Care system employs 12,906 while St. Vincent Hospital employs 2,350. The school district and the City of Worcester also have a significant economic presence, employing 5,436 employees including teachers, professionals and support staff.

The unemployment rate of the City as of June 30, 2017 was 5.4% and increased from 5.0% from the year before. By comparison for the same periods the state's unemployment rate was 4.3% and 4.0%, respectively and the national average was 4.4% and 4.9%, respectively. The month of June is typically one of the highest months for unemployment and in September 2017 the local unemployment rate fell to 4.2%. Median household incomes, averaged over the five years ending 2015, within the City of Worcester were \$45,472 compared to \$68,563 for the state and \$53,889 on a national level. According to Worcester Public Schools' enrollment by social-economic status, 57% of enrolled students are considered economically disadvantaged. In addition, the large numbers of college students residing in the city also have an effect by lowering the average income levels.

Worcester's total taxable assessed property value increased to \$12.265 billion in fiscal 2017 based on the legal assessment date of January 1, 2016. Values increased \$1.028 billion or 9.2% more than the previous year following a recent triennial revaluation. Tax-exempt real property represented 31% of the total assessed values and increased 14% over the prior year to \$5.621 billion. Expectations for continued growth and increased valuations are reasonable given the ongoing private and public redevelopment. Total real and personal taxable assessed values increased 4% in fiscal 2018.

According to a July, 2016 article in the Worcester Business Journal, Worcester was ranked third in the Northeast of the country when evaluating the return on investment for rental properties, trailing only Washington, D.C. and Boston, MA. Worcester was found to have the lowest vacancy rate in the country at 3.05 percent for residential rental properties. In addition, a recent study by Colliers International reported that as of June 30, 2017, a sample of 2.9 million square feet of office space in Worcester was 87.3% occupied compared to 81.7% in the prior year.

In the center of the city, major redevelopment continued the transformation of downtown into a vibrant working and living environment. Historic buildings within walking distance of downtown have been redeveloped into residential units. A former vocational high school was redeveloped in 2014 into 84 units. More recently, an industrial building was redeveloped into 82 market rate apartments and a new 118 room hotel was put into service. Nearing completion in the center of downtown is the redevelopment of an historic building into 90 residential units, the construction of a new 250 room hotel, and the construction of 365 new luxury apartments that was previously the site of abandoned retail outlets. Plans to convert the former county courthouse into units are underway.

Long-term financial planning and major initiatives

Each of the three bond rating agencies has given the City a stable outlook and ratings in the high investment grade category. In fiscal 2017, Fitch Ratings increased the City's bond rating on to AA citing Worcester's sustained improvement in its financial profile over the past several years, growth in tax base, sound operating performance and adequate reserves. Moody's and S&P have affirmed the city's ratings of Aa3 and AA-respectively and have also cited positive financial performance and strong fiscal management with good financial policies and practices.

The city continues to invest in its public safety, education and downtown infrastructure. In August 2016 the city opened a new regional emergency communication center with a new facility and equipment. Also in August 2016 the city opened a new 500 car public underground parking garage downtown with total cost of \$42 million to support the new businesses in CitySquare. Construction continued during the year on a \$45 million replacement elementary school, eighty percent funded by the state's school building program. The new school which opened in the fall for the 2017-2018 school year is LEED certified that will double the square footage while expecting to consume half the energy of the old school building. Also in 2017, a feasibility study was made to construct a replacement high school that will include district-wide amenities including track and field and a swimming pool. This high school is also expected to be substantially funded with state funding.

In 2017, the City Council updated its financial plan to increase the target of general fund reserves to 10% of budgeted revenue up from 5%; to prefund a new high school construction stabilization fund for the planned construction of two new high schools; to offset increases in the prior year tax levy with excess new growth defined as new growth levy above what is budgeted; updated the borrowing cap from one based on inflation to one tied to the five-year capital improvement plan with debt service that is supported by the general fund limited to 8% to 10% of budget; and to establish an expendable trust fund for OPEB and an OPEB board of trustees to manage its investments and liabilities. Elements of the former financial plan were retained including reporting and the free cash policy to transfer 50% of free cash to a stabilization fund, 30% to OPEB trust and 20% available for operations.

General fund revenue sources to the City during fiscal 2017 included 45% from tax levy, 7% from local and other sources and 48% from state aid. The City did not tax all of its levy capacity and had a total of \$11 million in untaxed levy capacity at the end of fiscal 2017 up from \$6 million for fiscal 2016. Total combined reserves in the unassigned general fund and the debt service fund increased \$3.9 million to \$58.4 million or 9.4% of revenue.

The City's use of tax increment financing and district improvement financing as well as the development by the local colleges have helped attract private investment in new construction and redevelopment of vacant buildings including some designated as historical sites and some former industrial sites currently unused. Through the creation of the DCU Center finance district the city was able to provide a revenue stream with local hotel and meals tax in the designated area to finance much of the capital investment for the City's combined civic and convention center, thereby attracting events. The Center experienced a 77% increase in distributable operating income to the City that will cover DCU improvement related debt service and its management and insurance costs without the need for tax levy subsidies in fiscal 2018.

The City continues to pursue grants and other resources that keep the borrowing within the capital improvement program and borrowing cap. Grants for street and sidewalk projects totaled \$9.7 million which have reduced the amount the City has needed to borrow for infrastructure. The City has made significant investments in its school buildings from grants from the state's Massachusetts School Building Authority (MSBA) including the aforementioned new elementary school and the replacement of windows, doors and boilers at several other schools increasing the energy efficiency of the school buildings. Total MSBA grants received in fiscal 2017 was \$24 million.

The City of Worcester is designated a "Green Community" by the Commonwealth under the State's Green Community Act. It provides recognition of our community-wide efforts to conserve energy, identify and utilize renewable energy sources, implement recycling programs and promote the reduction of energy and fuel use both as a municipality and as a community. It will also enable the City to market itself on a regional, national and global basis as a City that is attractive to companies in the green energy sector, thus boosting our economic development business attraction and expansion activities. The City has invested over \$70 million in an energy improvement program between 2011 and 2017 that includes HVAC upgrades, building infiltration, water conservation, energy efficient replacement lighting for buildings and streetlights, solar panels installed on top of several school buildings and the construction of a large solar array atop a capped landfill. Savings on energy including selling back electricity to the grid is expected to offset debt service.

The City has taken advantage of the current low interest environment by retiring general obligation bonds that had higher paying interest rates through the issuance of refunding bonds. In fiscal 2017, \$15.1 million of bonds

were refunded that generated an economic gain in excess of \$1.7 million. This follows debt refunded in fiscal 2016 of \$23 million generating an economic gain of \$2 million and debt refunded in fiscal 2015 of \$22 million generating an economic gain of \$2 million.

To manage the elevated long term liabilities related to benefits including pensions and retiree health insurance the City has made its annual required contribution for the pension and annual debt service for the pension obligation bonds while beginning to fund OPEB above the pay-as-you-go annual expenditure. The City's share of the net pension liability was \$467 million and is being amortized pursuant to an aggressive schedule over the next sixteen years with annual contributions increasing 6.3% after fiscal 2019. Outstanding pension obligation bonds issued in 1998 had a balance outstanding of \$130 million with full amortization in 11 years. The actuarially accrued liability for OPEB totaled \$861 million which was based on an actuarial measurement at July 1, 2015. The net OPEB liability realized under GASB 45 was \$314 million. In Fiscal 2018, the new GASB statement 75 will require the full liability to be reflected in the statement of net position. In June 2017, the City passed an ordinance to create an expendable trust fund for OPEB and to establish a board of trustees to manage the benefit liability. The effective date of the ordinance is after the establishment of the OPEB board which is expected in fiscal 2018. Additionally, the City expanded the current policy of funding OPEB above pay-as-you-go with 30% free cash to also include increasing annual appropriations included in the operating budget. As of the end of the year there was a restricted account in the general fund for OPEB totaling \$11.8 million.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Worcester, Massachusetts for its CAFR for the year ended June 30, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate, a government must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last twenty-four consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Auditing Department. I also wish to acknowledge our indebtedness to personnel in other City departments who assisted in our preparation. I am grateful to the City's independent auditors, CliftonLarsonAllen LLP, for the professional assistance and advice they have provided during the course of their audit. In addition, I would like to thank the members of the City Council for your support.

Respectfully submitted,



Robert V. Stearns, CPA
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

LIST OF ELECTED AND APPOINTED OFFICIALS
COUNCIL – MANAGER FORM OF GOVERNMENT

June 30, 2017

ELECTED OFFICIALS

CITY COUNCIL
MAYOR

Joseph M. Petty

COUNCILORS-AT-LARGE

Morris A. Bergman
Michael T. Gaffney
Khrystian E. King
Konstantina B. Lukes
Kathleen M. Toomey

DISTRICT COUNCILORS

Anthony J. Economou
Candy F. Mero-Carlson
Sarai Rivera
Gary Rosen
George J. Russell

SCHOOL COMMITTEE
EX-OFFICIO CHAIRPERSON

Joseph M. Petty

COMMITTEE MEMBERS

Dianna L. Biancheria
Donna M. Colorio
John L. Foley

COMMITTEE MEMBERS

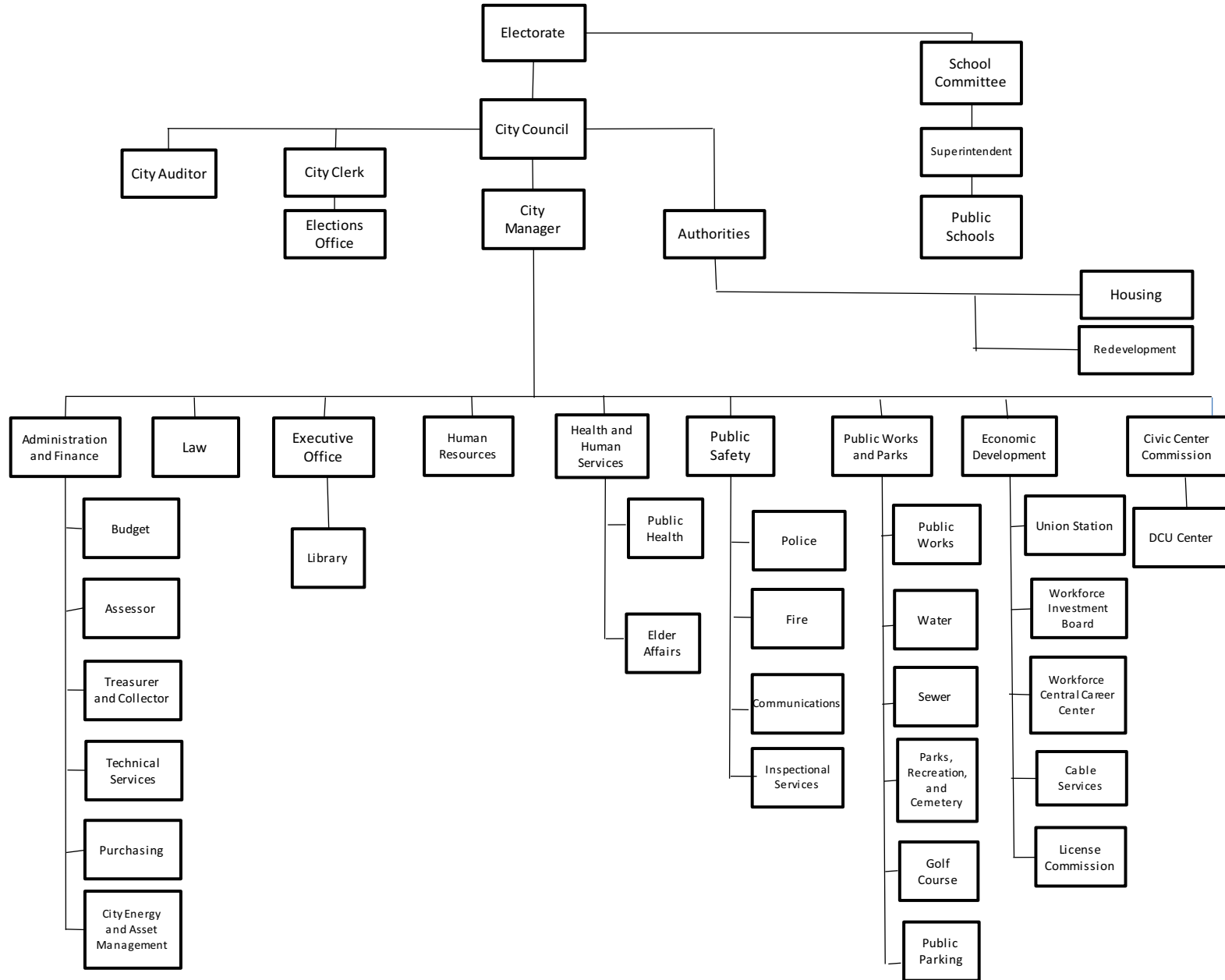
Molly O. McCullough
John F. Monfredo
Brian A. O'Connell

APPOINTED OFFICIALS

CITY MANAGER
ASSISTANT CITY MANAGER
HEALTH & HUMAN SERVICES COMMISSIONER
EMERGENCY COMMUNICATIONS DIRECTOR
FIRE CHIEF
INSPECTIONAL SERVICES COMMISSIONER
CITY SOLICITOR
PUBLIC WORKS & PARKS COMMISSIONER
CHIEF OF POLICE
CHIEF DEVELOPMENT OFFICER
CHIEF FINANCIAL OFFICER
SUPERINTENDENT OF SCHOOLS
CHIEF FIN. & OPERATIONS OFFICER W.P.S.
BUDGET DIRECTOR, W.P.S.
HEAD LIBRARIAN
EXECUTIVE DIRECTOR, RETIREMENT
CITY CLERK
CITY AUDITOR
DIRECTOR OF ACCOUNTS
ACTING TREASURER & COLLECTOR
ASSISTANT TREASURER
BUDGET DIRECTOR / ASST. TREASURER
CITY ASSESSOR
PURCHASING AGENT
DIRECTOR OF TECHNICAL SERVICES
DIRECTOR OF ENERGY & ASSET MGMT.

Edward M. Augustus, Jr.
Kathleen G. Johnson
Dr. Matilde Castiel, MD
Richard H. Fiske
Michael J. Lavoie
John R. Kelly
David M. Moore
Paul J. Moosey
Steven M. Sargent
Michael E. Traynor
Thomas F. Zidelis
Maureen F. Binienda
Brian E. Allen
Sara Consalvo
Geoffrey M. Dickinson
Elizabeth A. Early
Susan M. Ledoux
Robert V. Stearns
Kimberly J. Laino
Thomas F. Zidelis
Geraldyn M. Walsh
Erin M. Arvizu
William J. Ford
Christopher J. Gagliastro
Paul R. Covello
John W. Odell

WORCESTER CITY GOVERNMENT





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Worcester
Massachusetts**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

FINANCIAL SECTION



CliftonLarsonAllen LLP

CLAAconnect.com

Independent Auditors' Report

The Honorable Mayor and City Council
City of Worcester, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Worcester, Massachusetts (the City), as of and for the year ended June 30, 2017 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the City'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Upper Blackstone Water Pollution Abatement District (the District), which represents 86.7%, 47.5% and 96.7%, respectively, of the assets, net position and operating revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District, is based solely on the report of the other auditors. We and the other auditor conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City, as of June 30, 2017 (except for the Worcester Retirement System, which is as of and for the fiscal year ended December 31, 2016), 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 12 through 28) and general fund budgetary comparison and certain pension and other post-employment benefits information (located on pages 116 through 133) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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

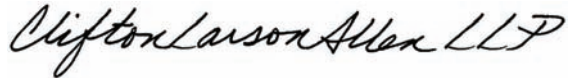
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary 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 supplementary 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Boston, MA

December 19, 2017

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

This section of the City's annual financial report presents a discussion and analysis of the City's financial activities during the fiscal year ended June 30, 2017 to assist readers of the basic financial statements in understanding the financial activities of the City. Please read it in conjunction with the transmittal letter at the front of this report and the basic financial statements, which follow this section.

Financial Highlights

- The liabilities and deferred inflows of the City (primary government) exceeded its assets and deferred outflows (net position) at the close of fiscal 2017 by \$176,204.
- The City's total net position decreased by \$19,600 or 12.5% during the year.
- The net pension liability net of deferred outflows/inflows related to pensions increased to \$390,263 resulting in a decrease in net position of \$27,655 during the year.
- The OPEB payable increased to \$313,721 resulting in a decrease in net position of \$32,452 during the year.
- The City's general fund balance increased \$8,588 or 19.7% during the year to \$52,136. The unassigned general fund balance increased \$5,731 to \$40,383 and the fund restricted for OPEB increased \$2,857 to \$11,753.
- At the end of fiscal 2017, the unassigned portion of the general fund was \$40,383 or 6.5% of total general fund revenues.
- "Free Cash", certified by the state's Department of Revenue as of July 1, 2017 was \$9,208. This amount is unassigned in the general fund and available for appropriation in fiscal 2018.
- The City's total capital assets (net) increased by \$59,480 or 5.9% during fiscal 2017.
- The City's total debt decreased by \$2,044 or 0.3% during fiscal 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements report information about the City with a broad overview of its finances using accounting methods similar to those used by a private-sector business.

The statement of net position presents information of all of the City's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during fiscal 2017. All changes in net position are reported as soon as the underlying event causing the change takes place.

CITY OF WORCESTER, MASSACHUSETTS

Management’s Discussion and Analysis

June 30, 2017

(In thousands of dollars)

Therefore, all of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid (e.g., uncollected taxes and earned but unused vacation leave, etc.).

Major Features of the City of Worcester's Government-Wide and Fund Financial Statements				
	Government-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire City government, except fiduciary activities such as the employee retirement plan	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates like businesses; the water and sewer system and the golf course	Instances in which the City is the trustee or agent for resources belonging to others, such as the employee retirement plan
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues expenses, and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources measurement focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the required liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions to and deductions from fiduciary net position during the year, regardless of when cash is received or paid

The government-wide financial statements of the City are divided into three categories:

- **Governmental activities** – Governmental activities of the City such as general government, public works, public safety, public roads, sanitation, education, health, recreation, and culture are reported here. Property taxes, state aid, and local fees and charges finance most of these activities.
- **Business-type activities** – The City charges fees to users to help it cover costs of certain services it provides. The City’s water, sewer and golf course (nonmajor) operations are included here.
- **Component units** – The government-wide financial statements not only include the governmental and business-type activities (known as the primary government) but also legally separate entities. There are two legally separate component unit entities presented discretely in this report, which are the Worcester

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

Redevelopment Authority and the Upper Blackstone Water Pollution Abatement District. These entities are included because the City is financially accountable for them.

The government-wide financial statements can be found on pages 29 through 31 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Similar to the governmental activities in the government-wide financial statements, most of the City's basic services are presented here. However, unlike the government-wide financial statements, governmental funds financial statements focus on short-term inflows and outflows of available resources. They also focus on the balances of available resources at the end of the fiscal year. This information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is short-term and government-wide are long-term it is useful to compare similar information presented for governmental funds with governmental activities in the government-wide financial statements. This comparison may demonstrate the long-term implications of short-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 31 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, the CitySquare fund, the debt service fund, and the rehabilitation of public buildings fund, each of which are considered major funds and can be found on pages 32 and 34. Data from the 27 other governmental funds are combined into a single aggregated presentation titled "other governmental funds". The list of these nonmajor governmental funds is provided on pages 134 through 135 and the combining balance sheet and statement of revenue and expenditures are provided on pages 136 through 147.

The City adopts an annual budget for its general fund which is included in the required supplementary information shown on pages 116 through 123. The City also adopts annual budgets for each of its enterprise funds shown in the supplementary schedules on pages 148 through 150.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, sewer and golf course operations, with the water and sewer considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insured health plan. Because this service benefits predominantly governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Conversely, the internal service fund is shown as a single presentation in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 36 through 38.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that because of a trust arrangement can be used only for the trust beneficiaries and the agency fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds financial statements can be found on pages 39 through 40.

Notes to the basic financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the basic financial statements can be found on pages 41 through 114.

Other required supplementary information – In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information which includes the General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budgetary Basis and certain pension and other postemployment benefits information.

Other required supplementary information can be found on pages 116 through 133.

Other information – This report also presents other information that is presented for purposes of additional analysis and is not a required part of the financial statements, which includes the introductory section (pages 1 through 8), supplementary statements and schedules (pages 134 through 155) and statistical section (pages 157 through 185). A glossary begins on page 187.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the City's case, liabilities and deferred inflows exceeded assets and deferred outflows by \$176,204 at the close of the most recent fiscal year and are summarized as follows:

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

	Net position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 296,782	306,354	39,246	37,606	336,028	343,960
Capital assets	835,344	774,867	236,706	237,703	1,072,050	1,012,570
Total assets	<u>1,132,126</u>	<u>1,081,221</u>	<u>275,952</u>	<u>275,309</u>	<u>1,408,078</u>	<u>1,356,530</u>
Deferred outflows of resources	<u>77,973</u>	<u>86,284</u>	<u>5,023</u>	<u>5,214</u>	<u>82,996</u>	<u>91,498</u>
Long-term liabilities	1,273,647	1,233,653	187,993	178,422	1,461,640	1,412,075
Other liabilities	179,941	165,234	19,470	23,489	199,411	188,723
Total liabilities	<u>1,453,588</u>	<u>1,398,887</u>	<u>207,463</u>	<u>201,911</u>	<u>1,661,051</u>	<u>1,600,798</u>
Deferred inflows of resources	<u>5,308</u>	<u>3,157</u>	<u>919</u>	<u>677</u>	<u>6,227</u>	<u>3,834</u>
Net position:						
Net investment in capital assets	433,725	402,433	84,896	90,920	518,621	493,353
Restricted	61,567	56,244	-	-	61,567	56,244
Unrestricted	<u>(744,089)</u>	<u>(693,216)</u>	<u>(12,303)</u>	<u>(12,985)</u>	<u>(756,392)</u>	<u>(706,201)</u>
Total net position	<u>\$ (248,797)</u>	<u>(234,539)</u>	<u>72,593</u>	<u>77,935</u>	<u>(176,204)</u>	<u>(156,604)</u>

The largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment and other, rolling equipment, infrastructure and construction in progress). The City uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending.

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining amount of unrestricted net position shows a deficit balance of (\$756,392). However, this balance includes outstanding pension obligation bonds of \$129,565 for which there are no offsetting assets in the governmental funds. General obligation bonds were also issued to finance land acquisition and pollution remediation to make way for a for-profit hospital in the City's downtown as well as for rehabilitation of Union Station, which is owned by the City's redevelopment authority (a component unit). There are also no offsetting assets in the governmental funds for this debt, which had balances of \$3,893 and \$930, respectively, at year-end. Additionally, the City has a note payable of \$1,947 for improvement to neighborhood assets it does not own and also owes \$599 for the 2008 Blackstone Valley Visitors Center, which was destroyed by fire. Also on this list is \$46 debt for the airport, which is no longer owned by the City. Absent the aforementioned debt, there is a balance of (\$619,412) of unrestricted net position.

At the end of fiscal 2017, the City is able to report positive balances in water and sewer net positions for business-type activities and all but unrestricted net position in the governmental activities. Long term liabilities

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

increased \$49,565 primarily as a result of an increase in the net pension liability of \$16,760 and the net OPEB liability of \$32,452.

Governmental activities had an increase in other liabilities of \$14,707 as temporary notes increased \$21,971 or 33% due to an increase in capital project costs. Business-type activities had a decrease in other liabilities of \$4,019 as temporary notes decreased \$3,463 or 19.7%.

Governmental activities capital assets net of depreciation increased by \$60,477 or 7.8% during fiscal 2017; additions to fixed assets totaled \$106,156 and depreciation totaled \$45,679. The largest acquisitions during fiscal 2017 included school construction projects \$38,887, energy improvement projects \$29,951, street and sidewalks \$19,123, parks improvements \$3,317, CitySquare \$2,868, DCU Center \$1,940, off street parking \$1,197, and the completion of the regional emergency communication center \$888. Energy projects included the installation of new LED streetlights and a solar array on a capped landfill. School construction included the continued work on the new elementary school at Nelson Place with progress costs incurred in fiscal 2017 totaling \$28,085. Nelson Place is financed with state and local funding. Several school buildings took advantage of state funded school repair grants with window and door replacements and other renovations totaling \$10,802.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

The City's total net position decreased by \$19,600, or 12.5%, summarized as follows:

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 38,132	38,792	73,310	71,034	111,442	109,826
Operating grants and contributions	387,555	363,557	-	-	387,555	363,557
Capital grants and contributions	34,946	29,007	286	330	35,232	29,337
General revenues:						
Property taxes	275,979	271,801	-	-	275,979	271,801
Motor vehicle excise taxes	16,281	15,554	-	-	16,281	15,554
Intergovernmental	40,732	39,096	-	-	40,732	39,096
Other	16,788	11,883	-	-	16,788	11,883
Total revenues	<u>810,413</u>	<u>769,690</u>	<u>73,596</u>	<u>71,364</u>	<u>884,009</u>	<u>841,054</u>
Expenses:						
General government	32,431	29,353	-	-	32,431	29,353
Public safety	164,981	156,918	-	-	164,981	156,918
Health and human services	20,106	19,262	-	-	20,106	19,262
Education	501,273	480,201	-	-	501,273	480,201
Public works	54,483	41,955	-	-	54,483	41,955
Culture and recreation	25,478	26,351	-	-	25,478	26,351
Community development	7,028	6,562	-	-	7,028	6,562
Interest on debt	20,074	20,883	-	-	20,074	20,883
Water	-	-	30,487	26,785	30,487	26,785
Sewer	-	-	45,985	42,018	45,985	42,018
Golf course	-	-	1,443	1,386	1,443	1,386
Total expenses	<u>825,854</u>	<u>781,485</u>	<u>77,915</u>	<u>70,189</u>	<u>903,769</u>	<u>851,674</u>
Change in net position before transfers and contributions	(15,441)	(11,795)	(4,319)	1,175	(19,760)	(10,620)
Transfers	1,023	(510)	(1,023)	510	-	-
Contributions	<u>160</u>	<u>103</u>	<u>-</u>	<u>-</u>	<u>160</u>	<u>103</u>
Change in net position	(14,258)	(12,202)	(5,342)	1,685	(19,600)	(10,517)
Net position – beginning	<u>(234,539)</u>	<u>(222,337)</u>	<u>77,935</u>	<u>76,250</u>	<u>(156,604)</u>	<u>(146,087)</u>
Net position – ending	<u>\$ (248,797)</u>	<u>(234,539)</u>	<u>72,593</u>	<u>77,935</u>	<u>(176,204)</u>	<u>(156,604)</u>

Governmental activities – Governmental activities as shown in the statement of activities decreased the City's net position by \$14,258. The key elements of this decrease are as follows:

Total revenues were \$810,413, which was a \$40,723 or 5.3% increase from the previous fiscal year.

Charges for services totaled \$38,132 and represented 4.7% of total governmental activity revenues and experienced a slight decrease from the year before of 1.7%. The largest service revenues are from police auxiliary \$8,210; inspectional services \$4,284; parking fees \$4,335; trash bags \$3,272; parking and court fines

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

\$2,406; DCU center operating surplus transfers \$1,601; school and city revolving programs \$3,268; and other licenses and fees \$10,756.

Operating grants and contributions totaled \$387,555 and represented 47.8% of total governmental activity revenues, increasing \$23,998 or 6.6% over the prior year. Education totaled \$353,436 including state aid for schools under Chapter 70 of \$235,402 up 1.7%, state and federal grants for school nutrition and supplementary educational programs totaled \$50,183 up 1.9%, state on-behalf of payments for teachers' net pension expense totaled \$61,177 up 37%, and other educational grants and contributions of \$6,674. In addition, the HUD community development awards totaled \$6,719 up 151% while various public safety grants totaled \$4,804 up 74%. Health and human service grants totaled \$13,143 down \$2,123 or 14% from the year before as one multi-year state grant ended during fiscal 2017.

Capital grants totaled \$34,946 and represented 4.3% of total governmental activity revenues, increasing \$5,939 or 20.5% over the prior fiscal year. Education capital grants totaled \$24,483 as the City had multiple projects approved by the state's school building replacement and repair program and increased \$7,175 or 41% over the prior year. The largest project was the continued construction of a new elementary school building which had fiscal 2017 grant revenue of \$17,297 and several schools taking advantage of window, door and boiler replacement with grants of \$7,186 received in fiscal 2017. Public works received capital grants of \$9,765 of which grants for street work totaled \$9,723 and increased 2.9% over the prior year.

Property tax revenue totaled \$275,979 and represented 34.1% of total governmental activity revenues, increasing \$4,178 or 1.5% for an increase in property taxes committed for collection. Other general revenues totaled \$73,801 and represented 9.1% of total governmental activity revenues. Included in other general revenues are motor vehicle excise taxes \$16,281 up 2.0%; intergovernmental revenue including non-educational state aid \$40,732 up 5.0%; and other general revenue including investment income, other taxes and miscellaneous which totaled \$16,788 as investment income increased \$2,299 and miscellaneous increased \$2,464.

Total expenses were \$825,854, which was a \$44,369 or 5.7% increase from the previous fiscal year.

General government expenses totaled \$32,431 representing 3.9% of total governmental activity expenses and increased \$3,078 or 10.5%. Fringe benefits including health insurance, pension expense and OPEB increased \$1,014, court settlements increased \$277, salaries increased \$194, energy and asset management ordinary maintenance increased \$409, capital outlay expenditures increased \$892 and depreciation expense increased \$214.

Public safety expenses including police, fire, inspection, and emergency communications totaled \$164,981 and represented 20.0% of the total governmental activity expenses, increasing \$8,063 or 5.1%. Fringe benefits including health insurance, pension expense and OPEB increased \$3,571, ordinary maintenance increased \$1,371, depreciation expense increased \$560, and salaries increased \$4,294 mostly due to the fire department's collective bargaining agreement that was settled.

Education expense includes basic education for grades K - 12 as well as pre-K, nutrition and grant expenses. Education expenses totaled \$501,273 and represented 60.7% of total governmental activity expenses, increasing \$21,072 or 4.4%. Fringe benefits including health insurance, pension expense and OPEB increased \$7,028 and state on-behalf of payments for teachers' net pension expense increased \$16,548.

CITY OF WORCESTER, MASSACHUSETTS

Management’s Discussion and Analysis

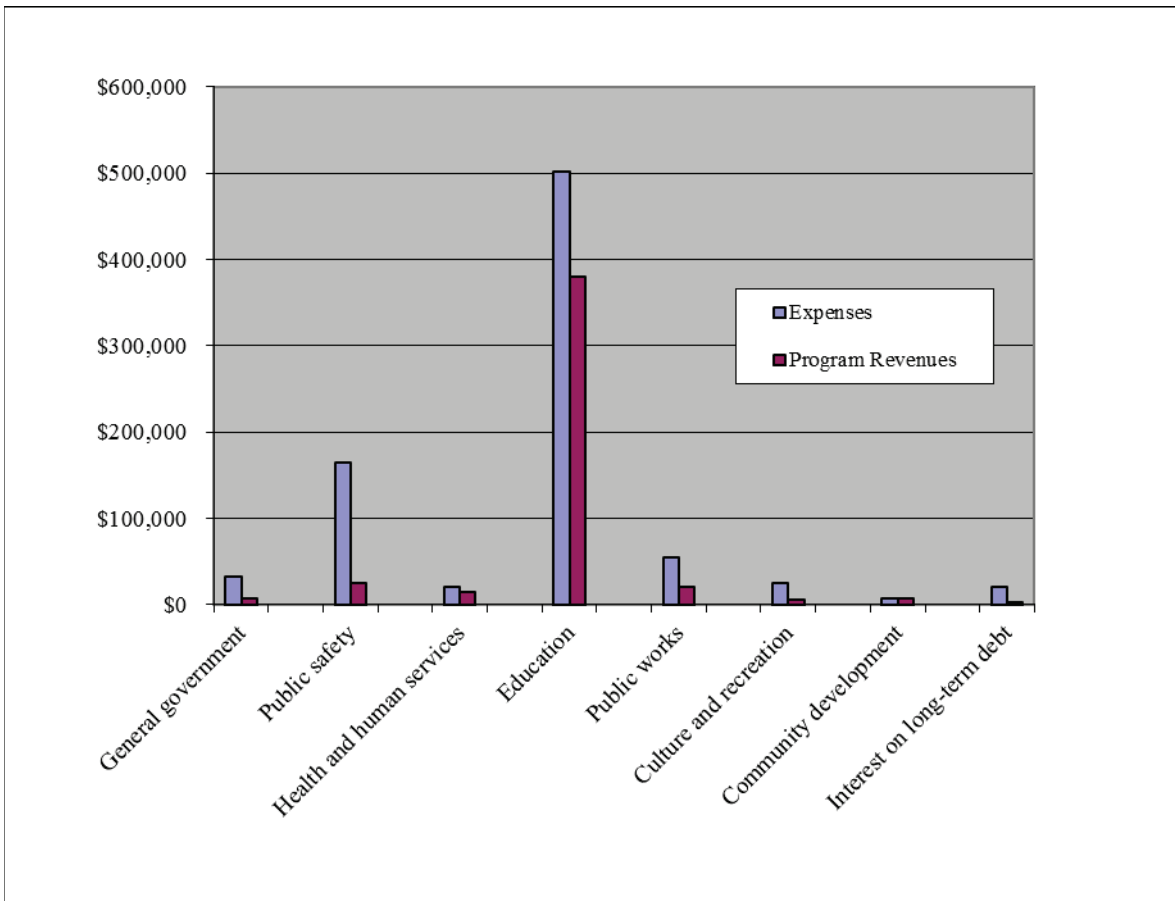
June 30, 2017

(In thousands of dollars)

Public works expenses totaled \$54,483 representing 6.6% of total governmental activities and increased \$12,528 or 29.9%. Snow removal costs increased \$3,817 or 128%, provision for landfill cap costs increased \$1,402, fringe benefits including health insurance, pension expense and OPEB increased \$480, salaries increased \$375 and depreciation expense increased \$4,156.

Health and human services expenses totaled \$20,106 or 2.4% of total expenses and increased \$844 or 4.4% over the prior year. Culture and recreation expenses totaled \$25,478 or 3.1% of total expenses and decreased \$873 or 3.3% from the prior year. Community development expenses totaled \$7,028 or 0.9% of total expenses and increased \$466 or 7.1%. Interest on debt totaled \$20,074 or 2.4% of total expenses and decreased \$809 or 3.9%.

FY 2017 Expenses and Program Revenues– Governmental Activities



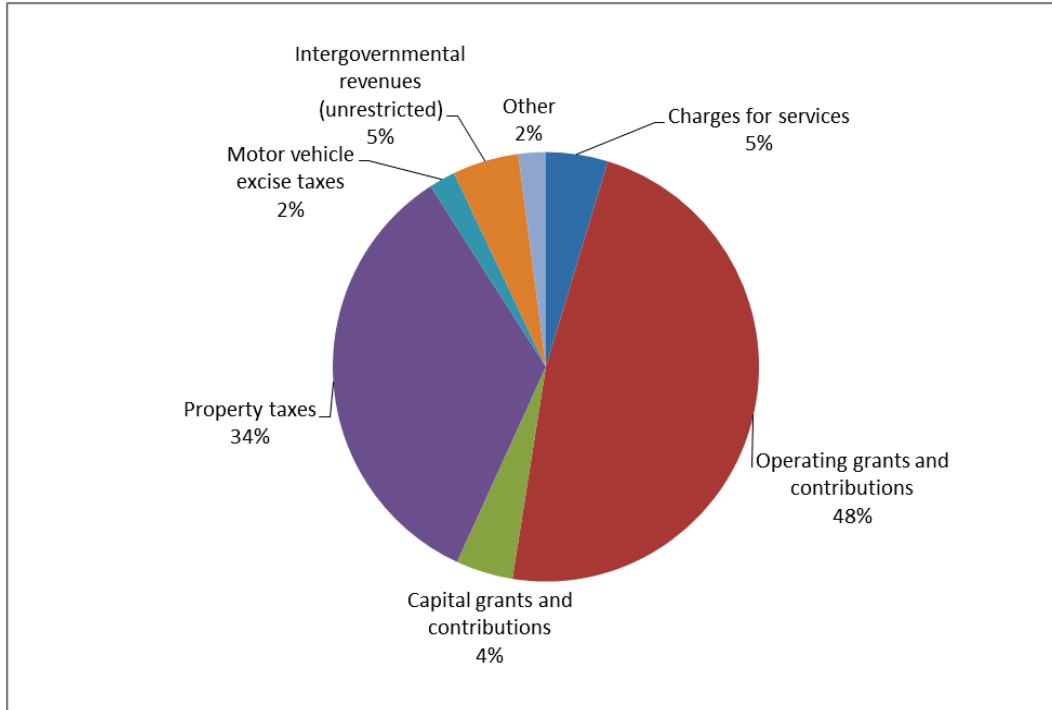
CITY OF WORCESTER, MASSACHUSETTS

Management’s Discussion and Analysis

June 30, 2017

(In thousands of dollars)

FY 2017 Revenues by Source – Governmental Activities



Business-type activities – Business-type activities decreased the City’s net position by \$5,342.

- The water fund had operating income of \$2,142 and had a decrease in net position of \$1,024. This follows the previous year’s operating income of \$4,809 with a \$2,210 increase in net position. Water rates did not change from the prior year and usage fees increased \$750 or 2.6%. Salaries and fringes increased \$355. Ordinary maintenance expenses increased \$2,922 or 78% due to water purchased from the state reservoir because of drought conditions. At the end of the fiscal year the city’s reservoir had recovered. The net investment in capital assets decreased \$977.
- The sewer fund had an operating loss of \$350 and had a decrease in net position of \$4,299. This follows the previous year’s operating income of \$1,846 with a \$529 decrease in net position. Sewer rates increased \$0.30 per 100 cubic feet or 4.5% over the prior year resulting in an increase in usage fees of \$1,333. Salaries and fringes increased \$49 or 0.7%. Ordinary maintenance increased \$2,684 primarily because of the increase in the Upper Blackstone water treatment plant’s assessment which increased \$1,572. The net investment in capital assets decreased \$5,361.
- The golf course fund (nonmajor) had an operating loss of \$282 and net position decreased by \$19. This follows the previous year’s operating loss of \$123 and an increase in net position of \$5. Revenues decreased \$100 from the previous year while salaries and fringe increased \$28. The net investment in capital assets increased \$313. The General Fund subsidized the golf enterprise with transfers of \$338 in fiscal 2017, following \$204 in the prior year.

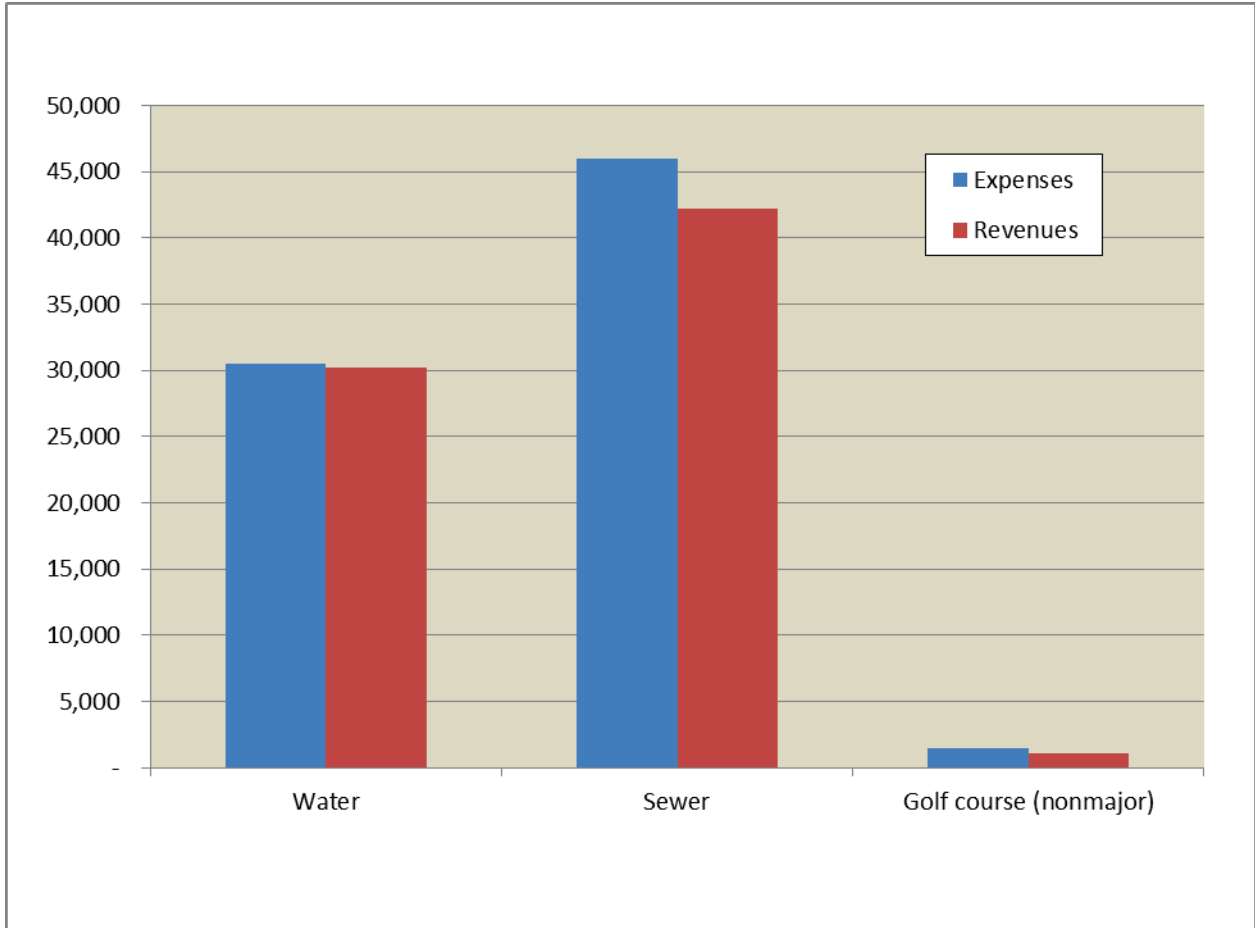
CITY OF WORCESTER, MASSACHUSETTS

Management’s Discussion and Analysis

June 30, 2017

(In thousands of dollars)

FY 2017 Expenses and Program Revenues – Business-type Activities



Financial Analysis of the City’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City’s governmental funds is to provide information on the near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, fund balances may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At the end of fiscal 2017, the City’s governmental funds reported combined ending fund balances of \$60,738 a decrease of \$18,803 or 23.6% from fiscal 2016. Fund balance includes \$15,686 of non-spendable amounts contained in nonexpendable permanent funds and \$40,383 of unassigned general fund balance available for spending at the City’s discretion. Deficits of \$32,647 in the rehabilitation of public buildings fund, \$28,301 in

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

the CitySquare fund and \$22,805 in non-major funds will be funded in future fiscal years through bond proceeds, state and federal grants and other available funds. The remaining fund balance has \$50,633 restricted for specific purposes or by federal or state grants, \$18,025 of funds committed for debt service and \$19,764 of funds committed in reserve for appropriation accounts by state law or City preference.

The general fund is the chief operating fund of the City. At the end of fiscal 2017, unassigned fund balance of the general fund was \$40,383 or 6.5% of total general fund revenues and a restricted fund balance of \$11,753. During fiscal 2017, the City's general fund balance increased by \$8,588 or 19.7%. Total revenues exceeded expenditures by \$15,108, while transfers out exceeded transfers in by \$8,259. The general fund also received a premium on the issuance of bonds of \$1,739.

CitySquare had a fund balance deficit of \$28,301 at the end of fiscal 2017, a \$2,868 increase to the previous year's fund balance deficit. Total expenditures in fiscal 2017 were \$2,868 including the continued construction of a new public parking garage which was put into service in early fiscal 2017. The deficit has been temporarily financed with temporary loans that totaled \$28,268. The CitySquare project is a multi-year public-private project to redevelop a closed shopping mall with parking garage and environs in downtown Worcester.

The debt service fund had a fund balance of \$18,025 at the end of fiscal 2017, a \$1,876 or 9.4% decrease from the previous year. During the year \$2,326 in local meals and hotel tax revenue was received attributable to the DCU special district which increased \$106 or 4.8% over the previous year. There were \$10,774 net transfers in from the general fund. Debt service expenditures were \$14,976. Debt paid included capital campaign fund \$8,889 which includes debt for construction on the vocational high school, library, and other school improvements; the CitySquare project \$2,276, which is self-funded debt from district improvement financing revenue; north high school debt paid \$1,335; DCU special district debt \$2,277 currently self-funded debt from special district financing revenue; and other debt \$199 paid from designated debt service funds.

Rehabilitation of public buildings had a fund balance deficit of \$32,647 at the end of fiscal 2017, a \$15,146 increase in the deficit from the previous year. Issuances of bonds and refunding bonds and related premiums totaled \$21,918. Expenditures and payments of refunded debt totaled \$36,514. Transfers to other funds totaled \$550. The deficit has been temporarily financed with temporary loans that totaled \$32,844. The largest project was for energy improvements \$32,650 with the help of an energy service company (ESCO). This was a four phase multi-year project making city buildings and schools energy efficient. The fourth phase of ESCO project was near completion at the end of fiscal 2017 and included upgrades to street lights and the installation of a large solar array atop a capped landfill.

Other governmental funds had a fund balance of \$51,525 at the end of fiscal 2017, a \$7,500 or 12.7% decrease from the previous year. Special revenue funds increased by \$1,108 as expenditures of \$99,547 and net transfers out of \$1,200 exceeded revenues of \$100,757 and premiums on issuance of bonds of \$1,098. The nonmajor capital projects funds decreased \$10,621 as expenditures of \$68,146 and payments to refunded bonds escrow agent of \$5,684 exceeded revenues of \$35,102, bond proceeds and related premiums of \$27,789 and net transfers in from other funds of \$319. Permanent funds increased \$2,012 as donations of \$160 and net investment income of \$2,131 exceeded expenditures of \$217 and net transfers out to other funds of \$62.

Enterprise funds – The City's enterprise funds provide the same type of information found in the government-wide financial statements (business-type activities), but in more detail.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

Net position of the enterprise funds at the end of fiscal 2017 totaled \$72,593. There was a \$5,342 decrease in net position from current year operations. The water fund had a decrease of \$1,024 while the sewer fund had a decrease of \$4,299 and the golf course fund (nonmajor) had a decrease of \$19. Unrestricted net position consisted of (\$14,006) in the water fund, \$2,606 in the sewer fund and (\$903) in the golf course fund (nonmajor). Net investment in capital assets consisted of \$55,585 in the water fund, \$29,065 in the sewer fund and \$246 in the golf fund. Other factors concerning the finances of these three funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's final general fund revenue budget was \$1,170 higher than the original amount. The estimate for property taxes was decreased by \$493 due to a cut in the budget. Motor vehicle excise tax estimates increased \$650, licenses and permit revenue estimates increased \$638, and school-based Medicaid reimbursement estimates were increased \$600. The state local aid was decreased by \$225.

The final budget for premiums from debt issued as shown in other financial sources increased \$650 over the original budget estimate.

The final budget for transfers-in increased by \$688 over original budget estimates. There were transfers from various special revenue fund accounts; \$421 from premium on loans to cover debt issuance costs; \$59 from real estate sales to cover environmental remediation; \$116 from FEMA to cover snow; and \$34 for vehicle insurance settlements. There was also a \$58 transfer from a budgetary basis non-irrevocable trust to fund health costs of airport retirees.

The final general fund expenditure budget was \$1,273 higher than the original. Court judgements decreased \$790 due to less funds needed to settle outstanding cases. Treasury's budget increased \$379 mainly for the debt issuance costs that was funded with premiums received. Energy asset management's ordinary maintenance budget increased \$235 for HVAC work needed. HHS budget for ordinary maintenance increased \$309 mainly for an increase to the budget for veteran's benefits. The police department's payroll budget increased \$593 to fund payroll overtime while the fire department's payroll budget decreased \$632 and the communication's department payroll budget decreased \$570. Offsetting this were increases to the public safety departments' ordinary maintenance budgets by \$518 for repairs to buildings and vehicles, consulting and other operational costs. The original budget for debt service was decreased \$955 and transferred to other departments. The original budget line for contingencies was \$500 and all but \$6 was transferred to other departments. Snow and ice removal required an additional \$2,594.

The final budget for transfers-out increased from the original budget by \$2,748. Subsequent transfers included \$2,385 in additional transfers to the OPEB account; \$115 to the special revenue fund for a summer youth program; \$60 to the airport debt service account and \$188 to provide additional subsidies to the golf enterprise.

The general fund balance had a budgetary basis increase of \$6,933 during the year and was better than the budgeted deficit of \$563 by \$7,496. By comparison, the net changes in the previous three fiscal years was \$7,435, (\$2,060), and \$367. The budgeted deficit of \$563 included free cash appropriations from unassigned general fund totaling \$5,489 offset by transfers to the bond rating stabilization fund of \$4,926. The year-end unassigned fund balance on a budgetary basis totaled \$40,881. Revenues did better than estimates in the final budget by \$6,037. Other revenue accounts with collections that exceeded estimates included motor vehicle

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

excise \$1,096, local option for meals and hotel tax \$678, fees from inspectional services including building permits \$265, inter-governmental revenues from school based Medicaid reimbursements of \$2,211 and miscellaneous revenue \$2,293. The bottom line was also assisted from revenues from premium on loans which were \$386 over the final budget.

Capital Assets and Debt Administration

Capital assets – The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounted to \$1,072,050. This includes land, buildings, improvements other than buildings, equipment and other, rolling equipment, infrastructure and construction in progress, net of depreciation. The net increase in the City's investment in capital assets for the current year was \$59,480 or 5.9%. Governmental activities increased by \$60,477 or 7.8% and business-type activities decreased by \$997 or 0.4%.

Major capital asset events during the current fiscal year included the following:

- Streets and sidewalks were improved with capitalized costs added to infrastructure totaling \$19,551 including resurfacing projects \$9,731; private street conversions \$1,083; and other street and sidewalk projects \$8,737.
- The CitySquare project had additions to capital assets as the project neared completion. Additions to capital assets totaled \$2,868 and included work to complete the new underground parking garage that went into service in August 2016.
- Capitalized costs for parks projects totaled \$6,393 during the year including improvements to park buildings, land, and open space acquisitions. Expenditures were paid from sources in capital project funds and special revenue funds.
- Capitalized costs for rehabilitation of public buildings totaled \$32,591 with the majority of it energy improvements for new LED streetlights and solar arrays on top of a capped landfill. The total costs incurred in fiscal 2017 for energy improvements were \$29,951. Other building costs incurred during the year included completion of the new regional emergency communications center with fiscal 2017 costs of \$888; off street parking \$1,089; and improvements to other city owned buildings \$663.
- Total capitalized costs for school construction were \$38,886 including construction in progress for the new elementary school at Nelson Place totaling \$28,085. Other school construction capitalized during the year totaled \$10,801 and included window and door replacement, energy improvements, new high school study, and other building improvements. Much of the projects were funded through the state's MSBA program for new school construction and the accelerated repair program. Revenues received during the year totaled \$24,483.
- Capitalized costs for improvements to the DCU Center totaled \$1,939 which included a light replacement project.
- Rolling equipment capitalized included two fire engines totaling \$1,058; DPW trucks \$2,054.
- Resources were allocated during the year to business-type building, infrastructure and other capital asset additions costing \$15,436. Of this amount, \$9,459 was for sewer projects; \$5,573 was for water projects; and \$404 for construction in progress costs on a new driving range and course redesign.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

The following table summarizes the City's capital assets (net of accumulated depreciation):

	Capital assets					
	(net of accumulated depreciation)					
	Governmental		Business-type		Total	
	activities		activities			
	2017	2016	2017	2016	2017	2016
Land	\$ 22,631	22,623	7,000	6,488	29,631	29,111
Buildings	420,560	384,979	23,651	25,145	444,211	410,124
Improvements, other than buildings	131,398	132,634	-	-	131,398	132,634
Equipment and other	12,566	13,864	637	611	13,203	14,475
Rolling equipment	7,013	6,252	3,619	3,407	10,632	9,659
Infrastructure	148,982	141,108	201,395	202,052	350,377	343,160
Construction in progress	92,194	73,407	404	-	92,598	73,407
Total	<u>\$ 835,344</u>	<u>774,867</u>	<u>236,706</u>	<u>237,703</u>	<u>1,072,050</u>	<u>1,012,570</u>

Additional information on the City's capital assets can be found in note 10 of this report.

Long-term debt – At the end of the current fiscal year the City of Worcester had total long-term debt outstanding of \$628,169, a decrease of \$2,044 or 0.3% from the prior fiscal year.

	Long-term debt					
	Governmental		Business-type		Total	
	activities		activities			
		2017	2016	2017	2016	2017
General obligation bonds	\$ 467,273	474,846	144,442	139,835	611,715	614,681
Notes payable	1,947	2,085	5,309	2,882	7,256	4,967
Capital lease payable	9,198	10,565	-	-	9,198	10,565
Total	<u>\$ 478,418</u>	<u>487,496</u>	<u>149,751</u>	<u>142,717</u>	<u>628,169</u>	<u>630,213</u>

On December 15, 2016 the City issued \$70,865 of general obligation bonds of which \$55,775 was bonds issued for current projects and \$15,090 was refunding debt. The proceeds consisted of \$47,569 for governmental activities of which \$8,892 was refunding bonds issued and \$23,296 for business-type activities of which \$6,198 was refunding bonds issued. Additionally, \$2,671 of short term notes from the Massachusetts Clean Water Trust was converted to long term for business-type activities.

In relation to the above debt the City received an upgrade in its credit rating from Fitch to AA and maintained a credit rating of Aa3 from Moody's Investors Service and AA- by Standard and Poor's. All three credit ratings affirmed stable outlooks for the City.

Massachusetts General Law subjects the City to a dual-level general debt limit: the normal debt limit and double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

limit without state approval. Authorizations under the double debt limit, however, require the approval of a board comprised of the state Auditor, state Treasurer, Attorney General and Director of Accounts. Additionally, certain categories of general obligation debt are exempt from the debt limit but subject to other limitations.

Additional information on the City's long-term debt can be found in notes 12 and 13 of this report.

Economic Factors and Next Year's Budget and Rates

The City has a diverse economy that has significant employment in the education and health care sectors, which tend to stand up well during economic downturns. According to the U.S. Department of Labor, the City's unemployment rate was 5.4% at June 30, 2017, compared with a 5.0% rate that existed a year earlier. This compares with June 30, 2017 unemployment rates of 4.3% in Massachusetts and 4.4% nationally.

Taxable assessed property values including personal property increased from \$11,236,881 in fiscal 2016 to \$12,265,463, or 9.2%, in fiscal 2017 following the most recent triennial revaluation. Residential real estate totaled \$8,868,132 and increased 10.9%; commercial and industrial real estate totaled \$2,622,986 and increased 5.6%; and personal property totaled \$774,345 and increased 2.7%.

The fiscal original 2018 general fund budget anticipates total revenues of \$630,880, premium on loans of \$0 and transfers from other funds of \$2,533 compared with actual results of \$616,854, \$1,739 and \$3,997 respectively in fiscal 2017. It is anticipated that property tax revenue will increase by \$11,403 or 4.1% over the prior year by taxing new growth and increasing the tax levy allowed under the state's tax limiting law "Proposition 2½". The City also has available an unused tax levy capacity of \$11,089, which was not used in prior years when the City did not tax up to the annual allowable increase. Additionally, state local aid is anticipated to increase by \$5,788 primarily because of an increase in educational aid of \$9,805 due to an increase in the foundation budget and a net increase in other local aid of \$1,896, offset by a decrease in revenue from the state for reimbursement of prior year school building projects which decreased \$5,913. Other revenue categories were budgeted at levels slightly under fiscal 2017 actuals by \$3,165; motor vehicle excise tax is budgeted under fiscal 2017 actual by \$596; other taxes are under by \$429; school based Medicaid reimbursements are under by \$1,261; and miscellaneous revenue is under by \$301.

Fiscal 2018 general fund expenditures were originally budgeted at \$617,765 with transfers out of \$15,647 compared with actual results of \$600,574 and \$15,082 in the prior year. Fiscal 2018 expenditure budgets increased over the prior year actuals by \$17,191 or 2.9% including \$8,900 or 3.4% for education, \$5,743 or 5.3% for fringe benefits, \$795 for judgements and claims, and \$688 for debt service. Additionally, the contingency account was budgeted \$1,250 at the start of the year for employee wage increases.

The original budget plan was for revenues, loan premiums and transfers in to equal expenditures and transfers out. Since then, appropriations are expected to be made from the \$9,208 of certified "Free Cash". In accordance with the City's financial plan 50% of Free Cash or \$4,604 will go to a "Bond Rating Stabilization" account, which is accounted for in the general fund and thus will preserve unassigned fund balance, \$2,762 to an OPEB reserve account, which is not irrevocable and is accounted for as restricted in the general fund, and \$1,842 for the operating budget.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(In thousands of dollars)

The City's business-type enterprises are budgeted on a cash basis in accordance with state law. The sewer and water funds are each budgeted to have revenue equal expenditures and transfers out and the golf course is budgeted to need a \$150 transfer from the general fund in order to balance its budget. The sewer fund is budgeted to receive total revenues of \$43,820, \$2,482 more than the prior year actual and water revenue is budgeted at \$26,282, \$4,232 less than the prior year actual. Sewer rates were increased by 2.3% from the prior year and water rates increased 1.9%. The golf course anticipates revenues of \$1,296, which is \$190 more than the prior year actual.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the City Auditor, 455 Main Street, Room 102, Worcester, Massachusetts 01608.

BASIC FINANCIAL STATEMENTS

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Position

June 30, 2017

	Component units				
	Primary government			Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
	Governmental activities	Business-type activities	Total		
Assets:					
Cash and cash equivalents	\$ 154,422,579	11,046,818	165,469,397	16,591	4,921,235
Restricted cash and cash equivalents	58,940,813	12,241,267	71,182,080	8,410	-
Restricted investments	31,159,214	-	31,159,214	-	7,988,836
Receivables (net of allowance for uncollectibles)	21,329,480	15,926,308	37,255,788	195,363	824,009
Intergovernmental receivables	30,929,694	31,381	30,961,075	-	1,831,192
Capital assets, not being depreciated	114,825,088	7,402,963	122,228,051	2,155,396	3,147,113
Capital assets, net of accumulated depreciation	720,519,292	229,303,374	949,822,666	24,544,570	157,303,720
Total assets	1,132,126,160	275,952,111	1,408,078,271	26,920,330	176,016,105
Deferred outflows of resources:					
Related to pensions	77,972,681	5,022,812	82,995,493	-	2,760,256
Deferred charge on refunding	-	-	-	-	506,322
Total deferred outflows of resources	77,972,681	5,022,812	82,995,493	-	3,266,578
Liabilities:					
Current liabilities:					
Accounts payable	59,335,691	3,130,638	62,466,329	359,313	2,538,395
Accrued liabilities	14,743,966	1,717,336	16,461,302	2,625,797	2,239,791
Retainage payable	5,565,555	504,915	6,070,470	-	-
Other liabilities	10,725,556	-	10,725,556	31,032	-
Temporary notes payable	89,569,666	14,117,967	103,687,633	-	-
Noncurrent liabilities due within one year	64,941,083	12,545,730	77,486,813	9,517,579	7,449,805
Total current liabilities	244,881,517	32,016,586	276,898,103	12,533,721	12,227,991
Noncurrent liabilities:					
Net pension liability	440,298,402	26,732,435	467,030,837	-	8,986,634
OPEB payable	304,670,753	9,049,514	313,720,267	-	2,807,540
Other noncurrent liabilities due in more than one year	463,737,115	139,665,086	603,402,201	637,261	142,808,949
Total noncurrent liabilities	1,208,706,270	175,447,035	1,384,153,305	637,261	154,603,123
Total liabilities	1,453,587,787	207,463,621	1,661,051,408	13,170,982	166,831,114
Deferred inflows of resources:					
Related to pensions	5,308,223	918,736	6,226,959	-	28,638
Net position:					
Net investment in capital assets	433,724,983	84,895,599	518,620,582	22,745,249	12,833,490
Restricted for:					
Nonexpendable permanent funds:					
Libraries	6,797,713	-	6,797,713	-	-
Hope Cemetery	4,314,028	-	4,314,028	-	-
Health and human services	2,794,712	-	2,794,712	-	-
Other nonexpendable permanent funds	1,779,930	-	1,779,930	-	-
Expendable permanent funds:					
Libraries	3,008,030	-	3,008,030	-	-
Hope Cemetery	272,822	-	272,822	-	-
Health and human services	357,427	-	357,427	-	-
Other nonexpendable permanent funds	589,765	-	589,765	-	-
OPEB trust fund	11,753,588	-	11,753,588	-	-
State and federal grants	9,116,599	-	9,116,599	-	-
PEG access grant	3,390,330	-	3,390,330	-	-
Culture & recreation grants	1,299,738	-	1,299,738	-	-
General government grants	2,781,394	-	2,781,394	-	-
Health and human services grants	670,971	-	670,971	-	-
Library grants	958,586	-	958,586	-	-
Public safety grants	4,851,221	-	4,851,221	-	-
Public works grants	3,236,721	-	3,236,721	-	-
Educational grants	3,592,809	-	3,592,809	-	-
Unrestricted (deficit)	(744,088,536)	(12,303,033)	(756,391,569)	(8,995,901)	(410,559)
Total net position	\$ (248,797,169)	72,592,566	(176,204,603)	13,749,348	12,422,931

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2017

Functions/programs	Expenses	Program revenues		Net (expense)/ revenue	
		Charges for services	Operating grants and contributions		Capital grants and contributions
Primary government:					
Governmental activities:					
General government	\$ 32,431,402	3,101,394	3,931,105	10,000	(25,388,903)
Public safety	164,980,649	18,834,614	5,353,210	-	(140,792,825)
Health and human services	20,106,504	1,412,920	13,163,730	-	(5,529,854)
Education	501,272,777	1,683,274	353,436,026	24,483,111	(121,670,366)
Public works	54,483,003	10,588,114	501,286	9,765,258	(33,628,345)
Culture and recreation	25,478,145	2,196,018	1,948,386	687,760	(20,645,981)
Community development	7,028,296	315,422	6,719,030	-	6,156
Interest on debt	20,073,527	-	2,501,806	-	(17,571,721)
Total governmental activities	<u>825,854,303</u>	<u>38,131,756</u>	<u>387,554,579</u>	<u>34,946,129</u>	<u>(365,221,839)</u>
Business-type activities:					
Water	30,486,916	30,250,056	-	-	(236,860)
Sewer	45,985,649	41,954,384	-	285,743	(3,745,522)
Golf course (nonmajor)	1,442,898	1,105,968	-	-	(336,930)
Total business-type activities	<u>77,915,463</u>	<u>73,310,408</u>	<u>-</u>	<u>285,743</u>	<u>(4,319,312)</u>
Total primary government	<u>\$ 903,769,766</u>	<u>111,442,164</u>	<u>387,554,579</u>	<u>35,231,872</u>	<u>(369,541,151)</u>
Component units:					
Worcester Redevelopment Authority	\$ 2,565,905	508,771	-	490,788	(1,566,346)
Upper Blackstone Water Pollution Abatement District	<u>28,123,066</u>	<u>27,964,363</u>	<u>1,007,142</u>	<u>30,000</u>	<u>878,439</u>
Total component units	<u>\$ 30,688,971</u>	<u>28,473,134</u>	<u>1,007,142</u>	<u>520,788</u>	<u>(687,907)</u>

(Continued)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2017

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
Changes in net position:					
Net (expense) revenue (from previous page)	\$ (365,221,839)	(4,319,312)	(369,541,151)	(1,566,346)	878,439
General revenues:					
Property taxes	275,979,487	-	275,979,487	-	-
Motor vehicle excise taxes	16,281,185	-	16,281,185	-	-
Other taxes and in-lieu payments	7,047,093	-	7,047,093	-	-
Penalties and interest on taxes	2,315,905	-	2,315,905	-	-
Intergovernmental (unrestricted)	40,732,414	-	40,732,414	-	-
Investment earnings	3,228,341	-	3,228,341	224	415,309
Gain (loss) on sale of capital assets	-	-	-	-	-
Miscellaneous	4,196,764	-	4,196,764	-	-
Transfers (net)	1,022,820	(1,022,820)	-	-	-
Total general revenues and transfers (net)	350,804,009	(1,022,820)	349,781,189	224	415,309
Contributions to permanent funds	159,535	-	159,535	-	-
Sub-total	350,963,544	(1,022,820)	349,940,724	224	415,309
Change in net position	(14,258,295)	(5,342,132)	(19,600,427)	(1,566,122)	1,293,748
Net position - beginning	(234,538,874)	77,934,698	(156,604,176)	15,315,470	11,129,183
Net position - ending	\$ (248,797,169)	72,592,566	(176,204,603)	13,749,348	12,422,931

(Concluded)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Balance Sheet
Governmental Funds
June 30, 2017

	<u>General</u>	<u>CitySquare Construction</u>	<u>Debt Service</u>	<u>Rehabilitation of Public Buildings</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Assets:						
Cash and cash equivalents	\$ 87,327,922	-	18,025,195	-	19,763,559	125,116,676
Restricted cash and cash equivalents	-	1,793,664	-	6,950,722	50,196,427	58,940,813
Restricted investments	11,753,588	-	-	-	19,405,626	31,159,214
Due from other funds	221,451	-	-	-	-	221,451
Receivables (net of allowance for uncollectibles)	16,881,152	-	-	-	1,360,099	18,241,251
Intergovernmental receivables	25,072,252	-	-	-	5,857,442	30,929,694
Total assets	\$ 141,256,365	1,793,664	18,025,195	6,950,722	96,583,153	264,609,099
Liabilities:						
Accounts payable	\$ 44,116,819	1,826,961	-	3,778,921	8,982,985	58,705,686
Due to general fund	-	-	-	-	221,451	221,451
Retainage payable	-	-	-	2,975,545	2,590,010	5,565,555
Temporary loans	-	28,268,000	-	32,843,665	28,458,001	89,569,666
Other liabilities	7,280,056	-	-	-	3,445,500	10,725,556
Total liabilities	51,396,875	30,094,961	-	39,598,131	43,697,947	164,787,914
Deferred inflows of resources:						
Unavailable revenue-school construction reimbursement	22,099,667	-	-	-	-	22,099,667
Unavailable revenue-property taxes	6,664,912	-	-	-	-	6,664,912
Unavailable revenue-other	8,958,690	-	-	-	1,360,099	10,318,789
Total deferred inflows of resources	37,723,269	-	-	-	1,360,099	39,083,368
Fund balances:						
Nonspendable	-	-	-	-	15,686,383	15,686,383
Restricted	11,753,588	-	-	-	38,879,662	50,633,250
Committed	-	-	18,025,195	-	19,763,559	37,788,754
Unassigned	40,382,633	(28,301,297)	-	(32,647,409)	(22,804,497)	(43,370,570)
Total fund balances	52,136,221	(28,301,297)	18,025,195	(32,647,409)	51,525,107	60,737,817
Total liabilities, deferred inflows of resources, and fund balances	\$ 141,256,365	1,793,664	18,025,195	6,950,722	96,583,153	264,609,099

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 June 30, 2017

Total governmental fund balances (Exhibit 3)	\$ 60,737,817
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore are not reported in the governmental funds.	835,344,380
Other assets are not available to pay for current period expenditures and, therefore are deferred inflows in the governmental funds.	39,083,368
An internal service fund is used by management to charge the costs of self-insured health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	25,931,187
In the statement of net position, interest is accrued on outstanding long-term debt and temporary notes, whereas in the governmental funds interest is not reported until due.	(8,911,026)
Deferred outflows and inflows of resources of the pension plan are not reported in government funds.	72,664,458
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:	
Bonds and notes payable, net of unamortized premiums	(486,123,001)
Capital lease payable	(9,197,830)
Net pension liability	(440,298,402)
Net OPEB obligation	(304,670,753)
Judgments and claims	(13,888,454)
Compensated absences	(13,468,913)
Landfill closure costs and post closure costs	<u>(6,000,000)</u>
Net position of governmental activities (Exhibit 1)	<u><u>\$ (248,797,169)</u></u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2017

	General	CitySquare Construction	Debt Service	Rehabilitation of Public Buildings	Other governmental funds	Total governmental funds
Revenues:						
Property taxes	\$ 276,746,360	-	-	-	-	276,746,360
Motor vehicle excise taxes	16,027,204	-	-	-	-	16,027,204
Other taxes and in-lieu payments	5,269,973	-	2,325,816	-	-	7,595,789
Penalties and interest on taxes	2,315,905	-	-	-	-	2,315,905
Licenses and permits	6,713,079	-	-	-	-	6,713,079
Intergovernmental	297,396,618	-	-	-	110,027,624	407,424,242
Charges for services	5,866,154	-	-	-	19,879,467	25,745,621
Fines and forfeitures	2,405,567	-	-	-	-	2,405,567
Investment earnings (losses)	1,096,958	-	-	-	2,131,383	3,228,341
Donations	-	-	-	-	4,752,654	4,752,654
Contributions to permanent funds	-	-	-	-	159,535	159,535
Miscellaneous	2,998,094	-	-	-	1,198,670	4,196,764
Total revenues	616,835,912	-	2,325,816	-	138,149,333	757,311,061
Expenditures:						
Current:						
General government	19,373,993	-	-	30,361,282	4,208,645	53,943,920
Public safety	93,296,782	-	-	966,192	15,621,869	109,884,843
Health and human services	3,652,282	-	-	-	14,702,262	18,354,544
Education	260,465,503	-	-	-	91,419,680	351,885,183
Public works	22,755,023	2,868,015	-	1,274,680	22,989,613	49,887,331
Culture and recreation	10,445,296	-	-	91,697	8,826,916	19,363,909
Fringe benefits	109,888,167	-	-	-	-	109,888,167
Community development	-	-	-	-	7,272,789	7,272,789
State and regional charges	31,102,311	-	-	-	-	31,102,311
Debt service:						
Principal	34,494,216	-	9,189,752	-	2,233,382	45,917,350
Interest	16,254,425	-	5,786,144	-	635,740	22,676,309
Total expenditures	601,727,998	2,868,015	14,975,896	32,693,851	167,910,896	820,176,656
Excess (deficiency) of revenues over expenditures	15,107,914	(2,868,015)	(12,650,080)	(32,693,851)	(29,761,563)	(62,865,595)
Other financing sources (uses):						
Transfers in	3,938,825	-	11,273,845	-	7,306,927	22,519,597
Transfers out	(12,197,572)	-	(500,000)	(550,162)	(8,249,043)	(21,496,777)
Premium on issuance of bonds and notes	1,738,615	-	-	1,460,527	1,163,402	4,362,544
Issuance of bonds	-	-	-	16,637,142	22,039,937	38,677,079
Premium on issuance of refunding bonds	-	-	-	241,824	370,346	612,170
Issuance of refunding bonds	-	-	-	3,578,000	5,314,000	8,892,000
Payment to refunded bonds escrow agent	-	-	-	(3,819,824)	(5,684,346)	(9,504,170)
Total other financing sources (uses)	(6,520,132)	-	10,773,845	17,547,507	22,261,223	44,062,443
Net change in fund balances	8,587,782	(2,868,015)	(1,876,235)	(15,146,344)	(7,500,340)	(18,803,152)
Fund balances – beginning	43,548,439	(25,433,282)	19,901,430	(17,501,065)	59,025,447	79,540,969
Fund balances – ending	\$ 52,136,221	(28,301,297)	18,025,195	(32,647,409)	51,525,107	60,737,817

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Net change in fund balances - total governmental funds (Exhibit 5)	\$ (18,803,152)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:</p>	
Capital outlays	106,156,622
Depreciation	(45,678,946)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in deferred inflows of resources.</p>	
	(7,915,190)
<p>The issuance of long-term debt 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, however, has any impact on net position. Also, governmental funds report the effect of certain issuance costs, premiums, discounts and similar items when debt is first issued, whereas certain of these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period:</p>	
Issuance of bonds	(47,569,079)
Bond and note maturities	55,280,348
Net deferrals and amortization of bond premiums	(321,551)
<p>In the statement of activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.</p>	
	(1,371,933)
<p>An internal service fund is used by management to charge the cost of self-insured health insurance to individual funds. The activity of the internal service fund is reported with governmental funds.</p>	
	3,810,634
<p>Pension expense reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
	(26,148,406)
<p>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 governmental funds. These amounts represent the net change:</p>	
Net OPEB obligation	(31,632,931)
Capital lease principal payments	1,366,705
Judgments and claims	248,373
Compensated absences	(278,127)
Landfill closure and post closure care	(1,401,662)
	<u>(1,401,662)</u>
Change in net position of governmental activities (Exhibit 2)	<u>\$ (14,258,295)</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Position

Proprietary Funds

June 30, 2017

	Business-type activities				Governmental
	Major		Nonmajor	Totals	Internal
	Water	Sewer	Golf Course		Service Fund
Assets:					
Current assets:					
Cash and cash equivalents	\$ 6,929,919	4,004,163	112,736	11,046,818	29,305,903
Restricted cash and cash equivalents	3,683,717	8,182,212	375,338	12,241,267	-
Receivables (net)	3,202,056	12,724,252	-	15,926,308	3,088,229
Total current assets	13,815,692	24,910,627	488,074	39,214,393	32,394,132
Noncurrent assets:					
Capital assets:					
Land	6,882,950	116,500	-	6,999,450	-
Construction-in-progress	-	-	403,513	403,513	-
Buildings	43,904,652	5,459,258	965,493	50,329,403	-
Infrastructure	167,311,349	227,043,235	1,709,731	396,064,315	-
Equipment and other	1,064,306	515,745	-	1,580,051	-
Rolling equipment	3,480,940	8,349,888	-	11,830,828	-
Less accumulated depreciation	(111,262,071)	(117,703,000)	(1,536,152)	(230,501,223)	-
Capital assets, net	111,382,126	123,781,626	1,542,585	236,706,337	-
Due from intergovernmental	-	31,381	-	31,381	-
Total noncurrent assets	111,382,126	123,813,007	1,542,585	236,737,718	-
Total assets	125,197,818	148,723,634	2,030,659	275,952,111	32,394,132
Deferred outflows of resources:					
Related to pensions	3,483,358	1,451,068	88,386	5,022,812	-
Liabilities:					
Current liabilities:					
Accounts payable	949,207	1,807,074	374,357	3,130,638	630,005
Accrued liabilities	669,441	1,035,033	12,862	1,717,336	5,832,940
Retainage payable	180,232	324,683	-	504,915	-
Judgments and claims	163,305	44,544	-	207,849	-
Compensated absences	404,042	177,030	10,141	591,213	-
Temporary loans	3,920,000	9,757,967	440,000	14,117,967	-
Other	41,454	63,889	464	105,807	-
Bonds and notes payable	5,703,797	5,764,573	172,491	11,640,861	-
Total current liabilities	12,031,478	18,974,793	1,010,315	32,016,586	6,462,945
Noncurrent liabilities:					
Judgments and claims	550,790	179,806	-	730,596	-
Compensated absences	98,824	39,976	11,618	150,418	-
Net pension liability	18,078,664	8,193,930	459,841	26,732,435	-
OPEB payable	5,818,377	3,008,741	222,396	9,049,514	-
Other	252,341	419,677	2,089	674,107	-
Bonds and notes payable	49,749,724	87,300,298	1,059,943	138,109,965	-
Total noncurrent liabilities	74,548,720	99,142,428	1,755,887	175,447,035	-
Total liabilities	86,580,198	118,117,221	2,766,202	207,463,621	6,462,945
Deferred inflows of resources:					
Related to pensions	522,205	386,086	10,445	918,736	-
Net position (deficit):					
Net investment in capital assets	55,584,887	29,065,224	245,488	84,895,599	-
Unrestricted	(14,006,114)	2,606,171	(903,090)	(12,303,033)	25,931,187
Total net position (deficit)	\$ 41,578,773	31,671,395	(657,602)	72,592,566	25,931,187

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

For the Fiscal Year Ended June 30, 2017

	Business-type activities			Totals	Governmental
	Major		Nonmajor		Internal
	Water	Sewer	Golf Course		Service Fund
Operating revenues:					
Charges for services	\$ 28,680,384	41,014,333	-	69,694,717	-
Employer contributions	-	-	-	-	68,113,341
Employee contributions	-	-	-	-	23,321,110
Fees	-	-	1,095,704	1,095,704	-
Miscellaneous	1,569,672	940,051	10,264	2,519,987	-
Total operating revenues	30,250,056	41,954,384	1,105,968	73,310,408	91,434,451
Operating expenses:					
Salaries and benefits	11,815,160	6,626,715	417,586	18,859,461	-
Benefit payments	-	-	-	-	87,826,743
Ordinary maintenance	6,671,481	23,089,757	821,817	30,583,055	-
Indirect costs	2,287,654	3,607,345	30,743	5,925,742	-
Depreciation	7,333,759	8,980,297	118,259	16,432,315	-
Total operating expenses	28,108,054	42,304,114	1,388,405	71,800,573	87,826,743
Operating income (loss)	2,142,002	(349,730)	(282,437)	1,509,835	3,607,708
Nonoperating revenues					
(expenses):					
Investment income	-	-	-	-	202,926
Interest expense	(2,378,862)	(3,681,535)	(54,493)	(6,114,890)	-
Total nonoperating revenues (expenses)	(2,378,862)	(3,681,535)	(54,493)	(6,114,890)	202,926
Income (loss) before capital grants and transfers	(236,860)	(4,031,265)	(336,930)	(4,605,055)	3,810,634
Capital grants and donations	-	285,743	-	285,743	-
Transfers in	-	-	338,202	338,202	-
Transfers out	(787,283)	(553,778)	(19,961)	(1,361,022)	-
Change in net position	(1,024,143)	(4,299,300)	(18,689)	(5,342,132)	3,810,634
Total net position – beginning	42,602,916	35,970,695	(638,913)	77,934,698	22,120,553
Total net position – ending	\$ 41,578,773	31,671,395	(657,602)	72,592,566	25,931,187

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	<u>Business-type activities</u>				<u>Governmental activities</u>
	<u>Major</u>		<u>Nonmajor</u>	<u>Totals</u>	<u>Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Golf Course</u>		
Cash flows from operating activities:					
Receipts from customers	\$ 30,513,832	41,338,271	1,105,968	72,958,071	91,434,451
Payments for interfund service provided	-	-	-	-	(91,749,816)
Payments to suppliers	(9,705,376)	(26,650,766)	(561,690)	(36,917,832)	-
Payments to employees	(10,333,195)	(5,946,720)	(356,257)	(16,636,172)	-
Net cash provided (used) by operating activities	<u>10,475,261</u>	<u>8,740,785</u>	<u>188,021</u>	<u>19,404,067</u>	<u>(315,365)</u>
Cash flows from noncapital financing activities:					
Transfers in	-	-	338,202	338,202	-
Transfers (out)	(787,283)	(553,778)	(19,961)	(1,361,022)	-
Net cash provided (used) by noncapital financing activities	<u>(787,283)</u>	<u>(553,778)</u>	<u>318,241</u>	<u>(1,022,820)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Intergovernmental subsidies and grants	-	200,000	-	200,000	-
Issuance of capital debt	13,625,380	26,743,366	492,785	40,861,531	-
Acquisition and construction of capital assets	(5,583,198)	(9,973,861)	(403,513)	(15,960,572)	-
Principal paid on capital debt	(16,663,796)	(19,545,498)	(219,523)	(36,428,817)	-
Interest paid on capital debt	(2,308,115)	(3,436,662)	(52,562)	(5,797,339)	-
Net cash provided (used) by capital and related financing activities	<u>(10,929,729)</u>	<u>(6,012,655)</u>	<u>(182,813)</u>	<u>(17,125,197)</u>	<u>-</u>
Cash flows from investing activities:					
Investment income	-	-	-	-	202,926
Net increase (decrease) in cash and cash equivalents	(1,241,751)	2,174,352	323,449	1,256,050	(112,439)
Cash and cash equivalents at beginning of year (includes \$6,149,547, \$5,699,749 and \$77,230 reported as restricted in the Water, Sewer and Golf Course [nonmajor] funds)	<u>11,855,387</u>	<u>10,012,023</u>	<u>164,625</u>	<u>22,032,035</u>	<u>29,418,342</u>
Cash and cash equivalents at end of year (includes \$3,683,717, \$8,182,212 and \$375,338 reported as restricted in the Water, Sewer and Golf Course [nonmajor] funds)	<u>\$ 10,613,636</u>	<u>12,186,375</u>	<u>488,074</u>	<u>23,288,085</u>	<u>29,305,903</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 2,142,002	(349,730)	(282,437)	1,509,835	3,607,708
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Changes in assets and liabilities not requiring current expenditure of cash:					
Depreciation expense	7,333,759	8,980,297	118,259	16,432,315	-
Net deferred outflows	(38,771)	230,607	(705)	191,131	-
Net OPEB obligation	504,932	284,203	30,253	819,388	-
Net deferred inflows	(36,808)	278,424	(227)	241,389	-
Effect of changes in assets and liabilities requiring current expenditure of cash:					
Accounts receivable	263,776	(616,113)	-	(352,337)	(516,653)
Accounts payable	(615,916)	(73,788)	286,962	(402,742)	(1,567,028)
Accrued liabilities	-	-	-	-	(1,839,392)
Judgments and claims payable	(217,045)	81,673	-	(135,372)	-
Compensated absences payable	11,842	6,979	7,561	26,382	-
Net pension liability	1,127,490	(81,767)	28,355	1,074,078	-
Total adjustments	<u>8,333,259</u>	<u>9,090,515</u>	<u>470,458</u>	<u>17,894,232</u>	<u>(3,923,073)</u>
Net cash provided (used) by operating activities	<u>\$ 10,475,261</u>	<u>8,740,785</u>	<u>188,021</u>	<u>19,404,067</u>	<u>(315,365)</u>
Noncash investing, capital and financing activities:					
Non-cash contribution-loan forgiven by state	\$ -	85,743	-	85,743	-
Increase to notes payable for proceeds due from MA Clean Water Trust	-	(31,381)	-	(31,381)	-

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Fiduciary Net Position

June 30, 2017

	Pension Trust Fund (As of December 31, 2016)	Agency Fund
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 4,599,611	439,862
Investments, at fair value:		
Equities	11,236,496	-
Fixed income	103,086,027	-
Pooled equities	321,449,471	-
Pooled fixed income	72,242,242	-
External Investment Pool	54,496,590	-
Real estate	133,514,184	-
Alternative investments	138,391,814	-
Total investments	<u>834,416,824</u>	<u>-</u>
Receivables:		
Accrued interest and dividends	599,072	-
Due from Commonwealth of Massachusetts and other systems	712,033	-
Receivable for securities sold	594,582	-
Other receivables	160,590	-
Total receivables	<u>2,066,277</u>	<u>-</u>
Securities lending collateral	5,692,143	-
Total assets	<u>846,774,855</u>	<u>439,862</u>
Liabilities:		
Accounts payable and accrued expenses	309,549	28,163
Due to student groups	-	411,699
Due to Commonwealth of Massachusetts and other systems	3,027,024	-
Payable for securities purchased	401,428	-
Collateral held on securities lending transactions	5,692,143	-
Total liabilities	<u>9,430,144</u>	<u>439,862</u>
Net position:		
Net position restricted for pensions	\$ <u>837,344,711</u>	<u>-</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2017

	Pension Trust Fund (Year ended December 31, 2016)
	<u> </u>
Additions:	
Contributions from:	
Employers	\$ 44,411,990
Plan members	17,797,519
	<u> </u>
Total contributions	62,209,509
	<u> </u>
Investment earnings:	
Interest and dividends	14,730,252
Securities lending income	37,825
Net realized and unrealized gains	49,304,368
Less: management fees	(5,307,309)
Less: borrower rebates and fees under securities lending program	(27,242)
	<u> </u>
Net investment income	58,737,894
	<u> </u>
Other	1,854,736
	<u> </u>
Total additions	<u>122,802,139</u>
	<u> </u>
Deductions:	
Benefit payments to plan members and beneficiaries	77,848,021
Reimbursements to other systems	3,027,024
Refunds and transfers of plan member accounts to other systems	1,846,784
Administrative expenses	565,669
	<u> </u>
Total deductions	<u>83,287,498</u>
	<u> </u>
Net increase (decrease) in net position	39,514,641
Net position restricted for pensions – beginning	<u>797,830,070</u>
Net position restricted for pensions – ending	<u>\$ 837,344,711</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

Table of Contents

	Page
Note 1 Summary of Significant Accounting Policies	42
Note 2 Property Taxes	53
Note 3 Stewardship, Compliance and Accountability	53
Note 4 Deposits, Investments and Securities Lending	54
Note 5 City of Worcester Contributory Retirement System	65
Note 6 Massachusetts Teachers' Retirement System	73
Note 7 Pension Plan (The District)	76
Note 8 Other Postemployment Benefits	80
Note 9 Accounts Receivable	86
Note 10 Capital Assets	88
Note 11 Net Investment in Capital Assets	92
Note 12 Lease Obligations	93
Note 13 Long-Term Obligations	96
Note 14 Temporary Borrowings	108
Note 15 Interfund Receivables, Payables and Transfers	108
Note 16 Environmental Remediation – The District	110
Note 17 Risk Management	110
Note 18 Fund Balances	112
Note 19 Prior Period Reclassifications	113
Note 20 Fund Deficits	113
Note 21 Tax Abatements	113

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the City of Worcester (the City) are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

(a) *Financial Reporting Entity*

The City's basic financial statements present the City (the primary government) and its component units. The component units, discussed below, are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Primary Government

The City operates under the Council-Manager form of government. Legislative authority is vested in an eleven-member City Council (the Council), of which six members are elected at-large and five are elected from districts, all of which are elected biennially. The School Committee, whose members are elected biennially, has exclusive jurisdiction over the City's public school system and appoints a superintendent to administer the system's day-to-day affairs.

The City provides a variety of public services. All funds of the City are included in the basic financial statements. The financial condition and results of operations of the City's funds are presented as of and for the fiscal year ended June 30, 2017, except for the City of Worcester Contributory Retirement System (WRS), which is presented as of and for the fiscal year ended December 31, 2016.

Fiduciary Fund Component Unit

WRS provides services almost entirely to the City. While legally separate, WRS is presented as if it were part of the primary government.

WRS is a cost-sharing, multiple-employer defined benefit pension plan established by the City on June 12, 1944 under Chapter 32 of the Massachusetts General Laws (MGL) and is regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). WRS covers certain eligible employees of the City and the Worcester Housing Authority.

WRS is administered by a five-member Retirement Board comprised of the City Auditor, who serves as *ex-officio*; two members elected by participants in or retired from service under WRS; a fourth member appointed by the City Manager; and a fifth member appointed by the other members. WRS is accounted for as a pension trust fund. Complete audited financial statements for WRS are publicly available and can be obtained from the Retirement Office, 455 Main Street, Room 103, Worcester, Massachusetts 01608.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Discretely Presented Component Units

These component units are reported in separate columns to emphasize that they are legally separate from the City but are included in the City's reporting entity because the City is financially accountable for them. The City is financially accountable for, and is able to impose its will on these organizations. The City appoints a voting majority of each organization's governing body and there is a potential for each organization either to provide specific financial benefits or to impose specific financial burdens on the City. The notes to the basic financial statements pertain to the primary government, unless otherwise indicated. A description of the discretely presented component units and their relationship with the City follows:

- The **Upper Blackstone Water Pollution Abatement District** (the District) is a special-purpose municipal corporation whose primary responsibility is to provide sewage treatment services to participating municipalities. The District was established under Chapter 752 of the Acts of 1968 of the Commonwealth. The District's area of potential service includes the City of Worcester, the Towns of Auburn, Boylston, Holden, Leicester, Millbury, Oxford, Paxton, Rutland, Shrewsbury, and West Boylston and all the sewer districts representing a portion of any of the above towns. The City of Worcester and the Towns of Auburn, Holden, Millbury, Rutland, West Boylston, and the Cherry Valley Sewer District of Leicester are the members of the District. The District is governed by a board of directors comprised of residents of the member governments. Each member government appoints one board member, with the City appointing a sufficient number of board members to have a majority vote. Complete financial statements for the District can be obtained from the District's administrative offices at Route 20, Millbury, Massachusetts 01527.
- The **Worcester Redevelopment Authority** (WRA) was organized under state law as a body corporate and politic having the authority to oversee and direct the City's redevelopment activities. WRA exercises its redevelopment powers through a five-member board, of which four members are appointed without restriction by the City Manager. Complete financial statements can be obtained from the Office of Budget and Operational Analysis, Chief Financial Officer, Worcester Redevelopment Authority, 455 Main Street, Worcester, Massachusetts 01608.

Joint Venture

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public or others. The City is a participant in a joint venture to operate the Worcester Regional Transit Authority (WRTA), a component unit of the Commonwealth. Created in 1974 as a body corporate and politic and political subdivision of the Commonwealth, WRTA provides rapid transit and other mass transportation services to the City and 36 other municipalities within its jurisdiction. Each participating municipality is represented by one member on WRTA's governing board. The City's representative is appointed by the City Manager. While the level of service provided to each member affects the weight of each member's vote, the City's vote does not constitute a voting majority. The City is indirectly liable for debt and other expenses incurred by WRTA. The City's paid assessment from WRTA for fiscal 2017 amounted to \$3,234,

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

which represented approximately 69.5% of the total of such assessments on all participating cities and towns. Complete financial statements for WRTA can be obtained from WRTA's administrative offices at 60 Foster Street, Worcester, Massachusetts 01608.

Related Organization

The City Manager is responsible for appointing four out of five board members to the Worcester Housing Authority subject to confirmation by the City Council. However, the City's accountability for this organization does not extend beyond making these appointments.

(b) Implementation of New Accounting Principles

For the year ending June 30, 2017, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The implementation of GASB Statements No. 74, 78 and 80 had no reporting impact for the City.

The implementation of GASB Statement No. 82 addresses issues regarding the presentation of payroll-related measures in required supplementary information.

(c) Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its discretely presented component units. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely for the most part on fees and charges for support. Likewise, the primary government is reported separately from legally separate component units for which the primary government is financially accountable.

The statement of activities presents both the gross and net cost per functional category. Direct expenses are those that are clearly identifiable with a specific function and program revenues must be directly associated with that function. Program revenues include charges to customers or applicants who purchase goods, services, or privileges as well as grants and contributions that are restricted to meeting operational or capital requirements of the function. Other revenue sources, such as taxes and investment earnings not properly included among program revenues, are reported as general revenues.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. However, fiduciary funds are not included in government-wide statements since these assets are held for the benefit of private parties and pension participants and cannot be used to satisfy obligations of the primary government. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements and the proprietary, fiduciary, and component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Except for the agency fund (a fiduciary fund), revenues are recorded when earned and expenses are recognized when incurred. Agency funds do not present the results of operations or have a measurement focus. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Employer contributions to the pension trust fund are recognized as revenue and recorded as a receivable when appropriated by the participating employers. Member and other contributions are recognized when due. Benefits and refunds to plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the plan.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues not considered available are recorded as deferred inflows of resources.

The City also reports proprietary funds. The focus in proprietary funds is upon determination of operating income, changes in net position, financial position, and cash flows. The City's discretely presented component units, along with the water, sewer and golf course (nonmajor) enterprises, fit into this category. The accounting principles used are similar to those used for private sector businesses.

The City applies the susceptible-to-accrual criteria to intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible-to-accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

Property taxes and motor vehicle excise taxes are recorded as revenue in the year for which the taxes have been levied, provided they are collected within 60 days after year-end. Investment income is

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

recorded as earned. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are recorded when the liability is incurred except for (1) interest on general obligation debt, which is recorded when due; and (2) claims and judgments (including self-insurance), compensated absences and landfill closure and post closure care costs, all of which are recorded as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources.

The City reports the following major governmental funds:

- **General Fund** – The general fund is the general operating fund of the City and is used to account for and report all financial resources not accounted for and reported in another fund.
- **CitySquare Fund** – The CitySquare fund was established to account for the City’s share of the financial resources including state and federal grants and the proceeds from the issuance of bonds used for the construction of the CitySquare project.
- **Debt Service Fund** – The debt service fund was established to reduce the impact of debt service costs on future budgets. The original funding source was from the Massachusetts School Building Authority (MSBA) from retroactive reimbursement for school construction costs, and has since been expanded to include funding for CitySquare, North High School, Airport, DCU Improvements, and other debt service.
- **Rehabilitation of Public Buildings Fund** – The rehabilitation of public buildings fund accounts for improvements to City owned buildings.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government’s programs and benefit the government or its citizenry.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

The City reports the following major enterprise funds:

- **Water Fund** – The water fund is used to account for the utility that purifies and distributes water to city users.
- **Sewer Fund** – The sewer fund is used to account for the utility that treats sewerage and storm water run-off in the city.

Additionally, the City reports the following fund types:

- **Pension Trust Fund** – The pension trust fund is used to account for the activities of WRS, which accumulates resources for pension benefit payments to qualified employees.
- **Agency Fund** – The agency fund is used to account for student activity funds.

The City also uses an internal service fund to account for self-insured health costs. Although the fund is presented in a separate column in the accompanying financial statements, it is not considered a major 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 other charges between the water, sewer, and golf course (nonmajor) functions and other functions. These charges are reflected as charges to the proprietary funds and expense credits to the servicing functions.

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. General revenues are those that cannot be associated directly with program activities.

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 are charges for services, fees, facility rental, and miscellaneous operating revenues. Operating expenses of these funds are salaries and benefits, ordinary maintenance, indirect costs, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(e) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist of highly liquid financial instruments with original maturities of three months or less.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Basis of Investment Valuation

Investments are stated at fair value, which are based on quotations from a national securities exchange except for alternative investments and real estate funds, for which fair value is determined through estimates by fund managers.

The City's alternative investments are recorded at fair market value as determined in good faith by the general partners of the alternative investment firms. The City's investments in real estate funds are recorded at fair value, based on independent third party appraisals as reported by the investment managers of the funds. As there is no readily available market for these investments, estimated values may differ significantly from the values that may be realized upon liquidation.

Basis of Investment Transactions

Purchases and sales of investments are recorded on the trade date. Transactions unsettled as of year-end are recorded as payables for securities purchased and as receivables for securities sold.

Property Taxes

Real and personal property taxes are based on values levied (assessed) and lien-ed as of each January 1 in accordance with Massachusetts General Laws. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Once levied, these taxes are recorded as receivables, net of estimated uncollectibles. In the governmental funds financial statements property tax revenues have been recorded using the modified accrual basis of accounting, which is described in note 1(d). The government-wide financial statements recognize property tax revenue when taxes are levied net of estimated uncollectibles.

The City bills and collects its property taxes on a quarterly basis. Taxes must be billed at least 30 days prior to their due date. The scheduled due dates for quarterly tax billings are August 1, November 1, February 1 and May 1. Overdue property taxes are subject to interest and penalties. The City has an ultimate right to foreclose on properties for which taxes have not been paid.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the City. A secondary limitation is that no levy in any fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a City-wide referendum vote.

Inventory

The cost of supplies and other inventoriable items for governmental funds are recorded as an expenditure at the time of purchase (purchase method). The cost of supplies and other inventoriable items for enterprise funds are valued using the first-in/first-out (FIFO) method. No significant inventory balances were on hand at June 30, 2017, and therefore are not reported.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Capital Assets

Capital assets, which include land, construction in progress, buildings, improvements other than buildings, rolling equipment, equipment and other, treatment facilities and infrastructure assets (e.g., roads, bridges, curbs, gutters, streets, sidewalks, and drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$50 and an estimated useful life in excess of two years. The WRA and District define capital assets as assets with an estimated useful life in excess of one year, with no minimum capitalization threshold dollar value. These assets are valued at cost or estimated historical cost if actual cost is not available. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Net interest costs related to construction projects, for business-type activities, is capitalized during the construction period if material. Such costs were not considered material during fiscal 2017. Donated capital assets are valued at their estimated fair value at the time received. Capital assets held by the discretely presented component units are accounted for in the applicable component unit. Depreciation is provided by the City on a straight-line basis over the estimated useful lives of the assets, which are 5 to 10 years for vehicles and equipment, 40 years for facilities and 50 years for infrastructure. Depreciation is provided by the WRA on a straight-line basis over the estimated useful lives of the assets, which are 10 to 20 years for land improvements, 39 years for buildings and improvements and 3 to 5 years for equipment. Depreciation is provided by the District on a straight-line basis over the estimated useful lives of the assets, which are 3 to 20 years for equipment and other and 20 to 50 years for facilities.

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

Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, eligible employees are compensated for unused sick and vacation leave (subject to certain limitations) at specified payment rates established by contract, regulation, or policy. The cost of compensated absences for employees is recorded as earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if it has matured (i.e., come due for payment). To the extent it is probable that unused sick days will result in termination payments, a liability based on established payment rates and the City's past experience in making such termination payments, adjusted for other current factors and expectations, has been recorded.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The primary government has one item that qualifies for reporting in this category. Deferred outflows

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

related to pensions are reported in the government-wide and proprietary funds financial statements in accordance with GASB Statement No. 68.

In addition to liabilities, the statement of net position and/or balance sheet 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The primary government has two types of items that qualify for reporting in this category. Deferred inflows related to pensions are reported in the government-wide and proprietary funds financial statements in accordance with GASB Statement No. 68. The primary government also has deferred inflows which arise under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources; school construction reimbursement; property taxes, and other unavailable revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position and Fund Balances

Net position is reported as restricted when amounts are specified by outside parties for a specific future use. The City reports the following net position restrictions:

“Nonexpendable permanent funds” represents amounts held in trust for which only investment earnings may be expended. Separate restrictions are reported for funds related to libraries, the Hope Cemetery, health and human services and other.

“Expendable permanent funds” represents amounts held in trust whereby expenditures are subject to various trust agreements. Separate restrictions are reported for funds related to libraries, the Hope Cemetery, health and human services and other.

“OPEB trust fund” represents amounts held in a non-irrevocable trust for other post-employment benefits.

“State and federal grants” represents restrictions placed on assets from state and federal granting agencies.

“PEG access grant” represents restrictions placed on assets related to public, education and government access grants.

Net position restrictions are also reported for non-federal and non-state grants related to culture and recreation, general government, health and human services, library, public safety, public works and education.

The following fund balance classifications describe the relative strength of the spending constraints:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

“Nonspendable” — represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

“Restricted” — represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

“Committed” — represents amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision-making authority as allowed under Massachusetts state law such as for the creation of a debt service stabilization fund to defease certain debt or funds reserving the receipts of ongoing activities for later appropriation such as parking and sewer connection fees. The governing City Council is the highest level of decision-making authority for the City. The formal action that can be taken by the City Council to commit fund balance is to vote to adopt what is called an “Order”. An Order voted and adopted by the City Council prior to the end of the fiscal year is the formal action that can commit fund balance. Once adopted, the limitation imposed by the order remains in place until a similar action is taken (the adoption of another order) to remove or revise the limitation.

“Assigned” — represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. The governing City Council has the authority to assign fund balance (by adoption of an order) as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

“Unassigned” – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed and unassigned.

The City adopted a general fund balance policy in November 2006 and updated it in 2017. It is the City’s policy to maintain unassigned general fund balance on a budgetary basis of accounting equal to 10-percent of general fund revenues.

Securities Lending Transactions

Collateral received on securities lending transactions is reported as an asset with a corresponding liability to the borrower. The underlying securities lent to the borrower under these transactions are reported as investments. Borrower rebates and administrative fees are reported as expenses; interest and dividends on the underlying securities and related collateral are reported as revenues.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Landfill Closure and Post Closure Care Costs

State and federal regulations require the City to place final covers on its municipal solid waste landfill (MSWLF) sites when such sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. The City determines its liability related to closure and post closure care for all MSWLFs based on landfill capacity used to date. At June 30, 2017, 100% of the City's expected MSWLF capacity had been used and none of the sites had accepted solid waste for several years. The City has covered, is in the process of covering, or plans to cover each of its MSWLFs in accordance with applicable laws and regulations.

The liability for closure and post closure care is estimated based on current cost, which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. This estimate is subject to changes due to inflation, deflation, technology or applicable laws, and regulations. Such costs are recognized as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources; the remaining liability is reported in the governmental activities statement of net position. Expenditures related to MSWLF closure and post closure care in fiscal 2017 were \$247.

Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. In the governmental funds financial statements, expenditures for judgments and claims (other than workers' compensation and condemnation proceedings) are recorded on the basis of whether the liability has matured in the current period. Expenditures for workers' compensation are recorded when paid. Settlements relating to condemnation proceedings are reported when the liability is estimable. In the proprietary and government-wide financial statements the estimated liability for all judgments and claims is recorded as a liability and as an expense.

Long-Term Liabilities

For long-term liabilities, only that portion, which is matured, is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide statement of net position and proprietary funds statement of net position. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

Investment Income

Except for the permanent funds and the CitySquare fund, investment income derived from governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law. Except for investment income of the internal service fund, investment income from proprietary funds is voluntarily assigned to the general fund. Investment income from fiduciary funds is retained by the funds.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

(2) Property Taxes

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 and also constitute that amount, which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all nonproperty tax revenue and transfers projected to be received by the City, including available surplus funds.

(3) Stewardship, Compliance and Accountability

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the City adopts an annual budget for all general fund functions as well as for those enterprise funds for which the provisions of Chapter 44, Section 53F 1/2 have been adopted.

All portions of the annual budget, except for that of public schools, are prepared under the direction of the City Manager. The School Department budget is prepared under the direction of the Superintendent. The budget must be approved by the City Council, which may reduce or reject any item in the budget but may not increase or add items without the recommendation of the City Manager. The level of expenditure may not legally exceed appropriations for each department or undertaking in the categories of salaries and wages, ordinary maintenance and capital outlays.

Once adopted, budgets within the above categories may not be amended by management without seeking City Council approval.

In fiscal 2017, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$1,147. In fiscal 2017, expenditures exceeded budgetary estimates for intergovernmental expenditures by \$11.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(4) Deposits, Investments, and Securities Lending

The Massachusetts General Laws (MGL) place limitations on the nature of deposits and investments that is available to the City. Deposits in any one financial institution may not exceed certain prescribed levels without collateralization or insurance protection by the financial institution involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of less than one year from the date of purchase, or in repurchase agreements having maturities of 90 days or less, which are collateralized by such securities. The City also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth.

The City's pension trust fund and certain other trust funds have expanded investment powers, including the ability to invest in equity securities, corporate bonds, and other specified investments. The composition of the City's deposits and investments fluctuates throughout the year depending primarily on the timing of property tax receipts, water and sewer revenues, proceeds from borrowings, collections of state and federal aid, and capital outlays.

(a) Deposits and Investments of the City (excluding component units)

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$250 of deposits held at each financial institution and to collateralize certain bank accounts. As of June 30, 2017, \$275,786 of the City's bank balance of \$297,953 was insured and collateralized with securities held by pledging financial institutions, and \$22,167 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2017, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 287	62	225	-	-
U.S. Agencies.....	1	-	1	-	-
Corporate bonds.....	157	-	10	68	79
Money market mutual funds.....	2,491	2,491	-	-	-
Fixed income securities.....	5,581	5,581	-	-	-
External investment pools.....	41,632	41,632	-	-	-
 Total debt securities.....	 50,149	 49,766	 236	 68	 79
<u>Other Investments:</u>					
Equity securities.....	51				
Equity mutual funds.....	13,487				
 Total other investments.....	 13,538				
 Total investments.....	 \$ 63,687				

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. Except for certain trust funds, the City does not have a policy for interest rate risk of debt securities since MGL limit the City's investments to U.S. backed securities that mature no more than one year from the initial investment date. Policies regarding interest rate risk for certain trust fund investments are identified in the individual trust agreements.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the City. As of June 30, 2017, none of the City's investments were exposed to custodial credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. Except for certain trust funds, the City does not have a policy for credit risk of debt securities since MGL limits the City's investments to U.S. backed securities or AAA rated money market mutual funds. Certain trust funds can invest in securities that are rated below AAA. Policies regarding credit risk for certain trust fund investments are identified in the individual trust agreements. As of June 30, 2017, the credit quality ratings (per Standard & Poor's, a national credit rating organization) of the City's investment in debt securities (including implicitly-guaranteed investments in U.S. Agencies) are as follows:

<u>Quality Ratings</u>	<u>U.S. Agencies</u>	<u>Corporate Bonds</u>	<u>Money Market Mutual Funds</u>	<u>Fixed Income Securities</u>	<u>External Investment Pools</u>	<u>Totals</u>
AA+.....	\$ 1	10	-	-	-	11
AA-.....	-	6	-	-	-	6
A.....	-	4	-	-	-	4
A-.....	-	18	-	-	-	18
BBB+.....	-	39	-	-	-	39
BBB.....	-	42	-	-	-	42
BBB-.....	-	38	-	-	-	38
Unrated.....	-	-	2,491	5,581	41,632	49,704
Total.....	\$ <u>1</u>	<u>157</u>	<u>2,491</u>	<u>5,581</u>	<u>41,632</u>	<u>49,862</u>

Investments – Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Debt Securities:</u>				
U.S. Treasuries..... \$	287	\$ 287	\$ -	\$ -
U.S. Agencies.....	1	1	-	-
Corporate bonds.....	157	157	-	-
Fixed income securities.....	5,581	5,581	-	-
Total Debt Securities.....	<u>6,026</u>	<u>6,026</u>	<u>-</u>	<u>-</u>
<u>Equity Securities:</u>				
Equity securities.....	51	51	-	-
Equity mutual funds.....	13,487	13,487	-	-
Total Equity Securities	<u>13,538</u>	<u>13,538</u>	<u>-</u>	<u>-</u>
 Total Investments by Fair Value Level \$	 <u>19,564</u>	 <u>\$ 19,564</u>	 <u>\$ -</u>	 <u>\$ -</u>
 Total Investments measured at Fair Value \$	 <u>19,564</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.

(b) Deposits and Investments of the WRS

Deposits and investments made by the WRS are governed by the MGL Chapter 32. The WRS has the ability to invest in equity securities, corporate bonds, annuities and other specified investments in accordance with state laws and regulations.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRS's deposits may not be recovered. The WRS's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$250 of deposits held at each financial institution. As of December 31, 2016, the WRS's bank balance of \$566 was not exposed to custodial credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Investments Summary

The WRS's investments at December 31, 2016 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Total Amount	Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 45,435	1	18,564	21,485	5,385
U.S. Agencies.....	18,638	-	1,294	-	17,344
Corporate bonds.....	24,464	504	5,853	10,674	7,433
Money market mutual funds.....	4,558	4,558	-	-	-
Securities lending short-term collateral investment pool.....	5,692	5,692	-	-	-
External investment pool.....	54,497	54,497	-	-	-
Fixed income mutual funds.....	72,242	72,242	-	-	-
Mortgage backed securities.....	8,426	-	31	-	8,395
Asset backed securities.....	6,123	-	3,785	1,192	1,146
 Total debt securities.....	 240,075	 137,494	 29,527	 33,351	 39,703
<u>Other investments:</u>					
Equity securities.....	11,237				
Equity mutual funds.....	321,449				
Real estate investments.....	133,514				
Alternative investments.....	138,392				
 Total other investments.....	 604,592				
 Total investments.....	 \$ 844,667				

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The WRS's policies for interest rate risk intend that the average duration of investments remain fairly stable over time and be focused in the intermediate range. The WRS's debt security managers are not permitted to make large-scale changes in portfolio duration in an attempt to anticipate interest rate changes. However, they are permitted to shift portfolio duration within a limited range (defined by their guidelines) in an effort to enhance performance.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the WRS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The WRS's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the WRS. As of December 31, 2016, the WRS was not exposed to custodial credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The WRS does not have a policy for credit risk of debt securities. As of December 31, 2016, the credit quality ratings of the WRS's debt securities are as follows:

Quality Ratings *	Investment Type								Total Amount
	U.S. Agencies	Corporate Bonds	Money Market Mutual Funds	Securities Lending Pool	Fixed Income Mutual Funds	External Investment Pool	Mortgage Backed Securities	Asset Backed Securities	
AAA.....	\$ 194	1,542	-	-	-	-	4,210	1,584	7,530
AA+.....	-	941	-	-	-	-	359	-	1,300
AA.....	1,464	208	-	-	-	-	-	-	1,672
AA-.....	302	3,058	-	-	-	-	-	-	3,360
A+.....	223	638	-	-	-	-	-	-	861
A.....	-	2,727	-	-	-	-	-	-	2,727
A-.....	-	3,001	-	-	-	-	-	-	3,001
BBB+.....	-	7,431	-	-	-	-	-	-	7,431
BBB.....	-	3,677	-	-	-	-	-	-	3,677
BBB-.....	-	1,241	-	-	-	-	-	-	1,241
Unrated.....	15,438	-	4,558	5,692	72,242	54,497	3,857	4,539	160,823
Total.....	\$ 17,621	24,464	4,558	5,692	72,242	54,497	8,426	6,123	193,623

* Per the rating scale of Standard & Poor's, a national credit rating organization

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The WRS's policy is to limit investments in non-U.S. dollar-denominated securities to not exceed 10% of the total market value of investments at all times. As of December 31, 2016, the WRS had no exposure to foreign currency risk.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the WRS's investment in a single issuer. The WRS's policy for concentration of credit risk instructs investment managers not to invest more than 5% of their portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. U.S. Treasury, U.S. government agency, mutual fund and pooled fund investments are exempted from this restriction. As of December 31, 2016, the WRS was not exposed to concentration of credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Investments – Fair Value

WRS categorizes its fair value measurements within fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. WRS has the following recurring fair value measurements as of December 31, 2016:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Debt Securities:</u>				
U.S. Treasuries..... \$	45,435	45,435	-	-
U.S. Agencies.....	18,638	18,638	-	-
Corporate bonds.....	24,464	24,464	-	-
Fixed income mutual funds.....	72,242	72,242	-	-
Mortgage backed securities.....	8,426	8,426	-	-
Asset backed securities.....	6,123	6,123	-	-
Total debt securities.....	<u>175,328</u>	<u>175,328</u>	<u>-</u>	<u>-</u>
<u>Equity Securities:</u>				
Equity securities.....	11,237	11,237	-	-
Equity mutual funds.....	261,786	261,786	-	-
Total equity securities.....	<u>273,023</u>	<u>273,023</u>	<u>-</u>	<u>-</u>
Total investments by fair value level.....	<u>448,351</u>	<u>448,351</u>	<u>-</u>	<u>-</u>
<u>Investments measured at the net asset value (NAV)</u>				
Private equities.....	70,717			
Macro allocation collective investment fund.....	47,713			
Real estate.....	133,514			
External investment pool (PRIT).....	54,497			
Pooled hedge funds (PRIT).....	19,538			
Pooled international equities fund (PRIT).....	59,663			
Other pooled funds (PRIT).....	424			
Investments measured at the net asset value (NAV).....	<u>386,066</u>			
Total investments measured at fair value..... \$	<u>834,417</u>			

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equities (1).....	70,717	50,796	N/A ⁽¹⁾	N/A ⁽¹⁾
Macro allocation collective investment fund (2).....	47,713	-	N/A ⁽²⁾	N/A ⁽²⁾
Real estate (3).....	133,514	3,937	N/A ⁽³⁾	N/A ⁽³⁾
External investment pool (PRIT) (4).....	54,497	7,339	N/A ⁽⁴⁾	N/A ⁽⁴⁾
Pooled hedge funds (PRIT) (5).....	19,538	-	N/A ⁽⁵⁾	N/A ⁽⁵⁾
Pooled international equities fund (PRIT) (6).....	59,663	-	N/A ⁽⁶⁾	N/A ⁽⁶⁾
Other pooled funds (PRIT) (7).....	424	7,051	N/A ⁽⁷⁾	N/A ⁽⁷⁾
Total investments measured at NAV.....	\$ <u>386,066</u>			

- (1) *Private equities* - This investment type includes investments in 36 private equity funds that invest primarily in private domestic and international companies of diversified industries. The fair value measurements of this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. These investments are illiquid. Distributions from each fund will be received as the underlying investments of the funds are liquidated. For approximately 38 percent of the investments it is expected that the underlying assets of the funds will be liquidated over the next 1 to 5 years. For the remaining investments, it is expected that the underlying assets of the funds will be liquidated over the next 5 to 10 years.
- (2) *Macro Allocation Collective Investment Fund* – This investment type consists of one fund that seeks to maximize its long-term risk adjusted total return through investments in equity, fixed income, commodities, real estate, and currencies. These investments can be redeemed with three days’ notice.
- (3) *Real estate* - This investment type includes investments in 9 funds that invest primarily in real estate and North American timberlands. The fair value measurements of this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. Approximately 80 percent of these investments can be redeemed on the first business day of the quarter following 45 days’ notice. The remaining investments are illiquid. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 6 years.
- (4) *External investment pool (PRIT)* - The System is a participating retirement system in the PRIT fund. The System owns units, or shares in the PRIT fund, which is a pooled investment trust. The investments made by the System are governed by Chapter 32 of the MGL. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership in the pool. The investments can be redeemed monthly on the first day of the month with one day’s notice.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

- (5) *Pooled hedge funds (PRIT)* – This investment type consists of pooled diversified hedge funds using strategies including fund of funds, direct funds, and separately managed mandates. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership in the pool. The investments can be redeemed monthly on the first day of the month with one day’s notice.
- (6) *Pooled international equities (PRIT)* - This investment type consists of pooled international equities of emerging and frontier market securities portfolios. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership in the pool. The investments can be redeemed monthly on the first day of the month with one day’s notice.
- (7) *Other pooled funds (PRIT)* – This investment type consists one fund of pooled private equities and venture capital investments diversified by region, industry, and sector. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership in the pool. The investments are illiquid. Distributions from the fund will be received as the underlying investments of the fund are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.

(c) Deposits and Investments of the Upper Blackstone Water Pollution Abatement District (District)

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy for custodial credit risk of deposits is to rely on FDIC insurance coverage at each financial institution and collateralization of the balance by depository institution’s investments.

Short Term Investment

The District invests in units in the Massachusetts Municipal Depository Trust (MMDT). At June 30, 2017, the District’s deposits with MMDT totaled \$1,917. The MMDT was established to provide a short-term external investment pool entirely separate from other financial activities of the Commonwealth of Massachusetts. The investment pool measures its investments at amortized cost and there are no restrictions on withdrawals. The State Treasurer serves as the Trustee, and has sole authority pertaining to rules, regulations, and operations of the Trust. A participant’s holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. The MMDT is not rated by any independent fund rating institution and the weighted average maturity of its investments in its Cash Portfolio is less than one year. For a complete copy of MMDT’s separately issued financial statements, the Cash Management Department of the State Treasurer’s Office should be contracted.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Investments Summary

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2017:

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

Level 2 – Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based upon the securities relationship to benchmark quoted process.

Level 3- Unobservable inputs where there is little, if any, market activity.

	June 30, 2017	Fair Value Measurement Listing		
		Level 1	Level 2	Level 2
<u>Investments by Fair Value Level</u>				
Debt securities:				
U.S. Treasury Bill	\$ 250	250	-	-
U.S. Agency Obligations	3,198	3,198	-	-
Total Debt Securities	3,448	3,448	-	-
Equity securities:				
Industrials	635	635	-	-
Consumer discretionary	246	246	-	-
Consumer staples	1,068	1,068	-	-
Health care	1,019	1,019	-	-
Financial services	580	580	-	-
Other	263	263	-	-
Total equity securities	3,811	3,811	-	-
Total investments by fair value	7,259	7,259	-	-
Cash	730			
Total Investments	\$ 7,989			

At June 30, 2017, the District had a net unrealized gain of \$903 on its investments.

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment although the maturity value is unaffected. The District's policies for

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

interest rate risk permit the investment manager discretion to recommend assets with lives that are pegged at Barclay's 1-3 Year Government Index. The portfolio's asset lives may be shorter or longer than the benchmark depending upon the investment manager's interest rate forecast. The index duration currently averages 1.91 years.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure by the custodian, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's securities are in the custody of Fidelity Investments at June 30, 2017. The District's securities are protected under Securities and Exchange Commission Rule 15c3-3 and additional insurance by the custodian of its securities. As of June 30, 2017, none of the District's investments were subject to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will default on its obligations. The District's policy for credit risk of debt securities restricts investment to debt obligations maintaining an Aaa rating by Moody's rating service or are full faith obligations of the U.S. Treasury. As of June 30, 2017, the credit quality ratings of the District's debt securities are as follows:

<u>Quality Rating</u>	<u>U.S. Agencies</u>
Aaa	\$ 3,198

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Currently, the District instructs its investment managers not to invest more than 5% of the portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. Obligations of the U.S. Treasury, U.S. government agencies and money market funds are exempted from this restriction. As of June 30, 2017, the District had no investments with a single issuer that represented 5 percent or more of the District's total investments.

Investments recorded as current assets are available for operating purposes. Investments recorded as noncurrent assets have been designated as reserved for plant replacement, pollution insurance claims and a special reserve for other post-employment benefits.

(d) Deposits of the WRA

State and local statutes place certain limitations on the nature of deposits and investments available to the WRA.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRA's deposits may not be recovered. The WRA does not have a policy for custodial credit risk of deposits. As of June 30, 2017, none of the WRA's bank balance of \$28 was uninsured and uncollateralized.

(e) Securities Lending

The Massachusetts Division of Public Employee Retirement Administration Commission (PERAC) has issued supplemental regulations that permit WRS to engage in securities lending transactions. These transactions are conducted by one of WRS's brokers, who lend certain securities owned by WRS to other broker-dealers and banks pursuant to a form of loan agreement. WRS and the borrowers maintain the right to terminate all securities lending transactions on demand.

The custodian lends, at the direction of the lending agent, WRS's securities and cash received (including both U.S. and foreign currency), U.S. Government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. The lending agent does not have the ability to pledge or sell collateral securities delivered unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 105% of the market value of foreign securities on loan and 102% of the market value if domestic securities on loan (Required Collateral Level). If at any time the market value of the collateral for any loan decreases to 100% or less of the market value of the loaned securities borrowers are required to provide additional collateral sufficient to increase the market value of the collateral to at least the Required Collateral Level.

WRS does not impose any restrictions on the amount of securities lent on its behalf by the lending agent. There were no failures by any borrowers to return loaned securities or pay distributions thereon, nor were there any losses from default of the borrowers or the lending agent for the year ended December 31, 2016. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which WRS could not determine.

At December 31, 2016, WRS had no credit risk exposure to borrowers because the amounts WRS owed the borrowers exceeded the amounts owed to WRS. The cash and non-cash collateral held and the fair value of securities on loan for WRS at December 31, 2016 were \$5,816 and \$5,692, respectively. Borrower rebates and fees paid to the broker were \$27 for the year ended December 31, 2016.

(5) City of Worcester Contributory Retirement System (WRS or the Plan)

(a) Plan Description, Basis of Accounting, Valuation of Investments and Membership

The City provides pension benefits to certain employees administered by the WRS, a cost-sharing, multiple-employer public employee retirement system regulated by PERAC. WRS is a defined benefit pension plan that covers eligible employees of the City (which includes the Worcester Redevelopment Authority) and the Worcester Housing Authority.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Membership in WRS is mandatory immediately upon commencement of employment for all permanent, full-time employees working at least 20 hours weekly, except for (1) employees eligible to participate in the Massachusetts Teachers' Retirement System (as discussed in note 6); and (2) employees of the District, who are covered by the state Retirement System. Disclosures applicable to the District's retirement plan are located in Note 7.

WRS issues a separate publicly available stand-alone financial report available at <http://www.worcesterma.gov/e-services/document-center/retirement>, or a copy may be obtained by submitting a request to the System at Worcester City Hall Room 103, 455 Main Street, Worcester, Massachusetts 01608. The WRS' fiduciary net position has been determined on the same basis used by the WRS. The WRS' financial statements are presented on the accrual basis of accounting. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Membership in WRS was as follows at December 31, 2016:

Active employees	3,342
Pensioners and beneficiaries	2,728
Inactive employees not entitled to or not receiving benefits	659
Inactive employees entitled to or receiving benefits	<u>96</u>
Total members	<u>6,825</u>
Number of participating employers	<u>2</u>

WRS is governed by a five member board comprised of the City Auditor (ex-officio), an appointee of the City Manager, two members elected by the active and inactive retired members of WRS, and one member appointed by the other four members. The WRS issues a publicly available financial report that includes the applicable financial statements and required supplementary information for the plan. That report may be obtained at the retirement office at City Hall.

(b) Benefits Provided

Benefit provisions and contribution requirements of WRS are established by state law. Members of WRS become vested after 10 years of creditable service. Normal retirement occurs at age 65 (age 67 if hired on or after April 2, 2012), except for special situations and the City's police officers and firefighters, whose normal retirement age is 55 (age 57 if hired on or after April 2, 2012).

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's highest possible average of annual regular compensation in any three consecutive years of creditable service or rates earned during the period or periods, whether or not consecutive, which constitute the last three years of creditable service preceding retirement multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 65, this percentage is 2.5%, which is reduced for individuals who retire prior to age 65 to reflect the longer pay out period.

For employees hired on or after April 2, 2012, the annual amount of the retirement allowance is based on the member's highest possible average of annual regular compensation in any five consecutive years of creditable service or rates earned during the period or periods, whether or not consecutive, which constitute the last five years of creditable service preceding retirement multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 67, this percentage is 2.5%.

Employees hired prior to April 2, 2012 may elect early retirement after 20 years of service or at any time after attaining age 55 with 10 years of eligible service. Employees hired on or after April 2, 2012 may elect early retirement after attaining age 60 with 10 years of eligible service. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. The amount of benefits to be received depends on several factors, including the member's age, compensation, veteran status, years of creditable service, and whether or not the disability is work-related. In addition, certain death benefits exist for beneficiaries of employees who die in active service.

Under MGL c.32 Section 3(8)(c), members leaving the City's employment to work for other Massachusetts governmental units requires the WRS transfer their accumulated account balances and creditable service to the retirement system of their new employer. Other such retirement systems are in turn required to make comparable transfers to the WRS for employees coming to work at the City or the Worcester Housing Authority. Per statute, the PERAC actuary shall consider length of service as well as acceptance of military service credit and salary cap provisions if applicable in calculating the liability.

Benefits and refunds are recognized as deductions when incurred and administrative expenses are funded through investment earnings.

(c) Contributions

Chapter 32 of MGL governs and establishes the contribution requirements of plan members and the City and such requirements may only be amended by state law. Participation in the plan requires that members contribute a fixed percentage of their gross regular compensation (either 5%, 7%, 8% or 9%) each pay period. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30. Employees hired after April 2, 2012 with 30 years of creditable service or greater will pay a base contribution rate of 6%. These deductions earn interest at a rate determined by PERAC that vests based upon years of service. Employers are required to pay into WRS its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements.

Member employers are required to contribute the remaining amounts necessary to finance benefits, except for certain cost-of-living adjustments (COLAs) granted between 1982 and 1997, which are reimbursed by the Commonwealth. The amount of these on-behalf payments from the Commonwealth totaled \$1,153 for the fiscal year ended June 30, 2017 and, accordingly, are reported in the general fund as intergovernmental revenues and fringe benefits.

For the year ended December 31, 2016, active member contributions totaled \$17,798 and employer contributions totaled \$44,412. Contributions to WRS from the City were \$40,756 for the year ended June 30, 2017.

(d) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The components of the net pension liability of the WRS at December 31, 2016, were as follows:

Total pension liability	\$	1,346,266
Plan fiduciary net position		<u>(837,345)</u>
Net pension liability	\$	<u>508,921</u>
Plan fiduciary net position as a percentage of the total pension liability		62.20%

At June 30, 2017, the City reported a liability of \$467,030 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. The City's proportion of the net pension liability is the proportionate share of employer contributions to WRS for the year ended December 31, 2016, actuarially determined. At December 31, 2016, the City's proportion was 91.77 percent, which was 0.3 percent lower than the proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$68,411. At June 30, 2017, the City reported deferred outflows (inflows) of resources of \$76,768 related to pensions from the following sources:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred outflows (inflows) of resources related to pensions		
Changes of assumptions	\$ 32,457	-
Net difference between projected and actual earnings on WRS investments	50,250	-
Change in proportion and differences between employer contributions and proportionate share of contributions	288	2,892
Differences between expected and actual experience	-	3,335
Total	<u>\$ 82,995</u>	<u>6,227</u>

The following schedule reflects the amortization of the net balance of remaining deferred outflows/ (inflows) of resources at June 30, 2017 that will be recognized in pension expense as follows:

	<u>Year Ended June 30</u>
2018	\$ 25,014
2019	25,014
2020	20,066
2021	4,331
2022	2,343
	<u>\$ 76,768</u>

(e) Actuarial Assumptions and Methods

The total pension liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level payments on the 2002 and 2010 ERI liability; payment on the remaining unfunded liability increases 5.85% in fiscal 2018 and 6.3% per year thereafter.
Remaining amortized period (period is closed)	1 year for the 2002 ERI liability 4 years for the 2010 ERI liability 16 years for the remaining unfunded liability 16 years is the equivalent single amortization period (ESAP)

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and expected return on a market value basis, and is recognized over a five-year period, further adjusted, if necessary, to be within 10% of the market value.
Discount rate/investment rate of return	7.375%, net of pension plan investment expense, including inflation.
Projected salary increases	4.50%
Rate of inflation	3.5%
Cost of living adjustments	3.0% of the first \$13 of retirement income.
Mortality rates:	Based on the RP-2000 Employee Mortality Table projected generationally using Scale BB2D from 2009. For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table projected generationally using Scale BB2D from 2015.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2016 through December 31, 2016. Changes of assumptions that affected measurement of the total pension liability since the prior measurement date primarily included a change in the discount rate/investment rate of return from 7.5% to 7.375%.

(f) Investment Policies and Rates of Return

Deposits and investments made by the WRS are governed by Chapter 32 of the MGL. The WRS Board is responsible for the adoption of a formal asset allocation policy, the selection of professional investment managers to execute the investment policies, and the appointment of an investment consultant to assist with the evaluation of investment manager performance. All investment activities of the WRS Board are subject to oversight by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC).

The WRS's Board has the authority for establishing and amending investment policy decisions by majority vote. Asset allocation policies allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the WRS's investment objectives. The WRS's Board has specifically indicated those asset classes that may be utilized when investing the WRS's assets. The WRS's Board specifies a long-term target allocation for each class of permissible assets expressed as a percentage of the WRS's overall market value, surrounded by a band of permissible variation resulting from market forces. On at least an annual basis, if any strategic allocation is outside the specified target range, assets will be shifted to return the strategy to the target range. The specific plan for rebalancing will identify those assets that can be

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

shifted at the lowest possible risk and cost, if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals. Permanent changes in the WRS’s target asset allocation will take place only in response to significant changes in the objectives and constraints of the WRS, or in response to material changes in the fundamental nature or appropriateness of the asset classes themselves.

For the year ended December 31, 2016, the annual money-weighted rate of return on WRS investments, net of investment expense, was 7.87%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Long-Term Expected Rate of Return

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 December 31, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-Term Expected Real Rate of Return (%)</u>
Domestic equity	22.0	6.44
International developed markets equity	12.0	7.40
International emerging markets equity	9.0	9.42
Core fixed income	14.0	2.02
High-yield fixed income	7.0	4.43
Real estate	10.0	5.00
Commodities	7.0	4.43
Hedge fund, global tactical asset allocation, risk parity	9.0	3.75
Private equity	10.0	10.47
Cash	0.0	1.06
	<u>100.0</u>	

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.375 percent. 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 WRS’s contributions will be made at rates equal to the actuarially determined contribution rates. 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 WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(h) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of WRS calculated using the discount rate of 7.375 percent, as well as what WRS's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.375 percent) or 1-percentage-point higher (8.375 percent) than the current rate:

	1% Decrease (6.375%)	Current Discount Rate (7.375%)	1% Increase (8.375%)
System's net pension liability	\$ 657,353	\$ 508,921	\$ 383,114

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.375 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.375 percent) or 1-percentage-point higher (8.375 percent) than the current rate:

	1% Decrease (6.375%)	Current Discount Rate (7.375%)	1% Increase (8.375%)
City's share of net pension liability	\$ 603,245	\$ 467,030	\$ 351,579

(i) Legally Required Reserve Accounts

The balance in WRS's legally required reserves as of December 31, 2016 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 188,911	Active members' contribution balance
Annuity Reserve Fund	63,217	Retired members' contribution account
Military Service Fund	201	Members' contribution account while on military leave
Pension Reserve Fund	579,749	Amounts appropriated to fund future retirement benefits
Pension Fund	5,267	Remaining net position
Total	<u>\$ 837,345</u>	

All reserve accounts are funded at levels required by state law.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(6) Massachusetts Teachers' Retirement System

(a) *Plan Description and Benefits*

Public school teachers and certain administrators are provided with pensions through the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts Teachers' Retirement Board. The MTRS is part of the Commonwealth of Massachusetts' (Commonwealth) reporting entity and does not issue a stand-alone audited financial report. The MTRS is reported as a Pension Trust Fund in the Commonwealth's audited financial statements that can be obtained at <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>.

Benefits provided - MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit requirements. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

(b) *Contributions*

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Member contributions for MTRS vary depending on the most recent date of membership, ranging from 5-11% of regular compensation. Members hired in 1979 or subsequent contribute an additional 2% of regular compensation in excess of \$30.

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MTRS.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(c) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Since the City does not contribute directly to MTRS, the City does not report a proportionate share of the net pension liability of the MTRS at June 30, 2017. The Commonwealth's net pension liability associated with the City was \$599,739.

The MTRS' 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 January 1, 2016 rolled forward to June 30, 2016.

For the year ended June 30, 2017, the City recognized pension expense of \$61,177 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

(d) Actuarial assumptions

The MTRS' total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

Investment rate of return	7.5%
Salary increases	Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
Mortality rates:	Pre-retirement -reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct). Post-retirement -reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct). Disability -assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year 2014 set forward 4 years.
Other	3.5% interest rate credited to the annuity savings fund 3.0% cost of living increase per year

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(e) *Investment Policies and Rates of Return*

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. 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 rates of return 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 rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-Term Expected Real Rate of Return (%)</u>
Global Equity	40.0	6.9
Core fixed income	13.0	1.6
Private equity	10.0	8.7
Real estate	10.0	4.6
Value Added Fixed Income	10.0	4.8
Hedge funds	9.0	4.0
Portfolio completion strategies	4.0	3.6
Timber/Natural Resources	4.0	5.4
	<u>100.0</u>	

(f) *Discount rate*

The discount rate used to measure the MTRS' total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the 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 WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(g) Pension plan fiduciary net position

Detailed information about the MTRS' fiduciary net position is available in the Commonwealth's audited financial statements.

(7) Pension Plan (The District)

(a) Plan Description

The Massachusetts State Employees' Retirement System (MSERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan as defined by Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of MSERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of MSERS. The assets and liabilities of the former MTA have been transferred to MSERS. MSERS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MSERS is vested in the Massachusetts State Retirement Board (the MSRB) which consists of five members-two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB.

(b) Benefits

MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) established uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement age is at 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(c) Contributions

Member contributions for MSERS vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$30

(d) Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of \$8,987 for its proportionate share of the net pension liability. The net position 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 January 1, 2016 rolled forward to June 30, 2016. The District's proportion of the net pension liability was based on the District's share of actual contributions to the pension plan relative to the actual contributions of all participating governmental entities, adjusted for any nonemployer contributions. At June 30, 2016, the District's proportion was 0.06517 percent, which was an increase of 0.00280 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,314. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 427	-
Changes in assumptions	997	-
Net difference between projected and actual earnings on plan investments	603	-
Changes in proportionate share of contributions	314	29
District contributions subsequent to the measurement date	419	-
Total	<u>\$ 2,760</u>	<u>29</u>

The \$419 of deferred outflows of resources resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the Plan year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

<u>Year Ended June 30</u>	
2018	\$ 530
2019	530
2020	754
2021	445
2022	53
	<u>\$ 2,312</u>

(e) Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
3. Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (ORP) to transfer to MSERS and purchase service for the period while members of the ORP. As a result, the total pension liability of MSERS has increased by approximately \$400,000 as of June 30, 2016.
4. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2000 Employees table projected 20 years with Scale BB and a base year of 2009 (gender distinct).
 - Post-retirement – reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
 - Disability – reflects a mortality rate is assumed to be in accordance with RE-2000 Healthy Annuitant Table projected generationally with a Scale BB and a base year of 2015 (gender distinct).
5. Experience studies were performed as follows:
 - Dated February 27, 2014 and encompasses the period January 1, 2006 to December 2011.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(f) Long-Term Expected Rate of Return

Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. 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 rates of return 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 rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Global Equity	40.0	6.9
Core fixed income	13.0	1.6
Hedge funds	9.0	4.0
Private equity	10.0	8.7
Real estate	10.0	4.6
Value Added Fixed Income	10.0	4.8
Timber/Natural Resources	4.0	5.4
Portfolio completion strategies	4.0	3.6
	100.0	

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the 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.

(h) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of net pension liability calculated using the discount rate of 7.50 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
District's proportionate share of the net pension liability	\$ 11,710	\$ 8,987	\$ 6,677

(8) Other Postemployment Benefits (OPEB)

(a) Plan Description - City

In addition to the pension benefits described in notes 5 and 6, the City provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries through a single-employer defined benefit plan (hereinafter referred to as the "Plan") in accordance with MGL Chapter 32B. Specific benefit provisions and contribution rates are established by collective-bargaining agreements, state law, and City ordinance. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims for specific plans, while the City partially self-funds the claims for the remaining plans. The Plan does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2015, the latest actuarial valuation, is as follows:

Active employees	4,146
Retired employees, beneficiaries and dependents	<u>5,083</u>
Total	<u><u>9,229</u></u>

(b) Funding Policy - City

The contribution requirements of Plan members and the City are established and may be amended by the City. Twenty-five percent of the calculated contribution is paid by the retirees through pension benefit deductions. The remainder of such cost is funded by the City. The City contributes 100% towards a \$5 term life insurance premium. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

(c) Annual OPEB Cost and Net OPEB Obligation - City

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

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 actual amount contributed to the plan, and changes in the City's net OPEB obligation:

	<u>Amount</u>
Annual required contribution	\$ 53,756
Interest on net OPEB obligation	11,251
Adjustment to annual required contribution	<u>(9,376)</u>
Annual OPEB cost	55,631
Contributions made	<u>(23,179)</u>
Increase in net OPEB obligation	32,452
Net OPEB obligation at beginning of year	<u>281,269</u>
Net OPEB obligation at end of year	\$ <u>313,721</u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u> <u>(AOPEBC)</u>	<u>Percentage</u> <u>of AOPEBC</u> <u>Contributed (%)</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2015	\$ 49,766	48.2 %	\$ 249,936
June 30, 2016	53,375	41.3	281,269
June 30, 2017	55,631	41.7	313,721

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(d) Funded Status and Funding Progress – City

The funded status of the Plan at July 1, 2015, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued		Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
		Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)			
07/01/15	\$ -	\$ 860,873	\$ 860,873	0.0%	\$ 352,401	244%

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 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 actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(e) Methods and Assumptions - City

Projections of 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 of benefit costs between the employer and Plan members to that point. The projection of benefits does not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2015
Actuarial cost method:	Projected Unit Credit
Amortization method:	Increasing at 4% over 30 years on an open amortization period for pay-as-you-go funding
Remaining amortization period:	30 years as of July 1, 2015 (open period)
Discount rate/investment rate of return:	4.0%
Inflation rate:	3.0%
Healthcare/Medical cost trend rate:	7.0% decreasing 0.5% for 4 years to an ultimate level of 5.0% per year

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(f) Allocation of AOPEBC - City

AOPEBC costs were allocated to the City's functions as follows:

Governmental Activities:	
General government	\$ 2,434
Public safety	13,537
Health and human services	231
Education	35,042
Public works	1,565
Culture and recreation	<u>1,257</u>
Total AOPEBC - governmental activities	<u>54,066</u>
Business-Type Activities:	
Water	1,027
Sewer	508
Golf course (nonmajor)	<u>30</u>
Total AOPEBC - business-type activities	<u>1,565</u>
Total AOPEBC	<u>\$ 55,631</u>

(g) Plan Description – The District

The District provides health and life insurance benefits to retired employees and their survivors through the Commonwealth's Group Insurance Commission (GIC), a cost-sharing multiple employer plan (hereinafter referred to as the "Plan"). Specific benefit provisions and contribution rates are established by GIC. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims for specific plans. The Plan does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of June 30, 2017, the latest actuarial valuation, is as follows:

Active employees	55
Retired employees, beneficiaries and dependents	<u>30</u>
Total	<u>85</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(h) Funding Policy – The District

The contribution requirements of Plan members and the District are established and may be amended by the GIC. Retirees, depending on retirement date, pay either 10% or 15% of the cost. The District currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. In addition, the GIC began charging the District for the cost of benefits for only some of the retirees in fiscal 2017. The “on-behalf of” payment for the retirees and survivors is estimated at \$281 for fiscal 2017 and has been included in these financial statements as revenue. The costs of administering the Plan are paid by the District.

(i) Annual OPEB Cost and Net OPEB Obligation – The District

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in 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 District’s annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the District’s net OPEB obligation:

	<u>Amount</u>
Annual required contribution	\$ 517
Interest on net OPEB obligation	90
Adjustment to annual required contribution	<u>(80)</u>
Annual OPEB cost	527
Contributions made (by state and District)	<u>(302)</u>
Increase in net OPEB obligation	225
Net OPEB obligation at beginning of year	<u>2,583</u>
Net OPEB obligation at end of year	<u>\$ 2,808</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u> <u>(AOPEBC)</u>	<u>Percentage</u> <u>of AOPEBC</u> <u>Contributed (%)</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2015	\$ 368	53.7 %	\$ 2,407
June 30, 2016	399	55.9	2,583
June 30, 2017	527	57.3	2,808

(j) Funded Status and Funding Progress – The District

The funded status of the Plan at June 30, 2017, the most recent actuarial valuation, was as follows:

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(A)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>(B)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(B-A)</u>	<u>Funded</u> <u>Ratio</u> <u>(A/B)</u>	<u>Covered</u> <u>Payroll</u> <u>(C)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Payroll</u> <u>((B-A)/C)</u>
06/30/17	\$ -	\$ 10,949	\$ 10,949	0.0%	\$ 3,680	298%

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 future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(k) Methods and Assumptions – The District

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	June 30, 2017
Actuarial cost method:	Projected Unit Credit
Amortization period:	30 year level percent of pay assuming 4.0% increasing, open basis
Interest discount rate:	3.5%

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Healthcare/Medical cost trend rate:	4.5% for 2017 and thereafter
Mortality rate:	RP-2000 Combined Healthy Table – Project to 2015 using scale AA and for the disabled, the RP-2000 Combined Healthy Table set forward 2 years.

(9) Accounts Receivable

At June 30, 2017, receivables for the individual major governmental funds and nonmajor governmental, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Governmental Funds			
Property taxes	\$ 12,894	(8,160)	4,734
Tax liens	3,762	-	3,762
Motor vehicle excise taxes	7,211	(4,407)	2,804
Special assessments	4,045	-	4,045
Departmental and other	5,580	(2,684)	2,896
	<u>33,492</u>	<u>(15,251)</u>	<u>18,241</u>
Intergovernmental	30,930	-	30,930
Total governmental funds	<u>64,422</u>	<u>(15,251)</u>	<u>49,171</u>
Internal Service Fund			
Self-insured health plan	3,088	-	3,088
Total internal service fund	<u>3,088</u>	<u>-</u>	<u>3,088</u>
Fiduciary Fund			
Departmental and other	1,354	-	1,354
Intergovernmental	712	-	712
Total fiduciary funds	<u>2,066</u>	<u>-</u>	<u>2,066</u>
Total receivables	\$ <u>69,576</u>	<u>(15,251)</u>	<u>54,325</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

At June, 30, 2017, receivables for the enterprise funds are as follows:

	Gross	Allowance	Net
	Amount	for	Amount
	<u>Amount</u>	<u>Uncollectibles</u>	<u>Amount</u>
<u>Receivables:</u>			
Charges for services	\$ 13,132	-	13,132
Utility liens	1,666	-	1,666
Special assessments	1,128	-	1,128
	<u>15,926</u>	<u>-</u>	<u>15,926</u>
Intergovernmental	31	-	31
Total enterprise funds	\$ <u>15,957</u>	<u>-</u>	<u>15,957</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources reported in the governmental funds:

	General	Other	
	Fund	Governmental	Total
	<u>Fund</u>	<u>Funds</u>	<u>Total</u>
<u>Deferred Inflows of Resources Type:</u>			
Unavailable revenue-school construction reimbursement			
Intergovernmental (school construction)	\$ <u>22,100</u>	<u>-</u>	<u>22,100</u>
Unavailable revenue-property taxes			
Property taxes	3,263	-	3,263
Tax liens	3,402	-	3,402
	<u>6,665</u>	<u>-</u>	<u>6,665</u>
Unavailable revenue-other			
Special assessments	4,045	-	4,045
Departmental and other	1,536	1,360	2,896
Motor vehicle excise tax	1,730	-	1,730
Intergovernmental (other state)	1,647	-	1,647
	<u>8,958</u>	<u>1,360</u>	<u>10,318</u>
Total deferred inflows of resources	\$ <u>37,723</u>	<u>1,360</u>	<u>39,083</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

The Commonwealth has approved school construction assistance to the City through the Massachusetts School Building Authority (MSBA). The assistance program provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2017, \$11,575 of such assistance was received. Approximately \$26,459 will be received in future fiscal years. Of this amount, \$4,359 represents reimbursement of long-term interest costs, and \$22,100 represents reimbursement of approved construction costs. Accordingly, a \$22,100 intergovernmental receivable and corresponding deferred inflow of resources have been reported in the governmental funds financial statements. The deferred inflow of resources has been recognized as revenue in the conversion to the government-wide financial statements.

(10) 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	\$ 22,623	8	-	22,631
Construction in progress	73,407	69,201	50,414	92,194
Total capital assets not being depreciated	<u>96,030</u>	<u>69,209</u>	<u>50,414</u>	<u>114,825</u>
Capital assets, being depreciated:				
Buildings	666,429	57,806	-	724,235
Improvements other than buildings	152,145	6,434	-	158,579
Rolling equipment	32,205	2,370	-	34,575
Equipment and other	32,836	1,200	-	34,036
Infrastructure	282,753	19,551	-	302,304
	<u>1,166,368</u>	<u>87,361</u>	<u>-</u>	<u>1,253,729</u>
Less accumulated depreciation for:				
Buildings	281,450	22,225	-	303,675
Improvements other than buildings	19,511	7,670	-	27,181
Rolling equipment	25,953	1,609	-	27,562
Equipment and other	18,972	2,498	-	21,470
Infrastructure	141,645	11,677	-	153,322
	<u>487,531</u>	<u>45,679</u>	<u>-</u>	<u>533,210</u>
Total capital assets being depreciated, net	<u>678,837</u>	<u>41,682</u>	<u>-</u>	<u>720,519</u>
Governmental capital assets, net	\$ <u>774,867</u>	<u>110,891</u>	<u>50,414</u>	<u>835,344</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

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

Governmental activities:	
General government	\$ 455
Public safety	2,465
Health and human services	307
Education	15,186
Public works	18,676
Culture and recreation	8,547
Community development	<u>43</u>
Total depreciation expense – governmental activities	\$ <u><u>45,679</u></u>

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water:				
Capital assets, not being depreciated				
Land	\$ 6,371	512	-	6,883
Total capital assets, not being depreciated	<u>6,371</u>	<u>512</u>	<u>-</u>	<u>6,883</u>
Capital assets, being depreciated:				
Buildings	43,905	-	-	43,905
Rolling equipment	3,248	305	72	3,481
Infrastructure	162,744	4,567	-	167,311
Equipment and other	875	189	-	1,064
Total capital assets, being depreciated	<u>210,772</u>	<u>5,061</u>	<u>72</u>	<u>215,761</u>
Less accumulated depreciation for:				
Buildings	22,283	1,242	-	23,525
Rolling equipment	2,397	212	72	2,537
Infrastructure	78,924	5,758	-	84,682
Equipment and other	396	122	-	518
Total accumulated depreciation	<u>104,000</u>	<u>7,334</u>	<u>72</u>	<u>111,262</u>
Total capital assets, being depreciated, net	<u>106,772</u>	<u>(2,273)</u>	<u>-</u>	<u>104,499</u>
Water capital assets, net	<u>113,143</u>	<u>(1,761)</u>	<u>-</u>	<u>111,382</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Sewer:				
Capital assets, not being depreciated				
Land	117	-	-	117
Total capital assets, not being depreciated	<u>117</u>	<u>-</u>	<u>-</u>	<u>117</u>
Capital assets, being depreciated:				
Buildings	5,459	-	-	5,459
Rolling equipment	7,661	688	-	8,349
Infrastructure	218,272	8,771	-	227,043
Equipment and other	516	-	-	516
Total capital assets, being depreciated	<u>231,908</u>	<u>9,459</u>	<u>-</u>	<u>241,367</u>
Less accumulated depreciation for:				
Buildings	2,498	209	-	2,707
Rolling equipment	5,105	569	-	5,674
Infrastructure	100,735	8,162	-	108,897
Equipment and other	384	41	-	425
Total accumulated depreciation	<u>108,722</u>	<u>8,981</u>	<u>-</u>	<u>117,703</u>
Total capital assets, being depreciated, net	<u>123,186</u>	<u>478</u>	<u>-</u>	<u>123,664</u>
Sewer capital assets, net	<u>123,303</u>	<u>478</u>	<u>-</u>	<u>123,781</u>
Golf course (nonmajor):				
Capital assets, not being depreciated				
Construction in progress	-	404	-	404
Total capital assets, not being depreciated	<u>-</u>	<u>404</u>	<u>-</u>	<u>404</u>
Capital assets, being depreciated:				
Buildings	966	-	-	966
Infrastructure	1,710	-	-	1,710
Total capital assets, being depreciated	<u>2,676</u>	<u>-</u>	<u>-</u>	<u>2,676</u>
Less accumulated depreciation for:				
Buildings	404	43	-	447
Infrastructure	1,015	75	-	1,090
Total accumulated depreciation	<u>1,419</u>	<u>118</u>	<u>-</u>	<u>1,537</u>
Total capital assets, being depreciated, net	<u>1,257</u>	<u>(118)</u>	<u>-</u>	<u>1,139</u>
Golf capital assets, net	<u>1,257</u>	<u>286</u>	<u>-</u>	<u>1,543</u>
Business-type activities capital assets, net	<u>\$ 237,703</u>	<u>(997)</u>	<u>-</u>	<u>236,706</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Discretely presented component				
units - The District:				
Capital assets, not being depreciated				
Land	\$ 702	-	-	702
Construction in progress	<u>2,515</u>	<u>2,749</u>	<u>2,818</u>	<u>2,446</u>
Total capital assets, not being depreciated	<u>3,217</u>	<u>2,749</u>	<u>2,818</u>	<u>3,148</u>
Capital assets, being depreciated:				
Treatment facilities	251,466	2,876	-	254,342
Equipment and other	<u>8,939</u>	<u>653</u>	<u>-</u>	<u>9,592</u>
Total capital assets, being depreciated	<u>260,405</u>	<u>3,529</u>	<u>-</u>	<u>263,934</u>
Less accumulated depreciation for:				
Treatment facilities	92,568	8,682	-	101,250
Equipment and other	<u>4,894</u>	<u>487</u>	<u>-</u>	<u>5,381</u>
Total accumulated depreciation	<u>97,462</u>	<u>9,169</u>	<u>-</u>	<u>106,631</u>
Total capital assets, being depreciated, net	<u>162,943</u>	<u>(5,640)</u>	<u>-</u>	<u>157,303</u>
The District's capital assets, net	\$ <u><u>166,160</u></u>	<u><u>(2,891)</u></u>	<u><u>2,818</u></u>	<u><u>160,451</u></u>
Discretely presented component				
units - WRA:				
Capital assets, not being depreciated				
Land	\$ 1,128	-	-	1,128
Construction in progress	<u>945</u>	<u>385</u>	<u>303</u>	<u>1,027</u>
Total capital assets, not being depreciated	<u>2,073</u>	<u>385</u>	<u>303</u>	<u>2,155</u>
Capital assets, being depreciated:				
Buildings	40,198	303	-	40,501
Equipment and other	<u>177</u>	<u>43</u>	<u>-</u>	<u>220</u>
Total capital assets, being depreciated	<u>40,375</u>	<u>346</u>	<u>-</u>	<u>40,721</u>
Less accumulated depreciation for:				
Buildings	15,002	1,038	-	16,040
Equipment and other	<u>130</u>	<u>6</u>	<u>-</u>	<u>136</u>
Total accumulated depreciation	<u>15,132</u>	<u>1,044</u>	<u>-</u>	<u>16,176</u>
Total capital assets, being depreciated, net	<u>25,243</u>	<u>(698)</u>	<u>-</u>	<u>24,545</u>
WRA capital assets, net	\$ <u><u>27,316</u></u>	<u><u>(313)</u></u>	<u><u>303</u></u>	<u><u>26,700</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Construction Commitments

The City has active construction projects as of June 30, 2017. The projects include land improvements, infrastructure and building improvements. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent through June 30, 2017</u>	<u>Remaining commitment</u>
Building improvements	\$ 54,723	15,458
Infrastructure improvements	86,354	26,694
Land improvements	13,077	5,687
Furniture and equipment	370	370
Total	<u>\$ 154,524</u>	<u>48,209</u>

The commitments for the aforementioned projects are being funded by general obligation bonds.

(11) Net Investment in Capital Assets

Net investment in capital assets at June 30, 2017 is summarized as follows:

Governmental Activities

Capital assets	\$ 1,368,554
Less accumulated depreciation	(533,210)
Less outstanding long-term debt (including capital leases)	(478,418)
Less outstanding temporary debt	(89,570)
Add outstanding debt that is not capital related	136,980
Add unspent proceeds of capital related debt	<u>29,388</u>
Net investment in capital assets	<u>\$ 433,724</u>

Business-Type Activities

	<u>Water</u>	<u>Sewer</u>	<u>Golf Course (Nonmajor)</u>	<u>Total Enterprise Funds/ Business-Type Activities</u>
Capital assets	\$ 222,644	241,484	3,080	467,208
Less accumulated depreciation	(111,262)	(117,703)	(1,537)	(230,502)
Less outstanding long-term debt	(55,453)	(93,065)	(1,233)	(149,751)
Less outstanding temporary debt	(3,920)	(9,758)	(440)	(14,118)
Add unspent proceeds of capital related debt	<u>3,576</u>	<u>8,107</u>	<u>375</u>	<u>12,058</u>
Net investment in capital assets	<u>\$ 55,585</u>	<u>29,065</u>	<u>245</u>	<u>84,895</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(12) Lease Obligations

(a) Capital Leases

The City entered into a lease agreement as lessee for financing the acquisition of computer equipment for schools valued at \$5,609. The equipment has a five-year estimated useful life. This year, \$1,122 was included in depreciation expense. The net book value of the equipment is \$1,683. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 1,209
2019	<u>604</u>
Total minimum lease payments	1,813
Less: amount representing interest	<u>(50)</u>
Present value of minimum lease payments	<u>\$ 1,763</u>

The portion of the capital lease that is due within one year is \$1,166 and amounts due in more than one year total \$597.

The City entered into a lease agreement as lessee for financing the acquisition of communication equipment for public safety valued at \$7,671. The equipment has a fifteen-year estimated useful life. This year, \$511 was included in depreciation expense. The net book value of the equipment is \$6,904. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	<u>Amount</u>
Year ending June 30:	
2018	\$ 695
2019	695
2020	695
2021	695
2022	695
2023 - 2031	<u>6,259</u>
Total minimum lease payments	9,734
Less: amount representing interest	<u>(2,299)</u>
Present value of minimum lease payments	<u>\$ 7,435</u>

The portion of the capital lease that is due within one year is \$411 and amounts due in more than one year total \$7,024.

(b) Operating Leases

The City currently conducts part of its student transportation operations from a leased facility and bus yard under a non-cancelable operating lease. Total costs for the lease was \$171 for the year ended June 30, 2017, including \$161 for the lease and \$10 for utilities. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ <u>161</u>
Total	\$ <u><u>161</u></u>

The City currently leases premises for use as a public school facility for approximately 100 students of the City's alternative school program under a non-cancelable operating lease. Total costs for the lease was \$56 for the year ended June 30, 2017.

Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	54
2019	54
2020	<u>54</u>
Total	\$ <u><u>162</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

The City entered into a non-cancelable operating lease date May 26, 2016 to lease 10 thousand square feet of premises for use as a public school facility beginning in fiscal 2017. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 204
2019	<u>204</u>
Total	<u>\$ 408</u>

The City currently leases premises for use of gymnasium and parking spaces by a public school under a non-cancelable operating lease. Total costs for the lease was \$47 for the year ended June 30, 2017. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 47
2019	48
2020	<u>49</u>
Total	<u>\$ 144</u>

The City currently leases land for the purpose of installing and operating an emergency communications radio tower. The lease is for ten years with an option to extend for an additional ten years. Total costs for the lease was \$24 for the year ended June 30, 2017. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 24
2019	24
2020	24
2021	24
2022	24
2023 - 2024	<u>72</u>
Total minimum lease payments	<u>\$ 192</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(13) Long-Term Obligations

(a) Changes in Long Term Obligations - Primary Government

Governmental Activities

The following is a summary of changes in noncurrent governmental bond principal and other long-term obligations, including portions due within one year, as reported in the statement of net position.

	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>	<u>Due within one year</u>
General obligation bonds:					
Inside debt limit	\$ 203,754	9,481	28,206	185,029	21,685
Outside debt limit	271,092	38,088	26,936	282,244	23,912
Notes payable – HUD Sec 108	2,085	-	138	1,947	145
Capital lease payable	10,564	-	1,366	9,198	1,577
Judgments and claims	14,137	5,145	5,393	13,889	5,251
Compensated absences	13,191	8,957	8,680	13,468	8,936
Landfill closure and post closure care costs	4,598	1,649	247	6,000	-
Net pension liability	424,612	15,686	-	440,298	-
Other post employment benefits	273,038	54,066	22,433	304,671	-
Deferred amounts on bond premium	16,582	4,974	4,653	16,903	3,435
	<u>\$ 1,233,653</u>	<u>138,046</u>	<u>98,052</u>	<u>1,273,647</u>	<u>64,941</u>

For governmental activities, bonds and notes payable are liquidated by the general fund, debt service fund and various other governmental funds. All other long-term obligations typically have been liquidated in prior years by the general fund.

Business-Type Activities

The following is a summary of changes in noncurrent business-type bond principal and other long-term obligations, including portions due within one year as reported in the statement of net position.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>	<u>Due within one year</u>
General obligation bonds:					
Inside debt limit	\$ 10,050	1,379	1,838	9,591	1,485
Outside debt limit	129,785	21,917	16,851	134,851	9,886
MCWT notes payable	2,883	2,671	245	5,309	270
Judgments and claims	1,074	398	534	938	208
Compensated absences	715	599	572	742	591
Net pension liability	25,658	1,074	-	26,732	-
Other post employment benefits	8,231	1,565	746	9,050	-
Deferred amounts on bond premium	26	808	54	780	106
	<u>\$ 178,422</u>	<u>30,411</u>	<u>20,840</u>	<u>187,993</u>	<u>12,546</u>

On December 15, 2016 the City issued \$70,865 of general obligation bonds of which \$55,775 was bonds issued for current projects and \$15,090 was refunding debt. The proceeds consisted of \$47,569 for governmental activities of which \$8,892 was refunding bonds issued and \$23,296 for business-type activities of which \$6,198 was refunding bonds issued. Additionally, \$2,671 of notes from the Massachusetts Clean Water Trust was issued for business-type activities.

(b) Detail of Individual Long-Term Debt Issues – Primary Government

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and a pension funding loan in 1998. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 25 years. General obligation bonds of the primary government outstanding at June 30, 2017 are as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Governmental Activities

Purpose/Type	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding June 30, 2017
1998 General Obligation Bonds, Pension Funding Loan	\$ 220,979	6.25%	2028	129,565
2001 General Obligation Bonds	26,685	5.25% to 5.41%	2021	1,390
2002 General Obligation Bonds, Series A	18,365	4.2% to 5.0%	2023	3,490
2002 General Obligation Bonds, Series B	8,000	4.5% to 4.625%	2021	1,495
2003 General Obligation Bonds, Series C	17,670	3.7% to 4.0%	2024	1,921
2003 General Obligation Bonds, Series D	5,965	4.25% to 5.8%	2023	1,805
2004 General Obligation Bonds	43,110	4.125% to 5.25%	2025	11,160
2005 General Obligation Refunding Bonds, Series A	34,067	4.05% to 5.0%	2021	11,984
2005 General Obligation Refunding Bonds, Series B	22,198	5.0%	2019	5,354
2005 General Obligation Bonds, Series C	46,125	4.0% to 4.125%	2026	14,244
2006 General Obligation Bonds	29,090	4.0% to 4.25%	2027	4,552
2007 General Obligation Bonds, Parking Garage	4,750	5.45%	2019	1,010
2007 General Obligation Bonds	23,110	4.0%	2028	2,477
2009 General Obligation Bonds	25,905	3.50% to 5.0%	2038	14,724
2010 General Obligation Bonds, Series A	19,850	3.0% to 4.25%	2036	9,470
2010 DCU Special Improvement District Bonds, Series B	5,050	5.75% to 6.75%	2035	4,360
2011 General Obligation School Bond	10,000	2.00%	2041	8,000
2011 General Obligation Refunding	7,585	2.5% to 3.0%	2022	2,836
2011 General Obligation Bonds, Series A	21,057	3.0% to 4.25%	2037	11,783
2011 General Obligation Bonds, Series B DCU Spec. District	1,005	4.0% to 5.0%	2029	865
2011 General Obligation Bonds, Series B Foley Stadium	961	4.0% to 5.0%	2029	475
2012 District Improvement Financing Bonds	6,845	3.0% to 5.0%	2040	6,665
2012 General Obligation Bonds	48,150	3.0% to 4.0%	2038	34,914
2013 General Obligation Refunding	3,016	4.0% to 5.0%	2024	1,923
2013 General Obligation Bonds	52,492	3.0% to 5.0%	2039	41,549
2014 General Obligation Bonds, Series A	27,609	3.0% to 5.0%	2040	22,670
2014 DCU Special Improvement District Bonds, Series B	13,979	3.125% to 4.2%	2039	13,200
2014 General Obligation Refunding Bonds, Series C	3,195	2.0% to 5.0%	2025	2,359
2014 General Obligation Refunding Bonds, Series A	4,212	3.0% to 5.0%	2040	3,346
2015 General Obligation Bonds, Series A	26,895	3.0% to 5.0%	2041	24,486
2015 General Obligation Bonds, Series B	17,386	2.95% to 5.0%	2033	17,260
2015 General Obligation Refunding Bonds, Series C	9,439	2.0% to 5.0%	2027	8,372
2016 General Obligation Bonds, Series A	38,677	3.0% to 5.0%	2042	38,677
2016 General Obligation Refunding Bonds, Series B	8,892	3.0% to 5.0%	2028	8,892
				\$ 467,273

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Business-Type Activities

Purpose/Type	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding June 30, 2017
2002 General Obligation Bonds, Series A	7,325	4.2% to 5.0%	2023	\$ 2,665
2003 General Obligation Bonds, Series C	7,945	3.7% to 4.0%	2024	14
2005 General Obligation Refunding Bonds, Series A	34,067	4.05% to 5.0%	2021	3,356
2005 General Obligation Refunding Bonds, Series B	22,198	5.0%	2019	1,331
2005 General Obligation Bonds, Series C	11,550	4.0% to 4.125%	2026	16
2006 General Obligation Bonds	17,680	4.0% to 4.25%	2027	43
2007 General Obligation Bonds	15,987	4.0%	2028	23
2009 General Obligation Bonds	12,190	3.50% to 5.0%	2038	7,567
2010 General Obligation Bonds, Series A	12,805	3.0% to 4.25%	2036	9,030
2011 General Obligation Refunding	9,170	2.5% to 3.0%	2022	1,809
2011 General Obligation Bonds, Series A	10,240	3.0% to 4.25%	2037	7,997
2012 General Obligation Bonds	23,983	3.0% to 4.0%	2038	19,651
2013 General Obligation Refunding	3,444	4.0% to 5.0%	2024	2,518
2013 General Obligation Bonds	14,995	3.0% to 5.0%	2039	13,200
2014 General Obligation Bonds, Series A	18,420	3.0% to 5.0%	2040	16,755
2014 General Obligation Refunding Bonds Series C	3,575	2.0% to 5.0%	2025	8,014
2014 General Obligation Refunding Bonds, Series A	9,248	3.0% to 5.0%	2040	2,911
2015 General Obligation Bonds, Series A	14,598	3.0% to 5.0%	2041	13,834
2015 General Obligation Refunding Bonds, Series C	11,216	2.0% to 5.0%	2027	10,412
2016 General Obligation Bonds, Series A	17,098	3.0% to 5.0%	2042	17,098
2016 General Obligation Refunding Bonds, Series B	6,198	3.0% to 5.0%	2028	6,198
				\$ 144,442

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Notes Payable

The City has a guaranteed loan agreement with the U.S. Department of Housing and Urban Development Section 108 to fund the Gardner, Kilby and Hammond Streets rehabilitation in the amount of \$1,947. The City also has loan agreements with the Massachusetts Clean Water Trust (MCWT) to fund the Southbridge Street sewer separation project and water pollution abatement projects in the amount of \$5,309.

Governmental Activities – Loans Payable HUD Section 108

2015 - A series loan	\$	2,030	2.56% to 2.85%	2025	\$	1,882
2015 - A series loan		186	0.93%	2018		<u>65</u>
					\$	<u><u>1,947</u></u>

Business-Type Activities – Loans payable MCWT

2006 clean water loan to sewer enterprise fund	\$	949	4.90%	2024	\$	464
2014 clean water loan to sewer enterprise fund		851	2.00%	2033		738
2015 clean water loan to sewer enterprise fund		561	2.00%	2035		516
2016 clean water loan to sewer enterprise fund		1,048	2.00%	2036		1,006
2017 clean water loan to sewer enterprise fund		2,671	2.00%	2037		<u>2,585</u>
					\$	<u><u>5,309</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(c) Maturity of Bond Indebtedness-Primary Government

Bond indebtedness outstanding at June 30, 2017 matures as follows:

	Governmental activities		Business-type activities			
	Governmental Funds		Water		Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2018	\$ 45,597	21,588	5,704	2,175	5,495	3,418
2019	43,183	19,334	4,871	1,919	5,292	3,144
2020	39,185	17,299	3,908	1,715	4,661	2,926
2021	37,279	15,434	3,729	1,549	4,769	2,718
2022	33,529	13,666	3,434	1,388	4,562	2,501
2023-2027	157,136	44,479	13,598	4,963	22,133	9,644
2028-2032	64,409	14,956	8,156	2,992	15,975	6,138
2033-2037	32,590	6,140	7,829	1,596	16,328	3,265
2038-2042	14,365	1,107	4,225	348	8,541	690
	<u>\$ 467,273</u>	<u>154,003</u>	<u>55,454</u>	<u>18,645</u>	<u>87,756</u>	<u>34,444</u>

	Business-type activities		Business-type	
	Golf course (nonmajor)		activities totals	
	Principal	Interest	Principal	Interest
Year ending June 30:				
2018	\$ 172	46	11,371	5,639
2019	177	38	10,340	5,101
2020	179	32	8,748	4,673
2021	81	27	8,579	4,294
2022	74	23	8,070	3,912
2023-2027	355	69	36,086	14,676
2028-2032	121	22	24,252	9,152
2033-2037	50	9	24,207	4,870
2038-2042	23	1	12,789	1,039
	<u>\$ 1,232</u>	<u>267</u>	<u>144,442</u>	<u>53,356</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Scheduled loan principal and interest repayments and related anticipated subsidies of the Section 108 and MCWT loans as of June 30, 2017 are as follows:

	Governmental activities	
	General fund	
	Principal	Interest
Year ending June 30:		
2018	\$ 145	48
2019	84	47
2020	88	46
2021	92	44
2022	97	42
2023-2025	1,441	93
	<u>\$ 1,947</u>	<u>320</u>

	Business-type activities					
	Sewer				Business-type activities totals (net)	
	Principal	Interest	Anticipated subsidy		Principal	Interest
			Principal	Interest		
Year ending June 30:						
2018	\$ 270	106	-	12	270	94
2019	275	111	-	11	275	100
2020	284	104	-	10	284	94
2021	289	96	1	8	288	88
2022	299	88	2	6	297	82
2023-2027	1,372	335	9	4	1,363	331
2028-2032	1,364	201	-	-	1,364	201
2033-2037	1,156	64	-	-	1,156	64
	<u>\$ 5,309</u>	<u>1,105</u>	<u>12</u>	<u>51</u>	<u>5,297</u>	<u>1,054</u>

(d) Authorized and Unissued Debt

The City is subject to a dual-level general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively; of the valuation of taxable property in the City as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Municipal Finance Oversight Board. Additionally, certain categories of general obligation debt are exempt from the debt limit but subject to other limitations.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Authorized and unissued debt at June 30, 2017 is as follows:

Inside debt limit:		
Building rehabilitation	\$	71,289
School construction - Nelson Place		54,840
School and citywide building ESCO projects		44,506
Street construction		29,865
Parks improvements		20,970
Union Station garage		17,835
Departmental equipment		13,510
School construction - North High		4,504
Courthouse rehabilitation		4,000
Street signage and wayfinding improvements		3,000
Off-street parking		2,896
Major Taylor garage walkway		1,850
Sewer building rehabilitation		1,825
Sewer equipment		1,626
Water building rehabilitation		1,625
Street lights		1,175
Land acquisition		825
Open space		800
Traffic signals		740
Emergency center		710
Bridge construction		650
Urban Systems Gateway		648
Dam improvements		550
Greenhill Golf Course infrastructure		505
Sewer generator		500
Vocational School construction		410
South Worcester Industrial Park		275
Building demolition		269
Greenhill Golf Course access road		80
Guardrails		25
Total inside debt limit		<u>282,303</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Outside debt limit:	
Sewer construction	77,073
City Square	51,934
DCU Center building improvements	28,553
Water mains	24,350
School construction - MSBA other	14,319
Reservoir rehabilitation	9,805
Dam improvements	4,400
Water filtration	2,735
Water equipment	1,897
Surface drain construction	1,290
Water hydrants	1,250
Water meters	1,000
Greenhill Golf Course design	855
December ice storm 2008	725
Watershed land	500
Water filtration solar	384
Greenhill Golf Course facilities	195
Total outside debt limit	<u>221,265</u>
Total inside and outside debt limit	<u>\$ 503,568</u>

At June 30, 2017, in addition to debt authorized but unissued, the City may issue \$134,960 of additional general obligation debt under the normal debt limit. The City had \$417,095 of outstanding debt exempt from the debt limit.

(e) Current Refunding

On December 15, 2016, the City issued \$15,090 in current refunding bonds to redeem \$15,790 of previously issued and outstanding bonds. The current refunding included \$15,090 of refunding bonds with a true interest cost of 2.94% (inclusive of premium) to redeem \$15,790 of 2008 General Obligation Bonds with average remaining coupons of 5.09%. The net proceeds from the current refunding, including premiums received from the sale, were used to redeem the outstanding bonds and the related accrued interest. As a result of this refunding, the City will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$1,997 and will realize an economic gain of approximately \$1,689.

(f) Outstanding Defeased Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2017, \$30,545 of bonds outstanding is considered defeased.

(g) Discretely Presented Component Units – The District

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital assets.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. The bonds are generally issued as 20-30 year serial bonds with varying amounts of principal maturing each year. The District's last bond rating was AA3.

Long-term obligations consisted of the following at June 30, 2017:

1999 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts at an average coupon rate of 5.253% with a final payment due February 1, 2020.	\$	205
2001 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts at an average coupon rate of 5.098% with a final payment due February 1, 2021.		125
2004 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts at an average coupon rate of 2.48% with a final payment due August 1, 2034. The bonds were advance refunded by the Trust during 2007.		33,465
2007 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts with interest at 2.345% with a final payment due July 15, 2034.		4,453
2007 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts with interest at 2.302% with a final payment due July 15, 2036.		19,415
2007 General Obligation Refunding Bonds payable in varying principal amounts starting August 1, 2009 until August 1, 2019 at an average coupon rate of 3.934%.		2,515
2007 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts with interest at 2.414% with a final payment due July 15, 2037.		9,277
2008 General Obligation Bonds payable in varying annual installments at an average coupon rate of 5.0% with a final payment due May 1, 2028.		375
2009 General Obligation Bonds issued to the MCWT. The bonds are in varying principal payable amounts with interest at 2.421% with a final payment due July 15, 2038.		18,478
2011 General Obligation Bonds issued to the MCWT. The bonds are payable in varying annual installments with interest at 2.40% with a final payment due May 1, 2040.		18,621
2011 General Obligation Bonds issued to the MCWT. The bonds are payable in varying annual installments with interest at 2.40% with a final payment due May 1, 2040.		6,207
2012 General Obligation Bonds issued to the MCWT. The bonds are payable in varying annual installments with interest at 2.00% with a final payment due July 15, 2032.		16,567

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

2012 General Obligation Bonds payable in varying principal amounts at an average coupon rate of 3.666% with a final payment due April 15, 2032.	3,220
2016 General Obligation refunding Bonds payable in varying principal amounts starting March 15, 2017 until March 15, 2023 with interest at 5.00%.	3,875
2016 General Obligation refunding Bonds payable in varying principal amounts starting May 1, 2019 until May 1, 2028 at an average coupon rate of 2.331%.	4,990
2016 General Obligation Bonds payable in varying principal amounts starting May 1, 2017 until May 1, 2036 at an average coupon rate of 2.782%.	<u>4,785</u>
Total bonds payable	146,573
Interim loan payable - MCWT, gross available \$25,000, interest at 0%, matures December 31, 2018. Funds drawn as of June 30, 2017 \$1,485.	1,485
Unamortized bond premiums	1,869
Net pension liability	8,987
OPEB net obligation	2,808
Accrued sick leave	<u>331</u>
Total long-term obligations	162,053
Less portion due within one year	<u>(7,450)</u>
Amount due in more than one year	<u><u>\$ 154,603</u></u>

As part of the borrowing arrangements with the Massachusetts Clean Water Trust, a political subdivision of the Commonwealth of Massachusetts, the Trust will grant, if funds are available, a loan subsidy to reduce actual repayment of debt. The trust granted loan subsidies for the year ended June 30, 2017 in the amount of \$1,007; with subsidies of principal totaling \$302 and interest subsidies totaling \$705.

Scheduled bond principal and interest repayments and related anticipated subsidies are as follows:

	<u>Gross payments</u>			<u>Anticipated subsidy</u>	<u>Net payments</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
Year ending June 30:					
2018	\$ 7,164	4,314	11,478	695	10,783
2019	7,447	4,066	11,513	674	10,839
2020	7,672	3,820	11,492	652	10,840
2021	6,929	3,584	10,513	611	9,902
2022	7,102	3,358	10,460	578	9,882
2023-2027	35,478	13,359	48,837	2,619	46,218
2028-2032	37,441	7,629	45,070	2,049	43,021
2033-2037	29,478	2,416	31,894	997	30,897
2038-2041	7,862	311	8,173	-	8,173
	<u>\$ 146,573</u>	<u>42,857</u>	<u>189,430</u>	<u>8,875</u>	<u>180,555</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

In a prior year, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2017, \$4,835 of bonds outstanding is considered defeased.

(h) Discretely Presented Component Units – WRA

On March 24, 1997, the WRA and City entered into a Cooperation Agreement (Agreement) concerning funding initiatives of the WRA. On December 14, 2000, the WRA voted to authorize the execution of any legal document in any effort to secure the repayment to the City of any funds the City may provide to finance the WRA's initiatives. Pursuant to the Agreement and the vote of the WRA on December 14, 2000, the WRA and City have executed several amendments to the Agreement whereby the City has agreed to loan the WRA various amounts at varying interest rates (ranging from 2.89% to 4.90%) and maturity dates (ranging from June 30, 2018 through June 30, 2019).

Details related to notes payable to the City at June 30, 2017, are as follows:

<u>Project</u>	<u>Outstanding at June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding at June 30, 2017</u>
Union Station - Building Fit Out	\$ 3,471	-	-	3,471
Union Station - Operating	5,234	518	-	5,752
Union Station - Bus Ports	484	-	-	484
General and Administrative	79	-	-	79
Urban renewal	225	24	-	249
Total	\$ 9,493	542	-	10,035

Debt service requirements in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 9,518	2,766	12,284
2019	517	20	537
Total	\$ 10,035	2,786	12,821

In addition to notes payable of \$10,035, the WRA also has accrued interest payable due in fiscal year 2019 of \$120 and total noncurrent liabilities of \$10,155.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(14) Temporary Borrowings

Primary Government

Under state law and by authorization of the City Council, the City is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through the issuance of revenue or tax anticipation notes (RANs or TANs);
- Special revenue, capital project, and enterprise fund costs incurred prior to obtaining permanent financing through the issuance of bond anticipation notes (BANs); and
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through the issuance of federal and state aid anticipation notes (FAANs and SAANs).

Temporary loans are general obligations of the City and carry maturity dates limited by statute. Interest expenditures/expenses on temporary borrowings for the year ended June 30, 2017 in the general fund, debt service fund, nonmajor governmental funds, and enterprise funds were \$1,263.

At June 30, 2017, BANS totaling \$103,688 with interest rates of 2.00% to 5.00% and maturing January 23, 2018 were outstanding. The following is a summary of changes in temporary loans:

	Outstanding as of June 30, 2016	Additions	Reductions	Outstanding as of June 30, 2017
Bond anticipation notes payable:				
General	\$ 67,599	89,570	67,599	89,570
Water	6,793	3,920	6,793	3,920
Sewer	10,788	9,758	10,788	9,758
Golf	-	440	-	440
Total	\$ <u>85,180</u>	<u>103,688</u>	<u>85,180</u>	<u>103,688</u>

(15) Interfund Receivables, Payables and Transfers

At June 30, 2017, there was a receivable and payable between the general fund and nonmajor governmental funds, respectively, in the amount of \$221 for a temporary cash advance.

Transfers and their purposes during the year ended June 30, 2017 were as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	Governmental Funds				Proprietary Funds		
	General Fund	Debt Service Fund	Rehabilitation of Public Buildings	Other Gov'tal Funds	Water Fund	Sewer Fund	Golf Fund (Nonmajor)
Original budget							
General fund - to fund debt payments	\$ (11,214)	11,214	-	-	-	-	-
Debt service fund - to promote tourism	500	(500)	-	-	-	-	-
General fund - transfer to fund DCU obligations	(470)	-	-	470	-	-	-
Chapter 90 - to fund DPW engineering and street ops.	518	-	-	(518)	-	-	-
General fund - tax levy subsidy of golf fund	(150)	-	-	-	-	-	150
Sewer connection fees - to fund DPW engineering	118	-	-	(118)	-	-	-
Trust fund to general fund for cemetery debt service	62	-	-	(62)	-	-	-
Premium on loans - to fund debt service costs	750	-	-	(750)	-	-	-
Golf fund - to fund pension obligation bonds	20	-	-	-	-	-	(20)
Sewer fund - to fund pension obligation bonds	554	-	-	-	-	(554)	-
Water fund - to fund pension obligation bonds	787	-	-	-	(787)	-	-
Sub-total	(8,525)	10,714	-	(978)	(787)	(554)	130
Subsequent transfers:							
Special revenue FEMA - transfer to general fund	115	-	-	(115)	-	-	-
General fund - to fund debt payments	(60)	60	-	-	-	-	-
General fund - to special revenue recreation summer	(115)	-	-	115	-	-	-
General fund - to fund golf operations	(188)	-	-	-	-	-	188
Insurance settlement fund - fire and park vehicles	34	-	-	(34)	-	-	-
Insurance settlement fund - schools	-	-	-	29	-	-	-
Insurance settlement fund - schools	-	-	-	(29)	-	-	-
Premium on loans to fund bond issuance costs	421	-	-	(421)	-	-	-
Special revenue land sales to economic development	59	-	-	(59)	-	-	-
Insurance settlement fund - DCU Center Construction	-	-	-	199	-	-	-
Insurance settlement fund - DCU Center Construction	-	-	-	(199)	-	-	-
Transfer between capital project funds	-	-	(550)	550	-	-	-
Parking receipts to fund off-street parking	-	-	-	4,143	-	-	-
Parking receipts to fund off-street parking	-	-	-	(4,143)	-	-	-
Transfer among capital project nonmajor funds	-	-	-	762	-	-	-
Transfer among capital project nonmajor funds	-	-	-	(762)	-	-	-
Greenwood St reserve-for historic building façade	-	-	-	75	-	-	-
Greenwood St reserve-for historic building façade	-	-	-	(75)	-	-	-
Greenwood St reserve-for WPS equipment	-	-	-	13	-	-	-
Greenwood St reserve-for WPS equipment	-	-	-	(13)	-	-	-
Greenwood St reserve-environmental monitoring	-	-	-	200	-	-	-
Greenwood St reserve-environmental monitoring	-	-	-	(200)	-	-	-
Home program income transferred to city grants	-	-	-	259	-	-	-
Home program income transferred to city grants	-	-	-	(259)	-	-	-
Transfer from spendable trust funds for expenditures	-	-	-	175	-	-	-
Transfer from spendable trust funds for expenditures	-	-	-	(175)	-	-	-
Special revenue PEG fund to educational access fund	-	-	-	318	-	-	-
Special revenue PEG fund to educational access fund	-	-	-	(318)	-	-	-
Total transfers, net	\$ (8,259)	10,774	(550)	(942)	(787)	(554)	318

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(16) Environmental Remediation – The District

The District is currently complying with the terms of a May 1, 2014 Administrative Consent Order (AOC) with the EPA. The AOC is primarily focused on improvements to reduce effluent nitrogen and phosphorus levels. The District proposed modifications in fiscal 2017 that were accepted by EPA. The revised schedule recognizes a three-phase Nutrient Upgrade project for compliance with NPDES limits for all dry weather flows extending to 2027 as well as assessment of the AOC schedule as part of the overall City of Worcester Integrated Water Resource Management Plan. The Nutrient Facilities Plan completed during fiscal year 2016 recommended phasing the estimated \$140,000 to \$160,000 nutrient project to allow for additional pilot testing. Pilot testing was included in the modified AOC schedule and completed in fiscal 2017. The outcome of the integrated planning should include proposed projects, associated costs and a prioritized schedule for implementation based on environmental benefit and ratepayer affordability.

(17) Risk Management

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health and life insurance claims.

Certain City buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$500 per incident. All City buildings have boiler and machinery insurance. The City is self-insured for other types of general liability; however, Chapter 258 of Massachusetts General Laws limits the City's liability to a maximum of \$100 per claimant in all matters except actions relating to federal civil rights, eminent domain, and breach of contract. The City is also self-insured for unemployment and workers' compensation.

The City provides a variety of health insurance benefits to employees including Blue Cross/Blue Shield Blue Choice (BCBS) and BCBS Medex as well as Fallon Direct, Advantage and Senior plans and Tufts Medicare supplementary plans. The partially self-insured BCBS, Fallon and Medex plans are paid through an established internal service fund based on total claims, while the Fallon Senior and Tufts Medicare plans are based on premiums. Specific stop loss insurance is purchased for claims that exceed \$250 for each participating member of the self-insured health plans. 25% employee contributions are made. The remainder of such costs is funded by the City. The City provides \$5 of term life insurance benefits to its employees. The City also provides health and life insurance benefits to certain retirees, as discussed in note 8.

Liabilities for self-insured judgments and claims are recorded in the basic financial statements if it is probable that a loss has been incurred and the amount can be reasonably estimated. The City accounts for its self-insurance costs that have matured in the general fund in the fund-basis statements.

The City has established a liability for health claims based on actual amounts paid two months subsequent to year-end (provided by a third-party administrator) and an estimate of future claims based on historical trends.

The City has established a liability for judgments and claims based on a case-by-case review of all known claims, estimates of losses incurred but not reported, incremental costs incurred only because of claims,

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

historical trends of previous years, and attorneys' estimates of pending matters and lawsuits in which the City is involved.

Changes in the self-insurance liability for health claims (which are reported as accrued liabilities in the internal service fund) for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Health claims, beginning of year	\$ 7,672	7,621
Incurred claims	87,452	82,803
Payments of claims attributable to events of the current and prior fiscal years	<u>(89,291)</u>	<u>(82,752)</u>
Health claims, end of year	<u>\$ 5,833</u>	<u>7,672</u>

Changes in judgments and claims liability for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Judgments and claims, beginning of year	\$ 15,211	16,680
Additions to estimated claims liability	5,543	5,899
Payments of claims attributable to events of the current and prior fiscal years, and reductions to previous estimated liabilities:		
Court judgments and legal settlements	(2,390)	(2,483)
Workers' compensation	<u>(3,537)</u>	<u>(4,885)</u>
Judgments and claims, end of year	<u>\$ 14,827</u>	<u>15,211</u>

Judgments and claims consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Workers' compensation	\$ 10,877	11,096
Court judgments and legal settlements	<u>3,950</u>	<u>4,115</u>
	<u>\$ 14,827</u>	<u>15,211</u>

The fiscal 2017 liability for judgments and claims consist of governmental and business-type activities in the amount of \$13,889 and \$938, respectively.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The liability for workers' compensation is reported at net present value using a discount rate of 5.5%.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

There are various other pending matters and lawsuits in which the City is involved. The City and its legal counsel estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the City's financial position.

(18) Fund Balances

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	<u>General Fund</u>	<u>CitySquare Construction</u>	<u>Debt Service Fund</u>	<u>Rehabilitation of Public Buildings</u>	<u>Other governmental funds</u>	<u>Total Governmental Funds</u>
Nonspendable:						
Permanent fund principal.....	\$ -	-	-	-	15,686	15,686
Restricted:						
OPEB.....	11,753	-	-	-	-	11,753
DCU Center operations.....	-	-	-	-	519	519
School lunch.....	-	-	-	-	879	879
Off-street parking.....	-	-	-	-	1,257	1,257
City revolving funds.....	-	-	-	-	5,630	5,630
School grants.....	-	-	-	-	5,846	5,846
School revolving funds.....	-	-	-	-	2,114	2,114
Community development.....	-	-	-	-	55	55
Workforce Central.....	-	-	-	-	1,070	1,070
City grants.....	-	-	-	-	12,529	12,529
Capital.....	-	-	-	-	4,753	4,753
Permanent fund expendable.....	-	-	-	-	4,228	4,228
Sub-total - Restricted.....	<u>11,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,880</u>	<u>50,633</u>
Committed:						
Debt service.....	-	-	18,025	-	-	18,025
Receipts reserved.....	-	-	-	-	19,764	19,764
Sub-total - Committed....	<u>-</u>	<u>-</u>	<u>18,025</u>	<u>-</u>	<u>19,764</u>	<u>37,789</u>
Unassigned.....	<u>40,383</u>	<u>(28,301)</u>	<u>-</u>	<u>(32,647)</u>	<u>(22,805)</u>	<u>(43,370)</u>
Total fund balances.....	\$ <u>52,136</u>	<u>(28,301)</u>	<u>18,025</u>	<u>(32,647)</u>	<u>51,525</u>	<u>60,738</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(19) Prior Period Reclassifications

The beginning fund balances of the DCU Center construction fund and nonmajor governmental funds have been restated from (\$1,154) and \$60,179, respectively, to zero and \$59,025, respectively, to reflect the reclassification of the DCU Center construction fund from a major governmental fund to a nonmajor fund.

(20) Fund Deficits

The following funds had deficits at June 30, 2017:

<u>Major Funds</u>		<u>Nonmajor Funds</u>	
		Capital Projects Funds:	
CitySquare Construction	\$ 28,301	DCU Center Construction	\$ 1,453
Rehabilitation of Public Buildings	32,647	Street and Sidewalk	1,514
		Capital Equipment	2,782
		School Construction	16,854
		Special Revenue Funds:	
		Police Auxiliary	202
		Proprietary Funds:	
		Golf Course Enterprise	658

These deficits will be funded in future fiscal years via long-term bond issues, charges for services and intergovernmental revenues.

(21) Tax Abatements

The City of Worcester enters into property tax abatement agreements with local businesses under two state programs: the Massachusetts Housing Development Incentive Program (HDIP), and the Massachusetts Economic Development Incentive Program (EDIP). The Massachusetts Housing Development Incentive Program (HDIP) allows companies to receive state and local tax incentives in order to increase residential growth, expand diversity of housing stock, support economic development, and promote neighborhood stabilization in designated areas. Similarly, the Massachusetts Economic Development Incentive Program (EDIP) gives companies state and local tax incentives in order to foster job creation and stimulate business growth throughout the City.

Worcester negotiates property tax abatement agreements on an individual basis. As of June 30, 2017, Worcester had tax abatement agreements with twenty-two entities with thirteen of those entities receiving abatements in fiscal year 2017 and nine entities whose abatement will begin after fiscal year 2017 upon completion of the projects. The City's policy is to disclose individual tax abatement agreements in which the amount abated in fiscal year 2017 exceeded 10% of the total abatements made by the City in fiscal year 2017. In fiscal year 2017, Worcester abated property taxes totaling \$2,600. Detailed below are the tax abatement agreements that each exceed 10% of the total amount abated:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

- 1 Mercantile St – an 86% property tax abatement to an insurance company for constructing a 198,974 square foot office building and relocate approximately 600 full-time employees. The abatement totals \$859, which accounts for 33% of total abatements in fiscal year 2017. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's Economic Opportunity Area approved by the Economic Assistance Coordinating Council (EACC).
- 50 Prescott Street – a 64% property tax abatement given to a company constructing a 92,000 square foot office and laboratory building and creating 20 new permanent full-time jobs. The abatement totals \$404, which accounts for 16% of total abatements in fiscal year 2017. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's EACC.
- 35 Major Taylor – a 45% property tax abatement given to a company constructing a 34,000 square foot 200 room hotel in downtown and 100 full-time jobs. The abatement totals \$397, which accounts for 15% of total abatements in fiscal 2017. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's EACC.
- 1 Eaton Place – a 56% property tax abatement to a for-profit hospital for constructing a 66,000 square foot cancer and wellness center and creating 22 new permanent jobs and retaining 26 full-time permanent jobs. The abatement totals \$285, which accounts for 11% of total abatements in fiscal year 2017. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's EACC. In the event the hospital fails to meet its jobs requirement the City has the right to revoke the agreement.

(THIS PAGE LEFT BLANK INTENTIONALLY)



**REQUIRED SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY STATEMENTS AND SCHEDULES**

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

General Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 279,443,884	278,951,378	278,130,047	(821,331)
Motor vehicle excise taxes	14,100,000	14,750,000	15,845,641	1,095,641
Penalties and interest on taxes:				
Property taxes	881,500	881,500	1,124,903	243,403
Tax titles	61,800	61,800	98,323	36,523
Motor vehicle excise	989,000	989,000	946,798	(42,202)
Special assessments	180,000	180,000	145,881	(34,119)
	<u>2,112,300</u>	<u>2,112,300</u>	<u>2,315,905</u>	<u>203,605</u>
Other taxes and in-lieu payments:				
In lieu of taxes	815,000	815,000	733,972	(81,028)
Special assessments	600,000	600,000	548,696	(51,304)
Meals tax	2,510,000	2,510,000	2,855,564	345,564
Hotel/motel tax	800,000	800,000	1,131,741	331,741
	<u>4,725,000</u>	<u>4,725,000</u>	<u>5,269,973</u>	<u>544,973</u>
Licenses and permits:				
Clerk	184,600	259,600	252,814	(6,786)
Inspectional Services	3,456,100	4,018,632	4,284,002	265,370
Fire	213,250	213,250	228,815	15,565
Health	614,800	614,800	670,618	55,818
License Commission:				
Liquor & common victualer	804,350	804,350	816,422	12,072
Other	65,000	65,000	73,301	8,301
Police	93,700	93,700	103,616	9,916
Public Works	253,500	253,500	283,491	29,991
	<u>5,685,300</u>	<u>6,322,832</u>	<u>6,713,079</u>	<u>390,247</u>
Intergovernmental:				
State local aid	279,668,290	279,443,499	279,349,968	(93,531)
State school construction aid	11,575,058	11,575,058	11,575,067	9
State school busing assistance	-	-	159,197	159,197
School based Federal Medicaid	1,300,000	1,900,000	4,110,607	2,210,607
Federal indirect cost reimbursements	1,450,000	1,450,000	1,047,830	(402,170)
	<u>293,993,348</u>	<u>294,368,557</u>	<u>296,242,669</u>	<u>1,874,112</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2017
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Fines and forfeitures:				
Parking fines	\$ 1,699,000	1,699,000	1,589,425	(109,575)
Court fines	1,158,000	1,158,000	816,142	(341,858)
	<u>2,857,000</u>	<u>2,857,000</u>	<u>2,405,567</u>	<u>(451,433)</u>
Investment earnings	479,000	479,000	1,067,129	588,129
Charges for services:				
Airport land lease	80,000	80,000	100,000	20,000
Assessor	6,000	6,000	6,401	401
Cable TV	22,000	22,000	-	(22,000)
Clerk	557,300	557,300	496,109	(61,191)
Communications	500	500	546	46
Elder Affairs	75,000	75,000	76,771	1,771
Fire	281,200	281,200	302,838	21,638
Health	23,600	23,600	18,073	(5,527)
Hope Cemetery	304,000	304,000	324,447	20,447
Library	32,000	32,000	62,056	30,056
Energy & Asset Management	-	-	-	-
Parks	60,600	60,600	66,478	5,878
Planning	72,000	72,000	121,357	49,357
Police	708,200	708,200	717,322	9,122
Public Works	21,000	21,000	4,613	(16,387)
Contracted towing revenue	175,000	175,000	281,738	106,738
Schools	10,000	10,000	10,430	430
Trailer coach park	4,000	4,000	3,888	(112)
Trash bags	3,100,000	3,100,000	3,271,553	171,553
Treasurer	14,000	14,000	1,534	(12,466)
	<u>5,546,400</u>	<u>5,546,400</u>	<u>5,866,154</u>	<u>319,754</u>
Miscellaneous	705,000	705,000	2,998,094	2,293,094
Total revenues	<u>609,647,232</u>	<u>610,817,467</u>	<u>616,854,258</u>	<u>6,036,791</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2017
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government:				
Council:				
Salaries	\$ 339,091	339,091	339,088	3
Ordinary maintenance	26,867	26,867	11,848	15,019
	<u>365,958</u>	<u>365,958</u>	<u>350,936</u>	<u>15,022</u>
Mayor's staff:				
Salaries	119,827	121,590	121,590	-
Ordinary maintenance	7,777	7,777	7,447	330
	<u>127,604</u>	<u>129,367</u>	<u>129,037</u>	<u>330</u>
City Manager:				
Salaries	921,306	961,306	959,281	2,025
Ordinary maintenance	165,483	165,483	113,057	52,426
	<u>1,086,789</u>	<u>1,126,789</u>	<u>1,072,338</u>	<u>54,451</u>
Economic Development:				
Salaries	1,568,123	1,446,123	1,432,728	13,395
Ordinary maintenance	150,090	150,315	137,784	12,531
Capital outlay	-	159,000	107,252	51,748
	<u>1,718,213</u>	<u>1,755,438</u>	<u>1,677,764</u>	<u>77,674</u>
Promotion of Tourism:				
Ordinary maintenance	500,000	500,000	500,000	-
Capital outlay	-	-	-	-
	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Auditor:				
Salaries and overtime	529,509	496,337	465,589	30,748
Ordinary maintenance	92,472	92,472	87,973	4,499
	<u>621,981</u>	<u>588,809</u>	<u>553,562</u>	<u>35,247</u>
Administration & Finance:				
Salaries	396,569	414,569	403,697	10,872
Ordinary maintenance	68,745	68,745	37,559	31,186
	<u>465,314</u>	<u>483,314</u>	<u>441,256</u>	<u>42,058</u>
Treasurer and Collector:				
Salaries and overtime	1,191,908	1,149,908	1,119,355	30,553
Ordinary maintenance	691,676	1,112,818	1,101,724	11,094
	<u>1,883,584</u>	<u>2,262,726</u>	<u>2,221,079</u>	<u>41,647</u>
Assessor:				
Salaries and overtime	591,481	591,481	572,960	18,521
Ordinary maintenance	167,500	167,500	115,166	52,334
	<u>758,981</u>	<u>758,981</u>	<u>688,126</u>	<u>70,855</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

General Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
License Commission:				
Ordinary maintenance	\$ 1,200	1,200	798	402
	1,200	1,200	798	402
Law:				
Salaries	871,815	871,815	867,707	4,108
Ordinary maintenance	151,222	151,222	151,059	163
Casualty insurance	119,948	119,948	117,185	2,763
Court judgments	3,500,000	2,710,000	2,704,804	5,196
	4,642,985	3,852,985	3,840,755	12,230
City Clerk:				
Salaries and overtime	569,723	569,723	568,241	1,482
Ordinary maintenance	36,024	36,024	34,755	1,269
	605,747	605,747	602,996	2,751
Energy & Asset Management:				
Salaries and overtime	284,701	307,701	304,544	3,157
Ordinary maintenance	955,920	1,190,920	1,190,583	337
	1,240,621	1,498,621	1,495,127	3,494
Election Commission:				
Salaries and overtime	570,571	592,805	589,711	3,094
Ordinary maintenance	116,285	133,285	125,717	7,568
	686,856	726,090	715,428	10,662
Purchasing:				
Salaries	182,888	210,888	210,817	71
Ordinary maintenance	14,595	14,595	10,342	4,253
	197,483	225,483	221,159	4,324
Technical services:				
Salaries and overtime	2,146,798	2,146,798	2,116,327	30,471
Ordinary maintenance	1,355,976	1,355,976	1,335,510	20,466
	3,502,774	3,502,774	3,451,837	50,937
Human Resources:				
Salaries and overtime	957,976	961,576	960,351	1,225
Ordinary maintenance	351,556	486,556	451,444	35,112
	1,309,532	1,448,132	1,411,795	36,337
Total general government	19,715,622	19,832,414	19,373,993	458,421

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2017
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public safety:				
Police:				
Salaries and overtime	\$ 44,467,656	45,060,656	45,060,252	404
Ordinary maintenance	2,526,150	2,549,894	2,539,609	10,285
Capital outlay	30,000	120,000	114,974	5,026
	<u>47,023,806</u>	<u>47,730,550</u>	<u>47,714,835</u>	<u>15,715</u>
Fire:				
Salaries and overtime	38,171,636	37,539,736	37,538,870	866
Ordinary maintenance	1,257,982	1,568,621	1,568,222	399
Capital outlay	25,000	5,000	2,529	2,471
	<u>39,454,618</u>	<u>39,113,357</u>	<u>39,109,621</u>	<u>3,736</u>
Inspectional services:				
Salaries and overtime	3,407,779	3,372,879	3,366,731	6,148
Ordinary maintenance	311,887	309,897	308,170	1,727
Capital outlay	-	1,990	1,990	-
	<u>3,719,666</u>	<u>3,684,766</u>	<u>3,676,891</u>	<u>7,875</u>
Communications:				
Salaries and overtime	2,113,041	1,543,291	1,533,946	9,345
Ordinary maintenance	1,079,394	1,265,144	1,261,489	3,655
	<u>3,192,435</u>	<u>2,808,435</u>	<u>2,795,435</u>	<u>13,000</u>
Total public safety	<u>93,390,525</u>	<u>93,337,108</u>	<u>93,296,782</u>	<u>40,326</u>
Health and human services:				
Public Health				
Salaries and overtime	257,371	345,371	298,933	46,438
Ordinary maintenance	64,500	72,000	71,830	170
	<u>321,871</u>	<u>417,371</u>	<u>370,763</u>	<u>46,608</u>
Health and Human Services				
Salaries	457,694	457,694	445,620	12,074
Ordinary maintenance	1,935,100	2,243,900	2,243,259	641
Capital outlay	-	6,200	6,200	-
	<u>2,392,794</u>	<u>2,707,794</u>	<u>2,695,079</u>	<u>12,715</u>
Elder Affairs:				
Salaries	359,147	359,147	353,560	5,587
Ordinary maintenance	138,841	138,841	132,880	5,961
	<u>497,988</u>	<u>497,988</u>	<u>486,440</u>	<u>11,548</u>
Workforce Development Board:				
Salaries	50,000	50,400	50,000	400
Ordinary maintenance	50,000	50,000	50,000	-
	<u>100,000</u>	<u>100,400</u>	<u>100,000</u>	<u>400</u>
Total health and human services	<u>3,312,653</u>	<u>3,723,553</u>	<u>3,652,282</u>	<u>71,271</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

General Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Education:				
Public Schools, Net School Spending (excluding fringe benefits):				
Salaries and overtime	\$ 205,514,173	205,976,883	205,973,390	3,493
Ordinary maintenance	35,696,837	35,152,761	35,152,761	-
Capital outlay	250,000	200,980	200,980	-
	<u>241,461,010</u>	<u>241,330,624</u>	<u>241,327,131</u>	<u>3,493</u>
Public Schools, Non Net School Spending (excluding fringe benefits):				
Salaries and overtime	3,797,499	3,592,783	3,592,783	-
Ordinary maintenance	15,342,651	15,545,589	15,545,589	-
	<u>19,140,150</u>	<u>19,138,372</u>	<u>19,138,372</u>	<u>-</u>
Total education (excluding fringes)	<u>260,601,160</u>	<u>260,468,996</u>	<u>260,465,503</u>	<u>3,493</u>
Public works:				
Department of Public Works:				
Salaries and overtime	5,904,803	6,134,803	6,131,941	2,862
Ordinary maintenance	7,279,076	6,799,076	6,773,896	25,180
Capital outlay	-	120,000	118,676	1,324
Snow and ice removal	4,200,000	6,794,150	6,794,145	5
Street lighting	2,352,828	2,419,828	2,419,088	740
	<u>19,736,707</u>	<u>22,267,857</u>	<u>22,237,746</u>	<u>30,111</u>
Union Station (WRA):				
Ordinary maintenance	649,702	519,702	517,277	2,425
Total public works	<u>20,386,409</u>	<u>22,787,559</u>	<u>22,755,023</u>	<u>32,536</u>
Culture and recreation:				
Parks and Cemetery:				
Salaries and overtime	3,400,550	3,411,317	3,410,538	779
Ordinary maintenance	1,364,691	1,499,691	1,486,804	12,887
Capital outlay	-	10,710	10,704	6
	<u>4,765,241</u>	<u>4,921,718</u>	<u>4,908,046</u>	<u>13,672</u>
Public Library:				
Salaries and overtime	3,839,099	3,839,099	3,719,008	120,091
Ordinary maintenance	1,723,174	1,723,174	1,723,174	-
	<u>5,562,273</u>	<u>5,562,273</u>	<u>5,442,182</u>	<u>120,091</u>
Auditorium:				
Ordinary maintenance	121,506	110,796	95,068	15,728
Total culture and recreation	<u>10,449,020</u>	<u>10,594,787</u>	<u>10,445,296</u>	<u>149,491</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2017
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Intergovernmental:				
Health insurance - retirees	\$ 3,145	3,145	3,145	-
Regional planning	48,144	48,145	48,145	-
Regional Transit Authority	3,058,453	3,058,453	3,058,453	-
Air pollution control	42,831	42,831	42,831	-
Charter Schools	24,536,136	24,542,124	24,539,164	2,960
School choice	2,686,481	2,767,477	2,768,449	(972)
Special education - Chapter 766	147,618	187,025	249,164	(62,139)
Registry parking ticket surcharge	441,660	441,660	392,960	48,700
Total intergovernmental	30,964,468	31,090,860	31,102,311	(11,451)
Debt service:				
Principal	26,722,727	26,454,216	26,454,216	-
Interest	8,345,389	7,658,522	7,654,113	4,409
Pension obligation bond:				
Municipal departments (P&I)	10,300,316	10,300,316	10,300,316	-
Enterprise funds (P&I)	1,361,022	1,361,022	1,361,022	-
Public schools (P&I)	4,978,974	4,978,974	4,978,974	-
Total debt service	51,708,428	50,753,050	50,748,641	4,409
Fringe benefits:				
Retirement:				
Contributory pensions:				
Municipal departments	24,707,126	24,702,153	24,629,878	72,275
Public Schools	11,712,706	12,536,509	12,536,509	-
Noncontributory pensions:				
Municipal departments	103,524	103,524	59,440	44,084
Public Schools	60,000	32,232	32,232	-
	<u>36,583,356</u>	<u>37,374,418</u>	<u>37,258,059</u>	<u>116,359</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2017
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Workers' and unemployment comp.:				
Workers' compensation:				
Municipal departments	\$ 1,369,289	1,404,290	1,338,714	65,576
Public Schools	393,700	326,305	326,305	-
Public safety injured on duty	510,133	610,133	604,592	5,541
Unemployment compensation:		-		
Municipal departments	100,000	185,000	125,532	59,468
Public Schools	318,226	349,894	349,894	-
	<u>2,691,348</u>	<u>2,875,622</u>	<u>2,745,037</u>	<u>130,585</u>
Group insurance:				
Municipal departments	25,239,735	24,529,343	24,458,230	71,113
Public Schools	44,831,037	44,272,892	44,272,892	-
	<u>70,070,772</u>	<u>68,802,235</u>	<u>68,731,122</u>	<u>71,113</u>
Total fringe benefits	<u>109,345,476</u>	<u>109,052,275</u>	<u>108,734,218</u>	<u>318,057</u>
Contingency	500,000	6,339	-	6,339
Total expenditures	<u>600,373,761</u>	<u>601,646,941</u>	<u>600,574,049</u>	<u>1,072,892</u>
Excess of revenues over expenditures	<u>9,273,471</u>	<u>9,170,526</u>	<u>16,280,209</u>	<u>7,109,683</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,308,541	3,996,833	3,996,833	-
Transfers out	(12,334,507)	(15,082,948)	(15,082,948)	-
Premium on loans	702,495	1,352,495	1,738,615	386,120
Total other financing sources (uses)	<u>(8,323,471)</u>	<u>(9,733,620)</u>	<u>(9,347,500)</u>	<u>386,120</u>
Net changes in fund balance	950,000	(563,094)	6,932,709	7,495,803
Budgetary fund balance - beginning	33,948,530	33,948,530	33,948,530	-
Budgetary fund balance - ending	<u>\$ 34,898,530</u>	<u>33,385,436</u>	<u>40,881,239</u>	<u>7,495,803</u>

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

Pension Plan Schedules

The following schedules provide information related to the WRS as a whole, for which the City is one participating employer:

Schedule of Changes in Employers' Net Pension Liability and Related Ratios (WRS)*

	2017	2016	2015
<u>Total pension liability</u>			
Service cost	\$ 27,155,573	26,309,138	24,977,553
Interest	95,556,357	92,787,477	89,852,374
Differences between expected and actual experience	(2,523,911)	(1,619,304)	(901,542)
Changes of assumptions	19,119,320	16,825,451	16,436,189
Benefit payments, including refunds of member contributions	<u>(79,940,830)</u>	<u>(75,957,945)</u>	<u>(72,435,430)</u>
Net change in total pension liability	59,366,509	58,344,817	57,929,144
Total pension liability - beginning	<u>1,286,899,596</u>	<u>1,228,554,779</u>	<u>1,170,625,635</u>
Total pension liability - ending (a)	\$ <u>1,346,266,105</u>	<u>1,286,899,596</u>	<u>1,228,554,779</u>
<u>Plan fiduciary net position</u>			
Contributions - employer	\$ 44,411,990	42,703,837	41,200,578
Contributions - member	17,797,519	17,409,182	16,320,772
Net investment income	58,737,894	(10,490,024)	34,950,210
Benefit payments, including refunds of member contributions	(79,940,830)	(75,957,945)	(72,435,430)
Administrative expense	(565,669)	(572,743)	(587,157)
Other	<u>(926,263)</u>	<u>(895,410)</u>	<u>(806,081)</u>
Net change in plan fiduciary net position	39,514,641	(27,803,103)	18,642,892
Plan fiduciary net position - beginning	<u>797,830,070</u>	<u>825,633,173</u>	<u>806,990,281</u>
Plan fiduciary net position - ending (b)	\$ <u>837,344,711</u>	<u>797,830,070</u>	<u>825,633,173</u>
WRS's net pension liability - ending (a) - (b)	\$ <u>508,921,394</u>	<u>489,069,526</u>	<u>402,921,606</u>
Plan fiduciary net position as a percentage of the total pension liability	62.20%	62.00%	67.20%
Covered-employee payroll	\$ 175,910,160	173,759,691	168,856,039
Net pension liability as a percentage of covered-employee payroll	289.31%	281.46%	238.62%

*Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

**Schedule of Employer Contributions (WRS)
Last Ten Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily determined contribution	\$ 44,411,990	42,703,837	41,200,578	38,148,683	35,409,140
Contributions in relation to the statutorily determined contribution	<u>44,411,990</u>	<u>42,703,837</u>	<u>41,200,578</u>	<u>38,148,683</u>	<u>35,409,140</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered-employee payroll	\$ 175,910,160	173,759,691	168,856,039	166,094,906	159,669,859
Contributions as a percentage of covered-employee payroll	25.25%	24.58%	24.40%	22.97%	22.18%
					(continued)
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutorily determined contribution	\$ 32,706,347	29,770,499	28,505,066	24,947,158	24,166,318
Contributions in relation to the statutorily determined contribution	<u>32,706,347</u>	<u>30,196,904</u>	<u>28,505,066</u>	<u>24,947,158</u>	<u>24,166,318</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>	<u><u>(426,405)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered-employee payroll	\$ 157,720,871	166,392,075	166,050,095	156,585,326	152,838,201
Contributions as a percentage of covered-employee payroll	20.74%	18.15%	17.17%	15.93%	15.81%
					(concluded)

Schedule of Investment Returns (WRS) *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	7.87%	-1.46%	4.96%

*Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

The following schedules provide information on the City's portion of the WRS:

Schedule of City's Proportionate Share of the Net Pension Liability (WRS) *			
	2017**	2016**	2015**
	<u> </u>	<u> </u>	<u> </u>
City's proportion of the net pension liability	91.768757%	92.066769%	92.730893%
City's proportionate share of the net pension liability	\$ 467,030,837	450,270,511	373,632,802
City's covered-employee payroll	161,430,567	159,974,933	156,581,713
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	289.31%	281.46%	238.62%
Plan fiduciary net position as a percentage of the total pension liability	62.20%	62.00%	67.20%

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

** The amounts presented were determined as of December 31, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

**Schedule of City's Contributions (WRS)
Last Ten Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily determined contribution	\$ 40,756,331	39,316,043	38,205,664	35,084,000	32,246,000
Contributions in relation to the statutorily determined contribution	<u>40,756,331</u>	<u>39,316,043</u>	<u>38,205,664</u>	<u>35,084,000</u>	<u>32,246,000</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 161,430,567	159,974,933	156,581,713	154,955,555	148,961,412
Contributions as a percentage of covered-employee payroll	25.25%	24.58%	24.40%	22.64%	21.65%
					(continued)
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutorily determined contribution	\$ 29,720,000	27,277,000	26,117,000	22,742,000	22,089,000
Contributions in relation to the statutorily determined contribution	<u>29,720,000</u>	<u>27,703,405</u>	<u>26,117,000</u>	<u>22,742,000</u>	<u>22,089,000</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>(426,405)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 147,143,135	155,232,794	154,913,750	146,083,747	142,587,927
Contributions as a percentage of covered-employee payroll	20.20%	17.85%	16.86%	15.57%	15.49%
					(concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

The following schedules provide information on the City's association with the MTRS:

Schedule of City's Proportionate Share of the Net Pension Liability (MTRS) *

	<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	\$ -	-	-
Commonwealth's proportionate share of the net pension liability associated with the City	<u>599,739,073</u>	<u>550,242,570</u>	<u>435,996,868</u>
Total	\$ <u>599,739,073</u>	<u>550,242,570</u>	<u>435,996,868</u>
City's covered-employee payroll	\$ 178,781,000	176,442,000	172,700,000
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	52.73%	55.38%	61.64%

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2016, 2015 and 2014.

Schedule of City's Contributions (MTRS) *

	<u>2017**</u>	<u>2016**</u>	<u>2015**</u>
Contractually required contribution	\$ -	-	-
Contributions in relation to the contractually required contribution	-	-	-
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 178,781,000	176,442,000	172,700,000
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

The following schedules provide information related to the Upper Blackstone Water Pollution Abatement District (District):

Schedule of District's Proportionate Share of the Net Pension Liability*

	2017**	2016**	2015**
District's proportion of the net pension liability	0.06517%	0.06237%	0.06291%
District's proportionate share of the net pension liability	\$ 8,986,634	7,099,775	4,670,154
District's covered-employee payroll	3,630,096	3,413,667	3,245,825
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	247.56%	207.98%	143.88%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2016, 2015 and 2014.

Schedule of District's Contributions*

	2017**	2016**	2015**
Contractually required contribution	\$ 413,831	389,158	370,024
Contributions in relation to the contractually required contribution	413,831	389,158	370,024
Contribution deficiency (excess)	\$ -	-	-
District's covered-employee payroll	\$ 3,630,096	3,413,667	3,245,825
Contributions as a percentage of covered-employee payroll	11.40%	11.40%	11.40%

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

OPEB Schedule

The following schedule provides information related to the City's OPEB plan:

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/11	-	\$ 636,335,089	636,335,089	0.0%	313,752,801	203%
07/01/13	-	727,823,149	727,823,149	0.0%	334,069,964	218%
07/01/15	-	860,873,100	860,873,100	0.0%	352,400,810	244%

The significant changes to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress are as follows:

- The 07/01/11 valuation reflects the City's favorable claims experience during the periods between the valuations.
- The 07/01/13 valuation reflects changes in assumptions including implicit subsidy, excise tax, mortality tables, and inflationary trend rates for health care costs.
- The 07/01/15 valuation reflects changes in assumptions including mortality tables, participation rates and spousal coverage. Updates were made to the excise tax under the Patient Protection and Affordable Care Act.

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2017

Budgetary Basis of Accounting

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the City adopts an annual budget for all general fund functions as well as for those enterprise funds for which the provisions of Chapter 44, Section 53F 1/2 have been adopted.

All portions of the annual budget, except for that of public schools, are prepared under the direction of the City Manager. The School Department budget is prepared under the direction of the Superintendent. The budget must be approved by the City Council, which may reduce or reject any item in the budget but may not increase or add items without the recommendation of the City Manager. The level of expenditure may not legally exceed appropriations for each department or undertaking in the categories of salaries and wages, ordinary maintenance and capital outlays. Once adopted, budgets within the above categories may not be amended by management without seeking City Council approval.

In fiscal 2017, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$1,147. In fiscal 2017, revenues and other financial sources exceeded estimates by \$6,423 and expenditures were less than budgetary estimates by \$1,073.

The City’s annual budget is prepared on a basis other than GAAP. The “actual” results columns of the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - Budgetary Basis are presented on a “budgetary basis” to provide a meaningful comparison with the budgets. The following reconciliation summarizes the differences between budgetary and GAAP-basis accounting principles for the year ended June 30, 2017:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Net Change in Fund Balance</u>
General fund:				
As reported on a budgetary basis	\$ 616,854	600,574	(9,347)	6,933
Reclassify OPEB reserve transactions	30	-	2,827	2,857
COLA on-behalf payments	1,154	1,154	-	-
Adjustment of revenues to a modified basis	<u>(1,202)</u>	<u>-</u>	<u>-</u>	<u>(1,202)</u>
As reported on a GAAP basis	<u>\$ 616,836</u>	<u>601,728</u>	<u>(6,520)</u>	<u>8,588</u>

The major differences between the budgetary basis and the GAAP basis are OPEB reserve funds are reported in the general fund on a GAAP basis only; revenues are recorded when cash is received (budgetary), as opposed to when susceptible to accrual (GAAP); claims and certain other expenditures are recorded as expenditures when paid (budgetary), as opposed to a liability when incurred (GAAP); and COLA on-behalf payments are recorded on a GAAP basis only.

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2017

Changes of Assumptions (WRS)

The investment return assumption was lowered from 8.50% to 8.25% as of January 1, 2006. As of January 1, 2011, it was lowered to 8.00%. As of January 1, 2013, it was lowered to 7.75%. As of January 1, 2015 it was lowered to 7.625%. As of January 1, 2016 it was lowered to 7.5%. As of January 1, 2017 it was lowered to 7.375%.

The salary increase assumption was lowered as of January 1, 2011 from 5.00% to 4.75%. As of January 1, 2013, it was lowered to 4.5%. As of January 1, 2014, a select and ultimate assumption of 3.5% for 2014 and 2015 and 4.5% thereafter was used. As of January 1, 2015, a select and ultimate assumption of 3.5% for 2015 and 2016 and 4.5% thereafter was used. As of January 1, 2016, a select and ultimate assumption of 3.5% for 2016 and 2017 and 4.5% thereafter was used.

As of January 1, 2009, the actuarial value of assets was changed from market value of assets to a five-year smoothing method. As of January 1, 2010, the actuarial value of assets was changed from being within 20% of the market value of assets to being within 10% of the market value of assets.

The mortality assumption for healthy participants was changed from the 1994 Group Annuity Mortality Table to the RP-2000 Combined Healthy Mortality Table projected 12 years using Scale AA as of January 1, 2012. As of January 1, 2013, the pre-retirement mortality assumption was changed to the RP-2000 Employee Mortality Table projected 20 years using Scale AA. As of January 1, 2014, the pre-retirement mortality assumption was changed to the RP-2000 Employee Mortality Table projected generationally using Scale AA. As of January 1, 2016, the pre-retirement mortality assumption was changed to the RP-2000 Employee Mortality Table projected generationally using Scale BB2D from 2009.

The mortality assumption for healthy retirees was changed from the RP-2000 Combined Healthy Mortality Table projected 12 years using Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected 15 years using Scale AA as of January 1, 2013. As of January 1, 2014, the mortality assumption for non-disabled retirees was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA. As of January 1, 2016, the mortality assumption for non-disabled retirees was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2009.

The mortality assumption for disabled participants was changed from the 1994 Group Annuity Mortality Table set forward 10 years to the 1994 Group Annuity Mortality Table set forward 7 years, as of January 1, 2010. As of January 1, 2011, the table was changed to the 1994 Group Annuity Mortality Table set forward 5 years. As of January 1, 2012, the assumption was changed to the RP-2000 Combined Healthy Mortality Table set forward 5 years projected 12 years using Scale AA. As of January 1, 2013, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected 5 years using Scale AA with a 3-year set forward for males. As of January 1, 2014, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA from 2010 with a 3-year set forward for males. As of January 1, 2015, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA with a 3-year set forward for males. As of January 1, 2016, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 with a 3-year set forward for males.

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2017

Methods and Assumptions Used in Calculations of Statutorily Determined Contributions (WRS)

The statutorily determined contribution rates in the schedule of employer contributions (WRS) are calculated by an actuarial valuation as of January 1, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method (2007-2016):	Entry Age Normal
Amortization method (2007, 2009 - 2014):	Payment increases 4.00% per year
Amortization method (2008):	Payment increases 4.50% per year
Amortization method (2015):	Payment increases 4.00% in 2018 and 5.85% thereafter
Amortization method (2016):	Payment increases 4.00% in 2019 and 6.30% thereafter
Remaining amortization period (2007):	11 years
Remaining amortization period (2008):	21 years
Remaining amortization period (2009):	30 years
Remaining amortization period (2010):	24 years
Remaining amortization period (2011):	23 years
Remaining amortization period (2012):	19 years
Remaining amortization period (2013, 2015):	17 years
Remaining amortization period (2014):	18 years
Remaining amortization period (2016):	16 years
Asset valuation method (2007):	Market value
Asset valuation method (2008-2016):	5-year smoothed fair value
Inflation (2007-2009):	4.00%
Inflation (2010-2011):	3.75%
Inflation (2012):	3.50%
Inflation (2013-2014):	3.00% for the next 2 years; 4.00% thereafter
Inflation (2015-2016):	2.50% for the next year; 3.50% thereafter
Salary increases (2007, 2009):	5.00%
Salary increases (2008):	3.00% for the next 2 years; 5.00% thereafter
Salary increases (2010-2011):	4.75%
Salary increases (2012):	4.50%
Salary increases (2013 - 2016):	3.50% for the next year; 4.50% thereafter
Investment rate of return (2007-2009):	8.25%
Investment rate of return (2010-2011):	8.00%
Investment rate of return (2012-2013):	7.75%
Investment rate of return (2014):	7.625%
Investment rate of return (2015):	7.50%
Investment rate of return (2016):	7.375%

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2017

Nonmajor Governmental Funds – A combining balance sheet and combining statement of revenues, expenditures and changes in fund balances is provided for other (nonmajor) governmental funds.

Special Revenue

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects.

DCU Center Operations– accounts for the operations of the City’s civic center and arena.

School Lunch – accounts for the operations of the public school lunch program.

Police Auxiliary – accounts for police off-duty details.

Off-Street Parking – accounts for the operation of the City’s parking garages, on-street meters and off-street parking lots.

City Revolving – accounts for City activities that are allowed, by an act of the state legislature, to use program revenues for operating expenditures.

School Grants – accounts for school programs funded by grants.

School Revolving – accounts for school activities that are allowed, by an act of the state legislature, to use program revenues for operating expenditures.

Receipts Reserved – accounts for revenues reserved for appropriation that have been segregated by law or administrative action.

Community Development – accounts for grants received from the U.S. Department of Housing and Urban Development and program related income.

Workforce Central – accounts for revenue received from the U.S. Department of Labor to assist individuals to become productive members of the labor force.

City Grants – accounts for various grants received from the federal and state governments for programs administered by City departments.

Capital Projects

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

DCU Center Construction– accounts for the construction and improvement of the DCU Center.

Street and Sidewalk – accounts for the construction and improvement of streets and sidewalks.

Capital Equipment – accounts for the acquisition of equipment.

School Construction – accounts for the construction and rehabilitation of school buildings.

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2017

Parks Improvements – accounts for grants and bond proceeds used for parks improvements.

Union Station Garage – accounts for financial resources used for the Union Station Garage construction.

Other – accounts for various small construction projects.

Permanent Funds

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government’s programs and benefit the government or its citizenry.

Hope Cemetery – accounts for funds used for the perpetual care of the municipal cemetery.

Health Department – accounts for funds used for public health purposes.

Libraries – accounts for funds held in trust for the City’s public libraries.

Schools – accounts for funds held in trust to provide scholarships for qualified students.

Parks – accounts for funds held in trust to improve the City’s parks.

Police – accounts for funds held in trust to beautify the landscape at the police headquarters building.

Public Works – accounts for funds held in trust to provide street lighting.

Memorial – accounts for funds held in trust to maintain various monuments and fountains.

Welfare – accounts for expenditures from welfare type trusts.

Enterprise Funds – Separate schedules of revenues, expenditures and changes in fund balance – budget and actual – budgetary basis are provided for the golf course (nonmajor), sewer and water enterprise funds. The “actual” results columns of the Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - Budgetary Basis are presented on a “budgetary basis” to provide a meaningful comparison with the budgets. Actual amounts can vary from GAAP amounts.

Capital Assets – Two separate schedules are provided for capital assets used in the operation of governmental activities.

Agency Funds – The agency fund is a fiduciary fund used to account for assets held in a custodial capacity.

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

	Special Revenue Funds				
	DCU Center Operations	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Assets:					
Cash and cash equivalents	\$ -	-	-	-	-
Restricted cash and cash equivalents	3,977,649	1,055,906	-	1,269,262	5,632,290
Restricted investments	-	-	-	-	-
Receivables, net	-	-	1,139,903	-	105,532
Intergovernmental receivables	-	-	-	-	-
Total assets	\$ 3,977,649	1,055,906	1,139,903	1,269,262	5,737,822
Liabilities:					
Accounts payable	\$ 13,455	176,758	-	12,069	2,384
Due to general fund	-	-	202,094	-	-
Retainage payable	-	-	-	-	-
Temporary loans	-	-	-	-	-
Other liabilities	3,445,500	-	-	-	-
Total liabilities	3,458,955	176,758	202,094	12,069	2,384
Deferred inflows of resources:					
Unavailable revenue-other	-	-	1,139,903	-	105,532
Total deferred inflows of resources	-	-	1,139,903	-	105,532
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	518,694	879,148	-	1,257,193	5,629,906
Committed	-	-	-	-	-
Unassigned	-	-	(202,094)	-	-
Total fund balances	518,694	879,148	(202,094)	1,257,193	5,629,906
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,977,649	1,055,906	1,139,903	1,269,262	5,737,822

Special Revenue Funds

<u>School Grants</u>	<u>School Revolving</u>	<u>Receipts Reserved</u>	<u>Community Development</u>	<u>Workforce Central</u>	<u>City Grants</u>	<u>Subtotal</u>
-	-	19,763,559	-	-	-	19,763,559
5,156,576	2,102,555	-	-	1,056,946	12,610,680	32,861,864
-	-	-	-	-	-	-
-	-	114,664	-	-	-	1,360,099
818,553	14,332	-	74,699	13,448	744,745	1,665,777
<u>5,975,129</u>	<u>2,116,887</u>	<u>19,878,223</u>	<u>74,699</u>	<u>1,070,394</u>	<u>13,355,425</u>	<u>55,651,299</u>
129,521	3,564	-	-	-	826,664	1,164,415
-	-	-	19,357	-	-	221,451
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	3,445,500
<u>129,521</u>	<u>3,564</u>	<u>-</u>	<u>19,357</u>	<u>-</u>	<u>826,664</u>	<u>4,831,366</u>
-	-	114,664	-	-	-	1,360,099
-	-	114,664	-	-	-	1,360,099
-	-	-	-	-	-	-
5,845,608	2,113,323	-	55,342	1,070,394	12,528,761	29,898,369
-	-	19,763,559	-	-	-	19,763,559
-	-	-	-	-	-	(202,094)
<u>5,845,608</u>	<u>2,113,323</u>	<u>19,763,559</u>	<u>55,342</u>	<u>1,070,394</u>	<u>12,528,761</u>	<u>49,459,834</u>
<u>5,975,129</u>	<u>2,116,887</u>	<u>19,878,223</u>	<u>74,699</u>	<u>1,070,394</u>	<u>13,355,425</u>	<u>55,651,299</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

	Capital Projects Funds			
	DCU Center Construction	Street and Sidewalk	Capital Equipment	School Construction
Assets:				
Cash and cash equivalents	\$ -	-	-	-
Restricted cash and cash equivalents	1,443,282	5,381,416	858,818	50,323
Restricted investments	-	-	-	-
Receivables, net	-	-	-	-
Intergovernmental receivables	-	2,003,031	-	2,026,335
Total assets	\$ 1,443,282	7,384,447	858,818	2,076,658
Liabilities:				
Accounts payable	\$ 1,215,357	733,933	746,554	4,514,650
Due to general fund	-	-	-	-
Retainage payable	5,000	414,163	-	2,035,798
Temporary loans	1,675,500	7,750,000	2,894,653	12,380,000
Other liabilities	-	-	-	-
Total liabilities	2,895,857	8,898,096	3,641,207	18,930,448
Deferred inflows of resources:				
Unavailable revenue-other	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund balances:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	(1,452,575)	(1,513,649)	(2,782,389)	(16,853,790)
Total fund balances	(1,452,575)	(1,513,649)	(2,782,389)	(16,853,790)
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,443,282	7,384,447	858,818	2,076,658

Capital Projects Funds

Parks Improvements	Union Station Garage	Other	Subtotal
-	-	-	-
6,125,559	542,195	2,423,569	16,825,162
-	-	-	-
-	-	-	-
162,299	-	-	4,191,665
<u>6,287,858</u>	<u>542,195</u>	<u>2,423,569</u>	<u>21,016,827</u>
180,842	-	426,634	7,817,970
-	-	-	-
135,049	-	-	2,590,010
3,335,000	-	422,848	28,458,001
-	-	-	-
<u>3,650,891</u>	<u>-</u>	<u>849,482</u>	<u>38,865,981</u>
-	-	-	-
-	-	-	-
-	-	-	-
2,636,967	542,195	1,574,087	4,753,249
-	-	-	-
-	-	-	(22,602,403)
<u>2,636,967</u>	<u>542,195</u>	<u>1,574,087</u>	<u>(17,849,154)</u>
<u>6,287,858</u>	<u>542,195</u>	<u>2,423,569</u>	<u>21,016,827</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

	Permanent Funds				
	Hope Cemetery	Health Department	Libraries	Schools	Parks
Assets:					
Cash and cash equivalents	\$ -	-	-	-	-
Restricted cash and cash equivalents	79,329	97,304	106,494	64,386	56,096
Restricted investments	4,507,521	3,054,835	9,699,249	809,740	512,820
Receivables, net	-	-	-	-	-
Intergovernmental receivables	-	-	-	-	-
Total assets	\$ 4,586,850	3,152,139	9,805,743	874,126	568,916
Liabilities:					
Accounts payable	\$ -	-	-	600	-
Due to general fund	-	-	-	-	-
Retainage payable	-	-	-	-	-
Temporary loans	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total liabilities	-	-	-	600	-
Deferred inflows of resources:					
Unavailable revenue-other	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
Fund balances:					
Nonspendable	4,314,028	2,794,712	6,797,713	687,666	459,090
Restricted	272,822	357,427	3,008,030	185,860	109,826
Committed	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	4,586,850	3,152,139	9,805,743	873,526	568,916
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,586,850	3,152,139	9,805,743	874,126	568,916

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Welfare	Subtotal	
-	-	-	-	-	19,763,559
-	56	103,748	1,988	509,401	50,196,427
11,558	441,094	362,791	6,018	19,405,626	19,405,626
-	-	-	-	-	1,360,099
-	-	-	-	-	5,857,442
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,915,027</u>	<u>96,583,153</u>
-	-	-	-	600	8,982,985
-	-	-	-	-	221,451
-	-	-	-	-	2,590,010
-	-	-	-	-	28,458,001
-	-	-	-	-	3,445,500
-	-	-	-	600	43,697,947
-	-	-	-	-	1,360,099
-	-	-	-	-	1,360,099
5,164	393,843	229,933	4,234	15,686,383	15,686,383
6,394	47,307	236,606	3,772	4,228,044	38,879,662
-	-	-	-	-	19,763,559
-	-	-	-	-	(22,804,497)
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,914,427</u>	<u>51,525,107</u>
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,915,027</u>	<u>96,583,153</u>

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2017

	Special Revenue Funds				
	DCU Center Operations	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Revenues:					
Intergovernmental	\$ -	12,978,371	-	-	62,000
Investment earnings	-	-	-	-	-
Charges for services	1,600,617	32,900	8,776,547	17,249	2,043,852
Donations	-	-	-	-	-
Contributions to permanent fund	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	1,600,617	13,011,271	8,776,547	17,249	2,105,852
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	8,978,641	-	940,228
Health and human services	-	-	-	-	445,639
Education	-	12,312,011	-	-	-
Public works	-	-	-	1,882,570	217,308
Culture and recreation	918,686	-	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	407,109	-	-	1,295,753	-
Interest	109,872	-	-	376,487	-
Total expenditures	1,435,667	12,312,011	8,978,641	3,554,810	1,603,175
Excess (deficiency) of revenues over expenditures	164,950	699,260	(202,094)	(3,537,561)	502,677
Other financing sources (uses):					
Transfers in	470,494	-	-	4,143,304	-
Transfers out	-	-	-	-	-
Premium on issuance of bonds and notes	-	-	-	-	-
Issuance of bonds	-	-	-	-	-
Premium on issuance of refunding bonds	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-	-
Total other financing sources (uses)	470,494	-	-	4,143,304	-
Net change in fund balances	635,444	699,260	(202,094)	605,743	502,677
Fund balances – beginning	(116,750)	179,888	-	651,450	5,127,229
Fund balances – ending	\$ 518,694	879,148	(202,094)	1,257,193	5,629,906

Special Revenue Funds

School Grants	School Revolving	Receipts Reserved	Community Development	Workforce Central	City Grants	Subtotal
36,698,964	505,677	-	6,719,030	5,109,735	13,007,718	75,081,495
-	-	-	-	-	-	-
416,393	1,223,551	5,498,453	256,777	13,128	-	19,879,467
215,735	-	-	-	-	4,536,919	4,752,654
-	-	-	-	-	-	-
-	-	443,554	-	-	599,641	1,043,195
<u>37,331,092</u>	<u>1,729,228</u>	<u>5,942,007</u>	<u>6,975,807</u>	<u>5,122,863</u>	<u>18,144,278</u>	<u>100,756,811</u>
-	-	-	-	-	3,632,393	3,632,393
-	-	-	-	-	4,407,888	14,326,757
-	-	-	-	6,212,949	8,028,639	14,687,227
38,104,845	1,707,152	-	-	-	-	52,124,008
-	-	-	-	-	499,763	2,599,641
-	-	-	-	-	1,592,784	2,511,470
-	-	-	6,796,491	-	-	6,796,491
-	-	-	138,000	-	392,520	2,233,382
-	-	-	49,401	-	99,980	635,740
<u>38,104,845</u>	<u>1,707,152</u>	<u>-</u>	<u>6,983,892</u>	<u>6,212,949</u>	<u>18,653,967</u>	<u>99,547,109</u>
<u>(773,753)</u>	<u>22,076</u>	<u>5,942,007</u>	<u>(8,085)</u>	<u>(1,090,086)</u>	<u>(509,689)</u>	<u>1,209,702</u>
317,609	28,660	-	-	-	573,588	5,533,655
-	-	(6,299,826)	-	-	(433,387)	(6,733,213)
-	-	1,098,289	-	-	-	1,098,289
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>317,609</u>	<u>28,660</u>	<u>(5,201,537)</u>	<u>-</u>	<u>-</u>	<u>140,201</u>	<u>(101,269)</u>
<u>(456,144)</u>	<u>50,736</u>	<u>740,470</u>	<u>(8,085)</u>	<u>(1,090,086)</u>	<u>(369,488)</u>	<u>1,108,433</u>
<u>6,301,752</u>	<u>2,062,587</u>	<u>19,023,089</u>	<u>63,427</u>	<u>2,160,480</u>	<u>12,898,249</u>	<u>48,351,401</u>
<u>5,845,608</u>	<u>2,113,323</u>	<u>19,763,559</u>	<u>55,342</u>	<u>1,070,394</u>	<u>12,528,761</u>	<u>49,459,834</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2017

	Capital Projects Funds			
	DCU Center Construction	Street and Sidewalk	Capital Equipment	School Construction
Revenues:				
Intergovernmental	\$ -	9,723,341	10,000	24,483,111
Investment earnings	-	-	-	-
Charges for services	-	-	-	-
Donations	-	-	-	-
Contributions to permanent fund	-	-	-	-
Miscellaneous	155,475	-	-	-
Total revenues	155,475	9,723,341	10,000	24,483,111
Expenditures:				
Current:				
General government	-	-	576,252	-
Public safety	-	-	1,295,112	-
Health and human services	-	-	-	-
Education	-	-	298,000	38,985,097
Public works	-	19,267,386	980,412	-
Culture and recreation	2,099,968	-	543,838	-
Community development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	2,099,968	19,267,386	3,693,614	38,985,097
Excess (deficiency) of revenues over expenditures	(1,944,493)	(9,544,045)	(3,683,614)	(14,501,986)
Other financing sources (uses):				
Transfers in	198,869	290,096	27,993	-
Transfers out	-	(518,000)	-	(274,842)
Premium on issuance of bonds and notes	21,196	-	43,917	-
Issuance of bonds	1,425,554	8,095,000	2,494,383	4,760,000
Premium on issuance of refunding bonds	26,448	-	-	212,576
Issuance of refunding bonds	477,000	-	-	2,934,000
Payment to refunded bonds escrow agent	(503,448)	-	-	(3,146,576)
Total other financing sources (uses)	1,645,619	7,867,096	2,566,293	4,485,158
Net change in fund balances	(298,874)	(1,676,949)	(1,117,321)	(10,016,828)
Fund balances – beginning	(1,153,701)	163,300	(1,665,068)	(6,836,962)
Fund balances – ending	\$ (1,452,575)	(1,513,649)	(2,782,389)	(16,853,790)

Capital Projects Funds

Parks Improvements	Union Station Garage	Other	Subtotal
687,760	-	41,917	34,946,129
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	155,475
<u>687,760</u>	<u>-</u>	<u>41,917</u>	<u>35,101,604</u>
-	-	-	576,252
-	-	-	1,295,112
-	-	-	-
-	-	-	39,283,097
-	-	136,933	20,384,731
3,472,298	-	14,895	6,130,999
-	-	476,298	476,298
-	-	-	-
-	-	-	-
<u>3,472,298</u>	<u>-</u>	<u>628,126</u>	<u>68,146,489</u>
<u>(2,784,538)</u>	<u>-</u>	<u>(586,209)</u>	<u>(33,044,885)</u>
921,427	-	160,187	1,598,572
-	(486,699)	-	(1,279,541)
-	-	-	65,113
5,165,000	-	100,000	22,039,937
21,687	105,671	3,964	370,346
357,000	1,485,000	61,000	5,314,000
(378,687)	(1,590,671)	(64,964)	(5,684,346)
<u>6,086,427</u>	<u>(486,699)</u>	<u>260,187</u>	<u>22,424,081</u>
3,301,889	(486,699)	(326,022)	(10,620,804)
<u>(664,922)</u>	<u>1,028,894</u>	<u>1,900,109</u>	<u>(7,228,350)</u>
<u>2,636,967</u>	<u>542,195</u>	<u>1,574,087</u>	<u>(17,849,154)</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2017

	Permanent Funds				
	Hope Cemetery	Health Department	Library	Schools	Parks
Revenues:					
Intergovernmental	\$ -	-	-	-	-
Investment earnings (losses)	671,263	461,753	698,060	118,558	80,700
Charges for services	-	-	-	-	-
Donations	-	-	-	-	-
Contributions to permanent fund	70,155	4,948	80,894	3,538	-
Miscellaneous	-	-	-	-	-
Total revenues	741,418	466,701	778,954	122,096	80,700
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Health and human services	-	14,535	-	-	-
Education	-	-	-	12,575	-
Public works	-	-	-	-	-
Culture and recreation	-	-	112,523	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	-	14,535	112,523	12,575	-
Excess (deficiency) of revenues over expenditures	741,418	452,166	666,431	109,521	80,700
Other financing sources (uses):					
Transfers in	-	500	155,125	18,575	-
Transfers out	(61,589)	(500)	(155,125)	(18,575)	-
Premium on issuance of bonds and notes	-	-	-	-	-
Issuance of bonds	-	-	-	-	-
Premium on issuance of refunding bonds	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-	-
Total other financing sources (uses)	(61,589)	-	-	-	-
Net change in fund balances	679,829	452,166	666,431	109,521	80,700
Fund balances – beginning	3,907,021	2,699,973	9,139,312	764,005	488,216
Fund balances – ending	\$ 4,586,850	3,152,139	9,805,743	873,526	568,916

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Welfare	Subtotal	
-	-	-	-	-	110,027,624
1,369	51,443	47,389	848	2,131,383	2,131,383
-	-	-	-	-	19,879,467
-	-	-	-	-	4,752,654
-	-	-	-	159,535	159,535
-	-	-	-	-	1,198,670
<u>1,369</u>	<u>51,443</u>	<u>47,389</u>	<u>848</u>	<u>2,290,918</u>	<u>138,149,333</u>
-	-	-	-	-	4,208,645
-	-	-	-	-	15,621,869
-	-	-	500	15,035	14,702,262
-	-	-	-	12,575	91,419,680
-	5,241	-	-	5,241	22,989,613
-	-	71,924	-	184,447	8,826,916
-	-	-	-	-	7,272,789
-	-	-	-	-	2,233,382
-	-	-	-	-	635,740
<u>-</u>	<u>5,241</u>	<u>71,924</u>	<u>500</u>	<u>217,298</u>	<u>167,910,896</u>
<u>1,369</u>	<u>46,202</u>	<u>(24,535)</u>	<u>348</u>	<u>2,073,620</u>	<u>(29,761,563)</u>
-	-	-	500	174,700	7,306,927
-	-	-	(500)	(236,289)	(8,249,043)
-	-	-	-	-	1,163,402
-	-	-	-	-	22,039,937
-	-	-	-	-	370,346
-	-	-	-	-	5,314,000
-	-	-	-	-	(5,684,346)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,589)</u>	<u>22,261,223</u>
1,369	46,202	(24,535)	348	2,012,031	(7,500,340)
<u>10,189</u>	<u>394,948</u>	<u>491,074</u>	<u>7,658</u>	<u>17,902,396</u>	<u>59,025,447</u>
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,914,427</u>	<u>51,525,107</u>

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Golf Course Enterprise Fund (nonmajor)
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance –
 Budget and Actual – Budgetary Basis
 For the Fiscal Year Ended June 30, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Fees	\$ 1,295,374	1,295,374	1,095,704	(199,670)
Miscellaneous	14,500	14,500	10,264	(4,236)
Total revenues	<u>1,309,874</u>	<u>1,309,874</u>	<u>1,105,968</u>	<u>(203,906)</u>
Expenditures:				
Salaries and benefits	341,707	352,507	352,349	158
Ordinary maintenance	847,513	836,713	821,817	14,896
Debt service	219,950	219,950	219,300	650
Indirect costs	30,743	30,743	30,743	-
Total expenditures	<u>1,439,913</u>	<u>1,439,913</u>	<u>1,424,209</u>	<u>15,704</u>
Excess (deficiency) of revenues over expenditures	<u>(130,039)</u>	<u>(130,039)</u>	<u>(318,241)</u>	<u>(188,202)</u>
Other financing sources (uses):				
Transfers in	150,000	150,000	338,202	188,202
Transfers (out) for pension bond assessment	(19,961)	(19,961)	(19,961)	-
Total other financing sources (uses)	<u>130,039</u>	<u>130,039</u>	<u>318,241</u>	<u>188,202</u>
Net changes in fund balance	-	-	-	-
Budgetary fund balance – beginning	-	-	-	-
Budgetary fund balance – ending	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

Reconciliation to GAAP-basis:

	<u>Expenses</u>	<u>Transfers (Net)</u>	<u>Net Change in Fund Balance/ Net Position</u>
As reported on a budgetary basis	\$ 1,424,209	318,241	-
Net change in net pension liability	27,423	-	(27,423)
Net change in OPEB liability	30,253	-	(30,253)
Net change in compensated absences	7,561	-	(7,561)
Debt service principal	(167,523)	-	167,523
Interest paid on refunded debt	785	-	(785)
Amortization of premium interest	(232)	-	232
Net change in accrued interest	2,163	-	(2,163)
Depreciation	<u>118,259</u>	<u>-</u>	<u>(118,259)</u>
As reported on a GAAP basis	<u>1,442,898</u>	<u>318,241</u>	<u>(18,689)</u>

CITY OF WORCESTER, MASSACHUSETTS

Sewer Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis
For the Fiscal Year Ended June 30, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Charges for services	\$ 42,060,075	42,060,075	40,398,220	(1,661,855)
Miscellaneous	671,000	671,000	940,051	269,051
Total revenues	<u>42,731,075</u>	<u>42,731,075</u>	<u>41,338,271</u>	<u>(1,392,804)</u>
Expenditures:				
Salaries and benefits	6,192,542	6,404,542	5,908,269	496,273
Ordinary maintenance	23,440,189	23,228,189	22,715,276	512,913
Capital	24,500	24,500	9,998	14,502
Debt service	8,912,721	8,912,721	8,636,201	276,520
Indirect costs	3,607,345	3,607,345	3,607,345	-
Total expenditures	<u>42,177,297</u>	<u>42,177,297</u>	<u>40,877,089</u>	<u>1,300,208</u>
Excess of revenues over expenditures	<u>553,778</u>	<u>553,778</u>	<u>461,182</u>	<u>(92,596)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers (out) for pension bond assessment	<u>(553,778)</u>	<u>(553,778)</u>	<u>(553,778)</u>	<u>-</u>
Total other financing sources (uses)	<u>(553,778)</u>	<u>(553,778)</u>	<u>(553,778)</u>	<u>-</u>
Net changes in fund balance	<u>-</u>	<u>-</u>	<u>(92,596)</u>	<u>(92,596)</u>
Budgetary fund balance – beginning	<u>3,568,117</u>	<u>3,568,117</u>	<u>3,568,117</u>	<u>-</u>
Budgetary fund balance – ending	<u>\$ 3,568,117</u>	<u>3,568,117</u>	<u>3,475,521</u>	<u>(92,596)</u>

Reconciliation to GAAP-basis:

	<u>Revenues</u>	<u>Expenses</u>	<u>Capital Grants & Transfers (Net)</u>	<u>Net Change in Fund Balance/ Net Position</u>
As reported on a budgetary basis	41,338,271	40,877,089	(553,778)	(92,596)
Net change in accrued receivables	616,113	-	-	616,113
Net change in net pension liability	-	427,264	-	(427,264)
Net change in OPEB liability	-	284,203	-	(284,203)
Net change in compensated absences	-	6,979	-	(6,979)
Net change in claims and judgments	-	81,673	-	(81,673)
Capital grants	-	-	285,743	285,743
Capital projects expenses	-	282,810	-	(282,810)
Debt service principal	-	(5,252,105)	-	5,252,105
Interest paid on refunded debt	-	52,566	-	(52,566)
Amortization of premium interest	-	(33,592)	-	33,592
Net change in accrued interest	-	278,465	-	(278,465)
Depreciation	<u>-</u>	<u>8,980,297</u>	<u>-</u>	<u>(8,980,297)</u>
As reported on a GAAP basis	<u>41,954,384</u>	<u>45,985,649</u>	<u>(268,035)</u>	<u>(4,299,300)</u>

CITY OF WORCESTER, MASSACHUSETTS

Water Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis
For the Fiscal Year Ended June 30, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Charges for services	\$ 26,341,872	26,341,872	28,944,160	2,602,288
Miscellaneous	1,307,600	1,307,600	1,569,672	262,072
Total revenues	<u>27,649,472</u>	<u>27,649,472</u>	<u>30,513,832</u>	<u>2,864,360</u>
Expenditures:				
Salaries and benefits	11,412,528	11,412,528	10,246,475	1,166,053
Ordinary maintenance	3,706,023	6,792,615	6,564,920	227,695
Capital	25,000	25,000	20,538	4,462
Debt service	9,430,984	9,430,984	9,266,530	164,454
Indirect costs	2,287,654	2,287,654	2,287,654	-
Total expenditures	<u>26,862,189</u>	<u>29,948,781</u>	<u>28,386,117</u>	<u>1,562,664</u>
Excess of revenues over expenditures	<u>787,283</u>	<u>(2,299,309)</u>	<u>2,127,715</u>	<u>4,427,024</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers (out) for pension bond assessment	<u>(787,283)</u>	<u>(787,283)</u>	<u>(787,283)</u>	<u>-</u>
Total other financing sources (uses)	<u>(787,283)</u>	<u>(787,283)</u>	<u>(787,283)</u>	<u>-</u>
Net changes in fund balance	-	(3,086,592)	1,340,432	4,427,024
Budgetary fund balance – beginning	<u>5,079,506</u>	<u>5,079,506</u>	<u>5,079,506</u>	<u>-</u>
Budgetary fund balance – ending	<u>\$ 5,079,506</u>	<u>1,992,914</u>	<u>6,419,938</u>	<u>4,427,024</u>

Reconciliation to GAAP-basis:

	<u>Revenues</u>	<u>Expenses</u>	<u>Transfers (Net)</u>	<u>Net Change in Fund Balance/ Net Position</u>
As reported on a budgetary basis	30,513,832	28,386,117	(787,283)	1,340,432
Net change in accrued receivables	(263,776)	-	-	(263,776)
Net change in net pension liability	-	1,051,911	-	(1,051,911)
Net change in OPEB liability	-	504,932	-	(504,932)
Net change in compensated absences	-	11,842	-	(11,842)
Net change in claims and judgments	-	(217,045)	-	217,045
Capital projects expenses	-	303,068	-	(303,068)
Debt service principal	-	(7,001,439)	-	7,001,439
Interest paid on refunded debt	-	43,024	-	(43,024)
Amortization of premium interest	-	(20,782)	-	20,782
Net change in accrued interest	-	91,529	-	(91,529)
Depreciation	-	7,333,759	-	(7,333,759)
As reported on a GAAP basis	<u>30,250,056</u>	<u>30,486,916</u>	<u>(787,283)</u>	<u>(1,024,143)</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)



CITY OF WORCESTER, MASSACHUSETTS

Capital Assets Used in the Operation of Governmental Activities
Schedule by Function and Activity

June 30, 2017

Function and activity	Land	Buildings	Improvements other than buildings
General government:			
Manager	\$ 7,813,131	4,296,009	-
Elections	-	-	-
Technical Services	-	1,581,112	-
Total general government	<u>7,813,131</u>	<u>5,877,121</u>	<u>-</u>
Public safety:			
Police	514,500	1,718,761	170,815
Fire	1,074,600	11,024,262	-
Inspectional Services	209,905	555,700	-
Communications	-	5,212,950	-
Total public safety	<u>1,799,005</u>	<u>18,511,673</u>	<u>170,815</u>
Health and human services:			
Health	-	47,290	-
Workforce investment board	-	-	-
Elder Affairs	-	1,713,706	18,715
Total health and human services	<u>-</u>	<u>1,760,996</u>	<u>18,715</u>
Public works	<u>3,489,339</u>	<u>76,143,190</u>	<u>78,010,762</u>
Education	<u>3,358,537</u>	<u>245,214,394</u>	<u>5,958,266</u>
Community development	<u>-</u>	<u>99,565</u>	<u>280,071</u>
Culture and recreation:			
Library	305,000	12,670,181	-
Auditorium	150,000	1,081,279	-
DCU Center	263,000	53,667,643	-
Hope Cemetery	290,000	1,120,184	-
Parks	5,162,756	4,413,614	46,958,893
Total culture and recreation	<u>6,170,756</u>	<u>72,952,901</u>	<u>46,958,893</u>
Total governmental activities capital assets	<u>\$ 22,630,768</u>	<u>420,559,840</u>	<u>131,397,522</u>

Rolling equipment	Equipment and other	Infrastructure	Construction in progress	Total
-	58,634	-	40,900,384	53,068,158
-	194,124	-	-	194,124
-	568,791	-	-	2,149,903
-	821,549	-	40,900,384	55,412,185
9,000	153,065	-	-	2,566,141
3,671,736	249,185	610,086	-	16,629,869
-	-	-	-	765,605
-	7,378,959	-	-	12,591,909
3,680,736	7,781,209	610,086	-	32,553,524
-	-	-	-	47,290
-	94,200	-	-	94,200
-	38,920	-	-	1,771,341
-	133,120	-	-	1,912,831
2,211,767	588,261	146,857,573	797,855	308,098,747
409,870	2,247,040	-	50,456,885	307,644,992
-	105,685	-	-	485,321
-	397,285	-	39,196	13,411,662
-	-	-	-	1,231,279
-	345,144	-	-	54,275,787
-	-	-	-	1,410,184
711,476	147,452	1,513,677	-	58,907,868
711,476	889,881	1,513,677	39,196	129,236,780
7,013,849	12,566,745	148,981,336	92,194,320	835,344,380

CITY OF WORCESTER, MASSACHUSETTS

Capital Assets Used in the Operation of Governmental Activities
Schedule of Changes by Function and Activity

For the Fiscal Year Ended June 30, 2017

<u>Function and activity</u>	<u>Governmental activities capital assets July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental activities capital assets June 30, 2017</u>
General government:				
Manager	\$ 27,157,842	30,107,984	4,197,668	53,068,158
Elections	249,588	-	55,464	194,124
Information Services	1,924,975	379,363	154,435	2,149,903
Total general government	<u>29,332,405</u>	<u>30,487,347</u>	<u>4,407,567</u>	<u>55,412,185</u>
Public safety:				
Police	2,738,750	199,921	372,530	2,566,141
Fire	16,649,737	1,351,188	1,371,056	16,629,869
Inspectional Services	806,927	-	41,322	765,605
Communications	12,059,376	5,770,994	5,238,461	12,591,909
Total public safety	<u>32,254,790</u>	<u>7,322,103</u>	<u>7,023,369</u>	<u>32,553,524</u>
Health and human services:				
Health	49,846	-	2,556	47,290
Workforce investment board	121,114	-	26,914	94,200
Elder Affairs	1,699,953	349,144	277,756	1,771,341
Total health and human svc	<u>1,870,913</u>	<u>349,144</u>	<u>307,226</u>	<u>1,912,831</u>
Public works	<u>302,336,085</u>	<u>66,341,840</u>	<u>60,579,178</u>	<u>308,098,747</u>
Education	<u>279,419,524</u>	<u>43,411,899</u>	<u>15,186,431</u>	<u>307,644,992</u>
Community development	<u>240,828</u>	<u>287,252</u>	<u>42,759</u>	<u>485,321</u>
Culture and recreation:				
Library	14,002,537	39,196	630,071	13,411,662
Auditorium	1,431,833	-	200,554	1,231,279
DCU Center	56,343,001	1,939,539	4,006,753	54,275,787
Hope Cemetery	1,462,514	-	52,330	1,410,184
Parks	56,172,274	6,392,685	3,657,091	58,907,868
Total culture and recreation	<u>129,412,159</u>	<u>8,371,420</u>	<u>8,546,799</u>	<u>129,236,780</u>
Total governmental activities capital assets	<u>\$ 774,866,704</u>	<u>156,571,005</u>	<u>96,093,329</u>	<u>835,344,380</u>

CITY OF WORCESTER, MASSACHUSETTS
 Agency Fund
 Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
ASSETS				
Cash and cash equivalents	\$ 423,527	471,811	(455,476)	439,862
LIABILITIES				
Accounts payable and accrued expenses	\$ 5,989	28,163	(5,989)	28,163
Due to student groups	417,538	471,811	(477,650)	411,699
Total liabilities	\$ 423,527	499,974	(483,639)	439,862

(THIS PAGE LEFT BLANK INTENTIONALLY)



STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Worcester’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

Table of Contents

	Page
Financial Trends	159
These tables contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	
Revenue Capacity	172
These tables contain information to help the reader assess the City’s most significant local revenue source, the property tax.	
Debt Capacity	178
These tables contain information to help the reader assess the affordability of the City’s current level of outstanding debt and the City’s ability to issue additional debt in the future.	
Demographic and Economic Information	181
These tables offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place.	
Operating Information	184
These tables contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

(THIS PAGE LEFT BLANK INTENTIONALLY)



CITY OF WORCESTER, MASSACHUSETTS

Net Position by Component (1)

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014 (2)	2015	2016	2017
Governmental activities:										
Net investment in capital assets (1)	\$ 187,454	201,247	236,864	280,669	288,776	310,299	333,718	361,677	402,433	433,725
Restricted	65,072	42,371	29,804	42,290	40,376	43,534	54,995	56,178	56,244	61,567
Unrestricted	(163,105)	(175,323)	(208,915)	(230,791)	(232,785)	(254,054)	(608,267)	(640,192)	(693,216)	(744,089)
Total governmental activities net position	\$ 89,421	68,295	57,753	92,168	96,367	99,779	(219,554)	(222,337)	(234,539)	(248,797)
Business-type activities:										
Net investment in capital assets (1)	\$ 110,861	121,480	120,990	87,708	87,856	86,123	86,648	88,675	90,920	84,896
Restricted	-	-	-	1,601	-	-	-	-	-	-
Unrestricted	11,716	10,026	7,978	8,344	10,776	11,024	(10,304)	(12,425)	(12,985)	(12,303)
Total business-type net position	\$ 122,577	131,506	128,968	97,653	98,632	97,147	76,344	76,250	77,935	72,593
Primary government:										
Net investment in capital assets (1)	\$ 298,315	322,727	357,854	368,377	376,632	396,422	420,366	450,352	493,353	518,621
Restricted	65,072	42,371	29,804	43,891	40,376	43,534	54,995	56,178	56,244	61,567
Unrestricted	(151,389)	(165,297)	(200,937)	(222,447)	(222,009)	(243,030)	(618,571)	(652,617)	(706,201)	(756,392)
Total primary government net position	\$ 211,998	199,801	186,721	189,821	194,999	196,926	(143,210)	(146,087)	(156,604)	(176,204)

(1) Net position and net investment in capital assets terminology per GASB #63 is being utilized.

(2) Net pension liability (and related) per GASB #68 is reported starting in fiscal year 2014.

Table 2

CITY OF WORCESTER, MASSACHUSETTS

Changes in Net Position (1)

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	2008 (2)	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017
Expenses										
Governmental activities:										
General government	\$ 22,268	23,416	20,862	21,026	21,552	24,652	49,096	23,721	29,353	32,431
Public safety	132,411	130,554	126,546	123,114	126,488	129,490	302,717	160,408	156,918	164,981
Health and human services	23,366	21,229	23,994	25,033	20,597	18,396	32,756	16,650	19,262	20,107
Education	406,208	421,160	425,765	432,824	435,526	451,582	548,011	424,350	480,201	501,273
Public works	34,727	41,457	33,387	37,435	39,584	40,387	57,769	47,280	41,955	54,483
Culture and recreation	19,895	16,475	20,018	17,528	21,535	21,756	35,211	27,461	26,351	25,478
Community development	4,764	4,942	6,118	7,926	4,399	1,820	4,256	4,063	6,562	7,028
Redevelopment	-	-	-	-	-	-	-	-	-	-
Interest on debt	25,366	24,534	25,351	22,573	23,968	25,873	26,555	21,806	20,883	20,074
Total governmental activities expenses	669,005	683,767	682,041	687,459	693,649	713,956	1,056,371	725,739	781,485	825,855
Business-type activities:										
Water	25,213	25,669	25,638	24,911	24,388	25,734	39,096	27,391	26,785	30,486
Sewer	29,258	31,134	32,742	33,737	35,284	37,991	45,563	39,972	42,018	45,986
Airport	4,703	5,082	5,047	1,417	-	-	-	-	-	-
Golf course (nonmajor)	1,227	1,148	1,122	1,238	1,246	1,293	1,713	1,429	1,386	1,443
Total business-type expenses	60,401	63,033	64,549	61,303	60,918	65,018	86,372	68,792	70,189	77,915
Total primary government expenses	\$ 729,406	746,800	746,590	748,762	754,567	778,974	1,142,743	794,531	851,674	903,770
Program Revenues										
Governmental activities:										
Charges for services:										
Public safety	\$ 13,580	11,813	13,536	13,775	15,935	14,969	16,118	17,444	20,844	18,835
Public works	9,160	11,078	10,970	10,986	11,917	9,920	11,356	8,823	9,369	10,588
Other activities	7,641	7,383	8,443	9,738	8,823	8,752	8,770	8,623	8,579	8,709
Operating grants and contributions	326,260	345,103	348,563	368,157	363,538	365,227	374,157	342,932	363,557	387,555
Capital grants and contributions	28,979	23,187	28,084	32,916	10,691	23,252	15,562	24,528	29,007	34,946
Total governmental activities program revenues	385,620	398,564	409,596	435,572	410,904	422,120	425,963	402,350	431,356	460,633
Business-type activities:										
Charges for services:										
Water	24,251	24,993	24,102	25,946	27,002	26,838	28,243	28,360	29,278	30,250
Sewer	26,928	28,939	29,247	31,320	34,443	34,066	36,262	38,951	40,550	41,954
Airport	802	862	1,015	152	-	-	-	-	-	-
Golf course (nonmajor)	1,127	1,048	987	1,035	1,127	1,058	1,096	1,090	1,206	1,106
Operating grants and contributions	1,174	1,395	1,413	1,282	-	385	-	-	-	-
Capital grants and contributions	4,226	14,821	3,514	641	2,691	2,106	386	-	330	286
Total business-type activities program revenues	58,508	72,058	60,278	60,376	65,263	64,453	65,987	68,401	71,364	73,596
Total primary government program revenues	\$ 444,128	470,622	469,874	495,948	476,167	486,573	491,950	470,751	502,720	534,229

(continued)

Table 2

CITY OF WORCESTER, MASSACHUSETTS
Changes in Net Position (1)
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	2008 (2)	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017
Net (expense)/revenue										
Governmental activities	\$ (283,385)	(285,203)	(272,445)	(251,887)	(282,745)	(291,836)	(630,408)	(323,389)	(350,129)	(365,222)
Business-type activities	(1,893)	9,025	(4,271)	(927)	4,345	(565)	(20,385)	(391)	1,175	(4,319)
Total primary government net (expense)/ revenue	\$ (285,278)	(276,178)	(276,716)	(252,814)	(278,400)	(292,401)	(650,793)	(323,780)	(348,954)	(369,541)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Property taxes	\$ 188,930	197,472	205,558	215,511	225,460	233,206	247,313	257,423	271,801	275,979
Motor vehicle excise taxes	12,932	11,393	11,050	11,519	11,866	12,720	13,075	14,305	15,554	16,281
Intergovernmental	54,561	48,493	37,476	36,220	36,298	36,039	36,974	37,844	39,096	40,732
Other	9,000	6,269	9,505	12,809	9,886	11,730	13,227	11,244	11,883	16,789
Transfers (net)	(540)	96	(1,733)	13,250	3,366	920	418	(297)	(510)	1,023
Gain on sale of capital assets	622	296	-	-	-	564	-	-	-	-
Donations	291	58	47	48	68	69	68	87	103	160
Extraordinary item - transfer of airport debt to governmental activities	-	-	-	(3,055)	-	-	-	-	-	-
Total governmental activities	265,796	264,077	261,903	286,302	286,944	295,248	311,075	320,606	337,927	350,964
Business-type activities										
Transfers (net)	540	(96)	1,733	(13,250)	(3,366)	(920)	(418)	297	510	(1,023)
Loss on airport disposal	-	-	-	(20,193)	-	-	-	-	-	-
Extraordinary item - transfer of airport debt to governmental activities	-	-	-	3,055	-	-	-	-	-	-
Total business-type activities	540	(96)	1,733	(30,388)	(3,366)	(920)	(418)	297	510	(1,023)
Total primary government	\$ 266,336	263,981	263,636	255,914	283,578	294,328	310,657	320,903	338,437	349,941
Changes in Net Position										
Governmental activities	\$ (17,589)	(21,126)	(10,542)	34,415	4,199	3,412	(319,333)	(2,783)	(12,202)	(14,258)
Business-type activities	(1,353)	8,929	(2,538)	(31,315)	979	(1,485)	(20,803)	(94)	1,685	(5,342)
Total primary government	\$ (18,942)	(12,197)	(13,080)	3,100	5,178	1,927	(340,136)	(2,877)	(10,517)	(19,600)

(1) Net position terminology per GASB #63 is being utilized.

(2) OPEB liability was recognized in the financial statements starting in fiscal 2008.

(3) Expenses in fiscal 2014 reflect the initial measurement of the net pension liability (and related) per GASB #68.

(4) OPEB expense was reallocated among departments in fiscal 2015.

MTRS in-kind pension expense decreased \$29,508 upon implementation of GASB #68.

(concluded)

Table 3

CITY OF WORCESTER, MASSACHUSETTS
 Governmental Activities Tax Revenues by Source
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

Fiscal Year	Property Tax	Motor Vehicle Excise Tax	Hotel/Motel Tax	Meals Tax	Sales Tax	In Lieu of Tax Payments (1)	Total
2008	\$ 188,930	12,932	1,104	198	20	-	203,184
2009	197,472	11,393	1,483	327	30	-	210,705
2010	205,558	11,050	1,422	1,431	31	-	219,492
2011	215,511	11,519	1,787	2,450	32	-	231,299
2012	225,460	11,866	1,939	2,568	32	-	241,865
2013	233,206	12,720	1,940	2,686	45	-	250,597
2014	247,313	13,075	2,005	2,816	48	966	266,223
2015	257,423	14,305	2,153	3,186	53	805	277,925
2016	271,801	15,554	2,322	3,466	27	875	294,045
2017	275,979	16,281	2,636	3,600	77	734	299,307

(1) In lieu of tax payments are reported in this table starting in fiscal year 2014

Table 4

CITY OF WORCESTER, MASSACHUSETTS

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

	2008	2009	2010	2011 (2)	2012	2013	2014	2015	2016	2017
General fund:										
Reserved	\$ -	-	-	-	-	-	-	-	-	-
Unreserved	11,906	6,107	12,029	-	-	-	-	-	-	-
Restricted	-	-	-	1,070	1,444	2,652	7,020	8,425	8,896	11,753
Unassigned	-	-	-	17,758	25,520	27,869	27,870	26,823	34,652	40,383
Total general fund	\$ <u>11,906</u>	<u>6,107</u>	<u>12,029</u>	<u>18,828</u>	<u>26,964</u>	<u>30,521</u>	<u>34,890</u>	<u>35,248</u>	<u>43,548</u>	<u>52,136</u>
All other governmental funds:										
Reserved	\$ 30,418	34,077	24,963	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	13,438	17,974	18,098	-	-	-	-	-	-	-
Capital projects funds (1)	34,529	8,215	4,752	-	-	-	-	-	-	-
Permanent funds	125	79	89	-	-	-	-	-	-	-
Nonspendable	-	-	-	14,215	13,918	15,579	11,961	12,935	13,062	15,686
Restricted	-	-	-	37,287	31,849	32,228	38,863	39,153	37,378	38,880
Committed	-	-	-	22,673	29,057	35,896	39,734	40,025	38,925	37,788
Unassigned	-	-	-	(11,518)	(35,686)	(38,492)	(41,479)	(36,088)	(53,372)	(83,752)
Total all other governmental funds	\$ <u>78,510</u>	<u>60,345</u>	<u>47,902</u>	<u>62,657</u>	<u>39,138</u>	<u>45,211</u>	<u>49,079</u>	<u>56,025</u>	<u>35,993</u>	<u>8,602</u>

(1) Unreserved fund balance in capital projects funds increased when temporary debt outstanding at year end was repaid with permanent debt before the audit reporting date in fiscal 2008.

(2) Fund balances were redefined by GASB Statement #54 starting in fiscal 2011.

Table 5

CITY OF WORCESTER, MASSACHUSETTS
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
REVENUES										
Property taxes	\$ 189,419	197,777	204,832	216,370	225,501	233,327	246,742	256,652	271,977	276,746
Motor vehicle excise taxes	12,677	11,370	11,551	11,311	11,888	12,843	13,281	14,265	15,346	16,027
Other taxes and in-lieu payments	3,684	4,941	5,539	6,365	6,015	6,064	6,559	6,872	7,303	7,596
Penalties and interest on taxes	2,414	2,605	2,272	2,285	2,872	2,532	2,440	2,107	2,530	2,315
Licenses and permits	4,726	4,402	4,890	4,865	5,210	4,992	5,274	5,795	6,388	6,713
Intergovernmental (2)	405,755	411,424	423,208	445,106	417,838	425,047	434,696	380,721	392,272	407,424
Charges for services	21,107	21,055	22,847	23,539	24,988	24,106	24,123	24,137	28,418	25,746
Fines and forfeitures	3,308	3,137	3,190	2,806	2,845	2,594	3,151	3,097	2,584	2,406
Investment earnings (losses)	2,766	(929)	1,598	2,543	(35)	2,116	3,107	567	930	3,228
Donations	4,951	2,468	3,633	5,528	4,677	11,396	5,997	5,059	5,120	4,753
Contributions to permanent funds	291	58	47	48	68	69	69	87	103	160
Miscellaneous	1,013	1,246	1,621	89	1,723	1,452	1,845	2,259	1,733	4,197
Total revenues	652,111	659,554	685,228	720,855	703,590	726,538	747,284	701,618	734,704	757,311
EXPENDITURES										
General government	17,957	16,644	15,308	15,936	28,650	31,911	25,559	24,574	39,609	53,943
Public safety (3)	93,942	92,323	89,308	90,395	94,006	93,314	96,604	97,773	114,414	109,885
Health and human services	19,649	18,172	21,118	22,499	17,788	15,547	14,872	13,619	15,810	18,355
Education (1)	261,869	285,359	297,701	302,392	299,134	296,957	316,669	313,239	337,664	351,885
Public works	49,363	39,126	39,087	53,773	55,072	61,137	53,607	61,059	62,248	49,887
Culture and recreation	14,766	16,753	20,952	17,402	16,758	26,590	35,534	22,027	19,826	19,364
Fringe benefits (2)	136,213	124,318	138,899	147,319	143,722	148,073	157,319	103,581	105,732	109,888
Community development	4,764	4,942	6,118	7,926	4,399	1,820	4,256	4,064	7,153	7,273
State & regional charges	23,914	26,102	26,865	28,255	29,526	31,243	30,627	30,659	31,166	31,102
Debt service:										
Principal	32,774	34,761	36,637	38,813	36,747	36,746	37,922	54,979	46,974	45,917
Interest	25,829	26,098	24,827	24,023	26,890	27,269	27,964	23,825	23,583	22,677
Total expenditures	681,040	684,598	716,820	748,733	752,692	770,607	800,933	749,399	804,179	820,176
Excess of revenues (under) expenditures	(28,929)	(25,044)	(31,592)	(27,878)	(49,102)	(44,069)	(53,649)	(47,781)	(69,475)	(62,865)

(continued)

Table 5

CITY OF WORCESTER, MASSACHUSETTS
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
OTHER FINANCING SOURCES (USES)										
Transfers in	\$ 21,296	23,452	21,954	51,549	27,305	27,117	25,473	33,917	41,360	22,520
Transfers (out)	(20,713)	(23,356)	(23,686)	(38,299)	(23,832)	(26,197)	(25,055)	(34,215)	(41,870)	(21,497)
Premium on issuance of bonds and notes	423	651	820	804	479	3,789	3,366	4,081	3,988	4,362
Sale of capital assets	1,366	325	29	478	-	840	-	-	-	-
Premium from issuance of refunding bonds	-	-	-	-	-	300	-	2,305	2,314	612
Issuance of refunding bonds	-	542	-	-	7,422	3,015	-	7,407	9,439	8,892
Issuance of bonds and notes	50,067	-	25,955	34,900	29,867	48,150	52,492	41,589	44,280	38,677
Payment to refunded bond escrow agent	-	(535)	-	-	(7,521)	(3,315)	-	-	(9,439)	(9,504)
Capital lease	-	-	-	-	-	-	5,609	-	7,671	-
Total other financing sources (uses), net	<u>52,439</u>	<u>1,079</u>	<u>25,072</u>	<u>49,432</u>	<u>33,720</u>	<u>53,699</u>	<u>61,885</u>	<u>55,084</u>	<u>57,743</u>	<u>44,062</u>
Net change in fund balances	\$ <u>23,510</u>	<u>(23,965)</u>	<u>(6,520)</u>	<u>21,554</u>	<u>(15,382)</u>	<u>9,630</u>	<u>8,236</u>	<u>7,303</u>	<u>(11,732)</u>	<u>(18,803)</u>
Debt service as a percentage of noncapital expenditures	9.2%	9.3%	9.3%	9.2%	9.2%	9.1%	9.1%	11.4%	10.1%	9.6%

(1) In fiscal year 2014, expenditure includes acquisition of capital assets with a capital lease totaling \$5,609.

(2) Starting in fiscal 2015, on behalf revenue and expense for MTRS contributions are not reported upon implementation of GASB # 68.

(3) Public safety in fiscal 2016 includes an adjustment to expenditures for radio equipment acquired under a capital lease in the amount of \$7,671.

(concluded)

Table 6

CITY OF WORCESTER, MASSACHUSETTS
 Governmental Funds Tax Revenues by Source
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

Fiscal Year	Property Tax	Motor Vehicle Excise Tax	Hotel/Motel Tax	Meals Tax	Sales Tax	In Lieu of Tax Payments (1)	Special Assessments (1)	Total
2008	\$189,419	12,677	1,104	198	20	-	-	203,200
2009	197,777	11,370	1,483	327	30	-	-	210,630
2010	204,832	11,550	1,422	1,431	31	-	-	219,266
2011	216,370	11,311	1,787	2,450	32	-	-	231,950
2012	225,501	11,888	1,939	2,568	32	-	-	241,928
2013	233,328	12,843	1,940	2,686	45	-	-	250,842
2014	246,742	13,281	2,005	2,816	48	966	724	266,582
2015	256,652	14,265	2,153	3,186	53	805	674	277,788
2016	271,977	15,346	2,322	3,466	27	875	613	294,626
2017	276,746	16,027	2,636	3,600	77	734	549	300,369

(1) In lieu of tax payments and special assessments are reported in this table starting in fiscal year 2014

(THIS PAGE LEFT BLANK INTENTIONALLY)



CITY OF WORCESTER, MASSACHUSETTS
General Fund Expenditures – Modified Accrual Basis of Accounting
Year ended June 30, 2017

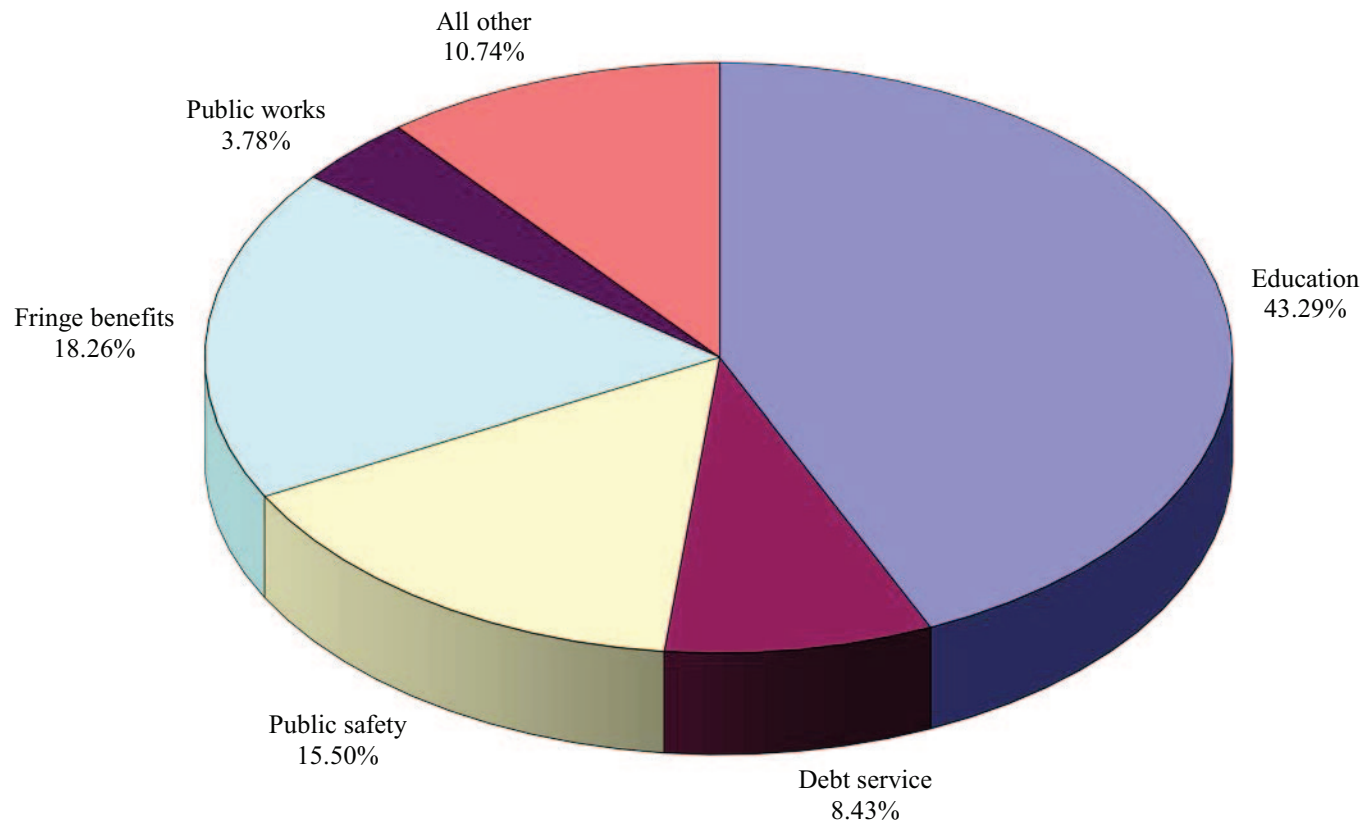


Table 7

CITY OF WORCESTER, MASSACHUSETTS
 General Fund Expenditures – Modified Accrual Basis of Accounting
 Last Ten Fiscal Years
 (Amounts expressed in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General government	\$ 13,785	13,981	12,749	13,730	14,598	15,570	16,809	17,930	18,396	19,374
Public safety (1)	78,576	79,656	76,689	74,931	77,812	80,413	82,546	83,930	95,321	93,297
Health and human services (2)	3,776	2,639	575	675	764	926	730	860	3,196	3,652
Education	197,241	199,840	198,001	205,918	222,923	235,106	250,819	247,223	259,527	260,466
Public works	20,121	22,491	18,096	18,255	18,030	18,995	19,740	20,758	18,673	22,755
Culture and recreation	8,400	9,016	7,955	7,807	8,123	8,467	8,951	9,385	9,714	10,445
Fringe benefits (3)	136,213	124,318	138,899	147,319	143,722	148,073	157,319	103,581	105,732	109,888
State and regional charges	23,914	26,102	26,865	28,254	29,526	31,243	30,627	30,659	31,166	31,102
Debt service	45,328	45,523	46,853	47,095	47,067	47,510	48,996	52,677	52,672	50,749
Totals	\$ <u>527,354</u>	<u>523,566</u>	<u>526,682</u>	<u>543,984</u>	<u>562,565</u>	<u>586,303</u>	<u>616,537</u>	<u>567,003</u>	<u>594,397</u>	<u>601,728</u>

(1) Public safety in fiscal 2016 includes an adjustment to expenditures for radio equipment acquired under a capital lease in the amount of \$7,671.

(2) Starting in fiscal 2016, the Veteran's Department was moved from general government to health and human services.

(3) Starting in fiscal 2015, on behalf expense for MTRS contributions are not reported upon implementation of GASB # 68.

CITY OF WORCESTER, MASSACHUSETTS
General Fund Revenues – Modified Accrual Basis of Accounting
Year ended June 30, 2017

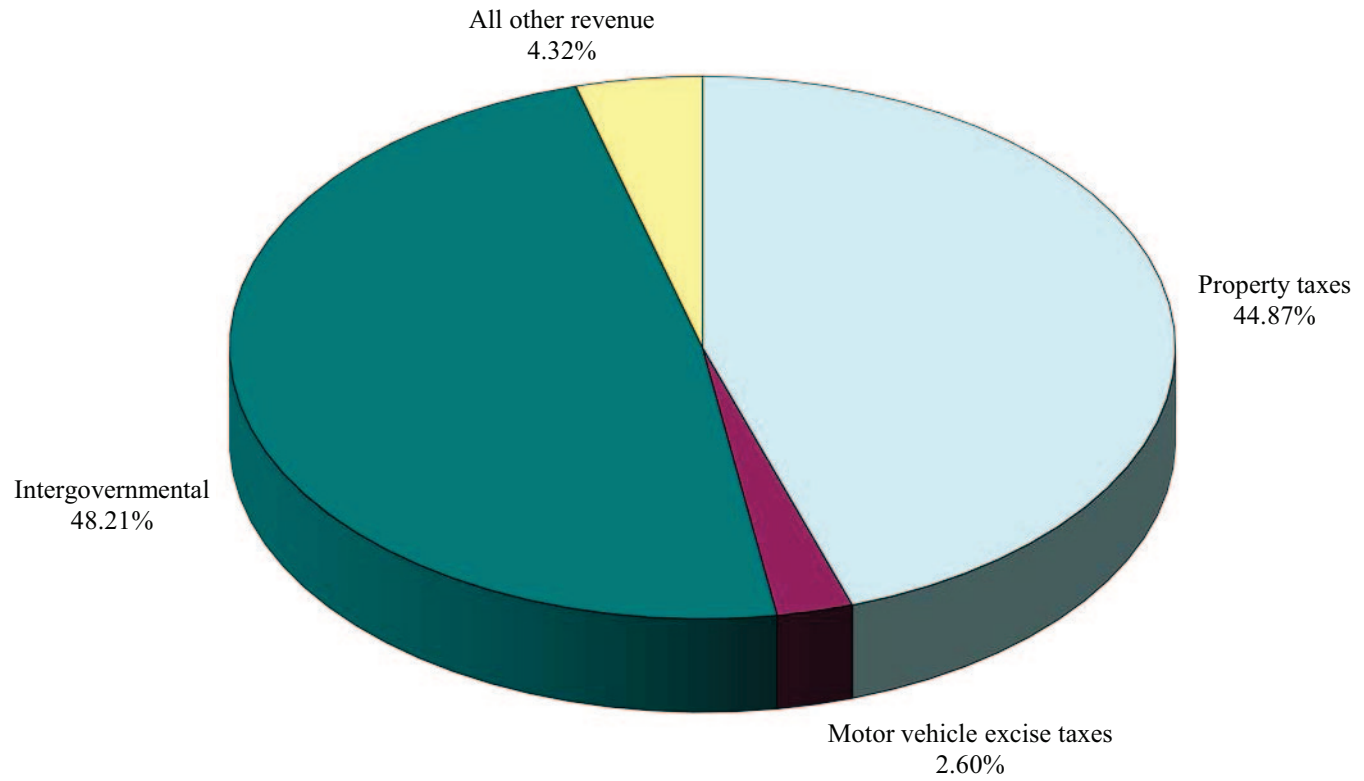


Table 8

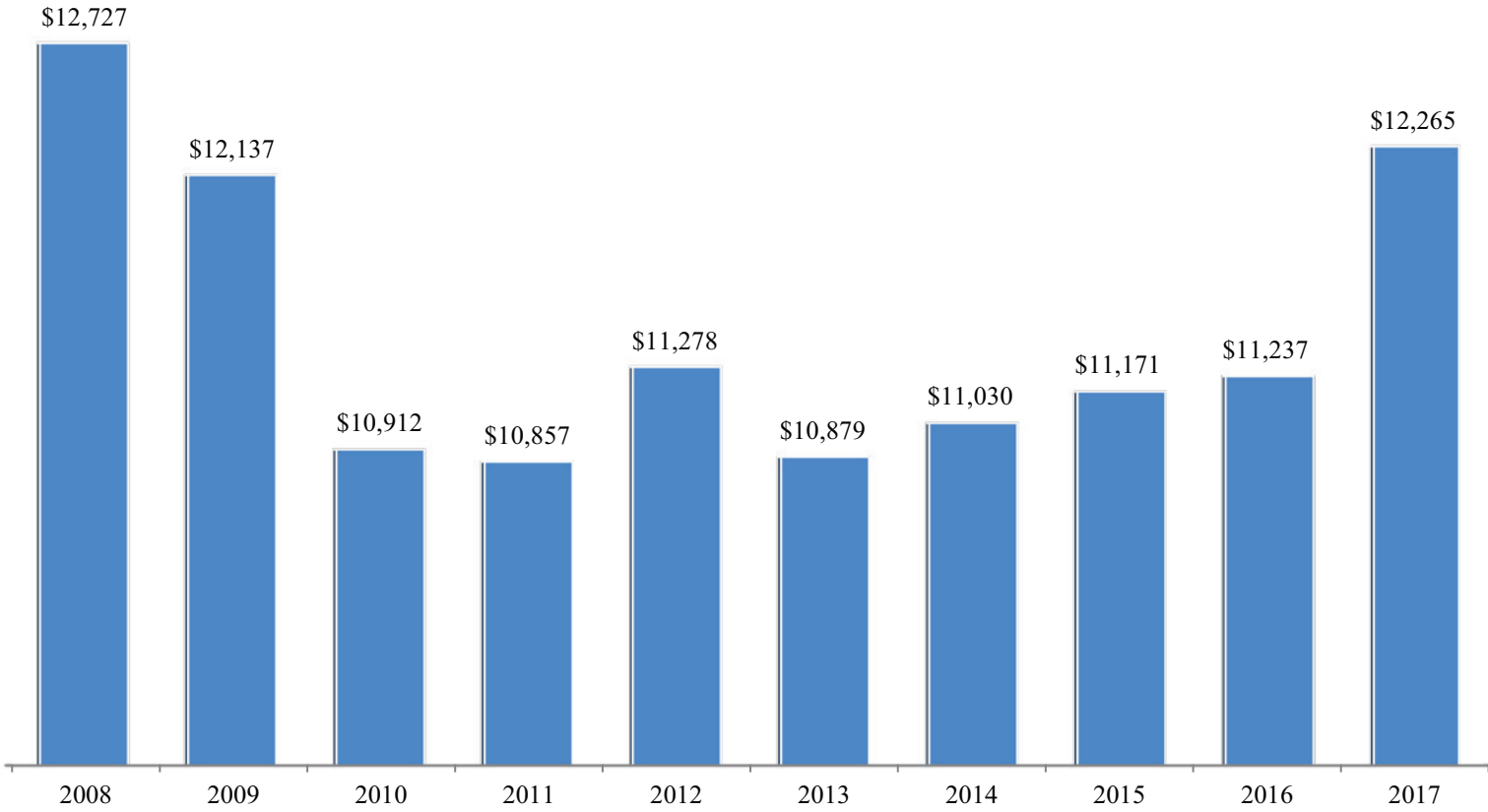
CITY OF WORCESTER, MASSACHUSETTS
 General Fund Revenues – Modified Accrual Basis of Accounting
 Last Ten Fiscal Years
 (Amounts expressed in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Property taxes	\$ 189,419	197,777	204,832	216,370	225,501	233,328	246,742	256,652	271,977	276,746
Motor vehicle excise taxes	12,677	11,370	11,550	11,311	11,888	12,843	13,281	14,265	15,346	16,027
Other taxes and in-lieu payments	2,556	2,529	3,208	4,934	4,440	4,413	4,804	4,777	5,083	5,270
Penalties and interest on taxes	2,414	2,605	2,272	2,285	2,872	2,532	2,440	2,107	2,530	2,316
Licenses and permits	4,726	4,402	4,890	4,865	5,210	4,992	5,274	5,795	6,388	6,713
Intergovernmental (1)	311,475	295,327	303,512	306,267	321,719	332,726	342,950	278,742	291,662	297,397
Charges for services	6,232	5,918	5,909	5,939	5,814	5,746	5,683	5,566	5,800	5,866
Fines and forfeitures	3,308	3,137	3,190	2,806	2,845	2,594	3,151	3,097	2,584	2,406
Investment earnings	1,806	462	105	68	100	318	484	554	1,005	1,097
Miscellaneous	773	790	1,438	1,429	1,318	1,112	1,246	1,727	1,368	2,998
Totals	\$ <u>535,386</u>	<u>524,317</u>	<u>540,906</u>	<u>556,274</u>	<u>581,707</u>	<u>600,604</u>	<u>626,055</u>	<u>573,282</u>	<u>603,743</u>	<u>616,836</u>

(1) Starting in fiscal 2015, on behalf revenue for MTRS contributions are not reported upon implementation of GASB # 68

CITY OF WORCESTER, MASSACHUSETTS
Taxable Assessed Valuations
Last Ten Fiscal Years
(Amounts expressed in millions)

Graph 3



CITY OF WORCESTER, MASSACHUSETTS
 Tax Levy, Unused Levy Capacity and Ceiling
 Last Ten Fiscal Years
 (Amounts expressed in thousands)

Graph 4

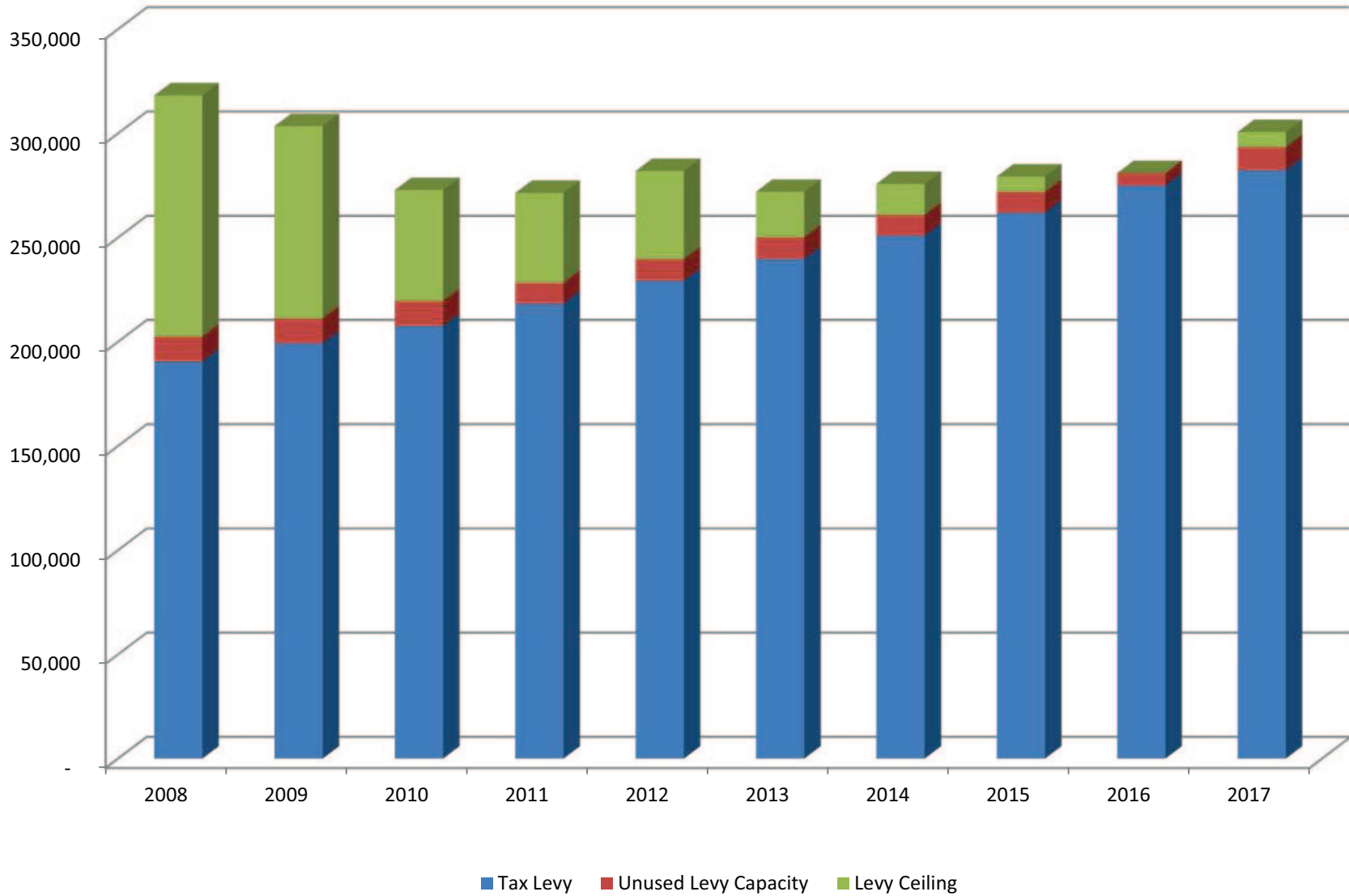


Table 9

CITY OF WORCESTER, MASSACHUSETTS
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (Amounts expressed in thousands, except for total direct tax rate)

Fiscal Year	Assessed value			Total taxable Assessed Value	Total Direct tax Rate (1)	State Equalized Value	Ratio of Assessed to Equalized Value	Tax Exempt Real Property	Total Assessed Value	Ratio of Exempt property To total Assessed value
	Residential Property	Commercial and Industrial Property	Personal Property							
2008	\$ 10,462,845	1,915,408	348,741	12,726,994	14.97	13,827,180	100.57	\$ 2,890,917	15,617,911	18.51 %
2009	9,816,042	1,933,249	387,967	12,137,258	16.41	13,827,180	87.78	3,004,042	15,141,300	19.84
2010	8,585,028	1,916,902	410,012	10,911,942	19.02	11,928,304	78.92	2,996,065	13,908,007	21.54
2011	8,495,190	1,936,409	425,263	10,856,862	20.10	11,928,304	91.02	2,960,659	13,817,521	21.43
2012	8,157,509	2,527,779	592,328	11,277,616	20.32	12,173,645	92.64	4,460,004	15,737,620	28.34
2013	7,817,607	2,477,244	584,005	10,878,856	22.03	12,173,645	89.36	4,419,631	15,298,487	28.89
2014	7,902,180	2,535,314	592,517	11,030,011	22.74	11,615,944	94.96	4,920,225	15,950,236	30.85
2015	7,940,489	2,529,870	700,912	11,171,271	23.44	11,615,944	96.17	4,945,157	16,116,428	30.68
2016	8,000,021	2,483,143	753,717	11,236,881	24.46	12,237,662	91.82	4,948,796	16,185,677	30.58
2017	8,868,132	2,622,986	774,345	12,265,463	23.02	12,237,662	100.23	5,621,707	17,887,170	31.43

(1) Per \$1,000 of assessed value

Table 10

CITY OF WORCESTER, MASSACHUSETTS
 Direct Property Tax Rates (1) (2)
 Last Ten Fiscal Years

Fiscal Year	Residential Real Property	Commercial and Industrial Real Property	Personal Property	Total Direct (3)
2008	\$ 12.54	26.20	26.20	14.97
2009	13.50	28.72	28.72	16.41
2010	15.15	33.28	33.28	19.02
2011	16.06	34.65	34.65	20.10
2012	16.98	29.07	29.07	20.32
2013	18.58	30.85	30.85	22.03
2014	19.54	30.83	30.83	22.74
2015	20.07	31.73	31.73	23.44
2016	20.61	33.98	33.98	24.46
2017	19.22	32.93	32.93	23.02

Source: Assessing Department

(1) Rates are applicable to each \$1,000 of assessed value.

(2) Per the initiatives of Proposition 2 1/2 adopted by the Commonwealth of Massachusetts, the City cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property. The City's levy is also limited in that it cannot increase more than 2.5 percent from the prior year, with certain exceptions for new growth or through overrides and exclusions adopted by City voters.

(3) Calculated by dividing the net tax levy by total assessed value divided by 1,000.

Table 11

CITY OF WORCESTER, MASSACHUSETTS
Principal Taxpayers - Current Year and Nine Years Ago
June 30, 2017
(Amounts expressed in thousands)

Taxpayer	Type of business	2017				2008			
		Assessed valuation	Rank	Fiscal 2017 tax bill	Percentage of tax levy	Assessed valuation	Rank	Fiscal 2008 tax bill	Percentage of tax levy
Massachusetts Electric Co.	Electric utility	\$ 361,221	1	\$ 11,895	4.2 %	\$ 131,630	1	\$ 3,448	1.8 %
NSTAR Gas Co.	Gas utility	168,048	2	5,534	2.0	52,724	4	1,381	0.7
VHS Acquisition Subsidiary (St Vincent Hospital)	Medical care	158,245	3	5,211	1.8	41,796	9	1,095	0.6
New England Power Co.	Electric utility	71,501	4	2,336	0.8	N/A	N/A	N/A	N/A
V3B SA LLC (Lincoln Plaza)	Shopping plaza	64,281	5	2,117	0.7	52,952	3	1,387	0.7
440 Lincoln Street Holding (Hanover/Allmerica)	Insurance	58,708	6	1,933	0.7	50,347	6	1,319	0.7
Verizon New England	Communications	46,176	7	1,520	0.5	50,752	5	1,330	0.7
St. Gobain Abrasives Inc. (Norton Company)	Abrasives manufacturer	45,139	8	1,486	0.5	N/A	N/A	N/A	N/A
HCRI Massachusetts Properties Trust	Real Estate	47,102	9	1,140	0.4	N/A	N/A	N/A	N/A
Worcester Renaissance LLC (CitySquare)	Real Estate	34,524	10	1,137	0.4	35,331	10	926	0.5
Worcester TC LLC (Abbott Bioresearch)	Biotechnology park	N/A	N/A	N/A	N/A	42,479	8	1,113	0.6
Greendale Mall (Mayflower Greendale LLP)	Shopping mall	N/A	N/A	N/A	N/A	44,340	7	1,162	0.6
Alexandria Real Estate Equities	Biotechnology park	N/A	N/A	N/A	N/A	54,144	2	1,419	0.7
Totals		<u>\$ 1,054,945</u>		<u>\$ 34,309</u>	<u>12.0 %</u>	<u>\$ 556,495</u>		<u>\$ 14,580</u>	<u>7.6 %</u>

N/A - not ranked in top ten during fiscal year

Source: Assessor's department

Table 12

CITY OF WORCESTER, MASSACHUSETTS

Property Tax Levies and Collections

Last Ten Fiscal Years

(Amounts expressed in thousands)

Fiscal Year	Total net tax levy for fiscal year	Collected within the Fiscal year of the levy		Collections in Subsequent Years	Total collections to date	
		Amount	Percentage of levy		Amount	Percentage of levy
2008	\$ 188,627	182,941	96.99 %	\$ 5,686	188,627	100.00%
2009	196,858	191,590	97.32	5,268	196,858	100.00
2010	205,160	199,535	97.26	5,625	205,160	100.00
2011	215,790	210,277	97.45	5,390	215,667	99.94
2012	223,929	220,352	98.40	2,752	223,104	99.63
2013	236,754	230,540	97.38	4,638	235,178	99.33
2014	247,010	241,606	97.81	3,903	245,509	99.39
2015	258,087	252,256	97.74	4,784	257,040	99.59
2016	273,185	267,287	97.84	4,030	271,317	99.32
2017	280,200	273,712	97.68	-	273,712	97.68

Table 13

CITY OF WORCESTER, MASSACHUSETTS

Ratio of Outstanding Debt by Type

Last Ten Fiscal Years

(Amounts expressed in thousands, except per capita)

Fiscal Year	Governmental activities			Business-type activities		Total Primary Government	Percentage of Personal Income (2)	Per Capita (3)
	General Obligation Bonds (1)	Section 108 Note	Capital Leases	General Obligation Bonds (1)	Sewer Note			
2008	\$ 510,634	5,800	-	133,996	906	651,336	16.90%	\$ 3,996
2009	476,965	4,706	-	124,627	863	607,161	15.16	3,320
2010	466,464	4,608	-	126,375	819	598,266	14.95	3,305
2011	465,688	4,505	-	125,346	774	596,313	14.80	3,283
2012	458,847	4,396	-	123,850	1,693	588,786	14.67	3,223
2013	472,522	4,283	-	135,543	1,645	613,993	14.96	3,364
2014	489,322	4,164	5,048	137,315	1,480	637,329	15.78	3,482
2015	490,070	2,216	3,987	140,743	1,950	638,966	14.52	3,457
2016	491,428	2,085	10,564	139,861	2,882	646,820	13.64	3,506
2017	484,176	1,947	9,198	145,222	5,309	645,852	13.62	3,500

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

- (1) Amounts include related premiums
- (2) Source: Massachusetts Department of Revenue
- (3) Population data based on U.S. Census Bureau: American Community Survey estimates (see table 16)

Table 14**CITY OF WORCESTER, MASSACHUSETTS**

Ratio of General Bonded Debt Outstanding

Last Ten Fiscal Years

(Amounts expressed in thousands, except per capita)

Fiscal year	General Obligation Bonds (1)	Percentage of Assessed Value (2)	Total Per capita (3)
2008	\$ 644,630	5.07%	\$ 3,955
2009	601,592	4.96	3,289
2010	592,839	5.43	3,275
2011	591,034	5.44	3,254
2012	582,697	5.17	3,190
2013	608,065	5.59	3,331
2014	626,637	5.68	3,424
2015	630,813	5.65	3,413
2016	631,289	5.62	3,421
2017	629,398	5.13	3,411

Note: Details regarding the City's outstanding debt can be found in the notes to financial statements.

- (1) Amounts include related premiums
- (2) See Table of Assessed Value and Estimated Value of Taxable Property
- (3) Population data based on U.S. Census Bureau: American Community Survey estimates (see table 16)

Table 15

CITY OF WORCESTER, MASSACHUSETTS

Legal Debt Margin
Last Ten Fiscal Years
(Amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt Limit	\$ 632,729	691,359	691,359	596,415	596,415	608,682	608,682	580,797	609,829	611,883
Total net debt applicable to limit	<u>268,621</u>	<u>280,473</u>	<u>263,915</u>	<u>342,654</u>	<u>320,926</u>	<u>340,605</u>	<u>447,418</u>	<u>537,007</u>	<u>579,686</u>	<u>476,923</u>
Legal debt margin	\$ <u>364,108</u>	<u>410,886</u>	<u>427,444</u>	<u>253,761</u>	<u>275,489</u>	<u>268,077</u>	<u>161,264</u>	<u>43,790</u>	<u>30,143</u>	<u>134,960</u>
Total net debt applicable to the limit as a percentage of debt limit	42.45%	40.57%	38.17%	57.45%	53.81%	55.96%	73.51%	92.46%	95.06%	77.94%

Legal Debt Margin Calculation for Fiscal Year 2017

Equalized valuation - real estate and personal property (January 1, 2016)	\$ 12,237,662	
Debt limit - 5% of equalized valuation		611,883
Total bonded debt (including authorized and unissued of \$503,568)	\$ 1,115,283	
Less bonded debt not included in computation of legal debt margin as defined by Massachusetts statutes		(417,095)
Less bonded debt authorized but not yet issued which is outside the debt limit	<u>(221,265)</u>	<u>476,923</u>
Legal debt margin		<u>\$ 134,960</u>

Table 16

CITY OF WORCESTER, MASSACHUSETTS
 Demographic and Economic Statistics
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (1)</u>		<u>Personal Income (amounts expressed in thousands) (2)</u>	<u>Per Capita Personal Income</u>	<u>Median Age (1)</u>	<u>Public School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2008	163,006	\$	3,853,888	23,643	35.1	22,844	7.0%
2009	182,892		4,005,468	21,901	33.6	23,126	10.2
2010	181,045	(3)	4,001,567	22,103	33.4	23,281	10.2
2011	181,641		4,029,111	22,182	33.8	23,490	9.4
2012	182,680		4,013,313	21,969	32.7	24,360	8.8
2013	182,538		4,103,841	22,482	32.7	24,740	9.1
2014	183,033		4,039,704	22,071	33.0	24,562	7.6
2015	184,806		4,401,590	23,817	34.9	25,254	6.5
2016	184,509		4,741,130	25,696	34.9	25,076	5.0
2017	184,509	(6)	4,741,130	(6) 25,696	(6) 34.9	(6) 25,479	5.4

- (1) Source: U.S. Census Bureau: American Community Survey estimates
- (2) Source: US Census; American Community Survey: (total households x mean income)
- (3) US Census Bureau: 2010 census
- (4) Source: Massachusetts Department of Elementary and Secondary Education
- (5) Source: Massachusetts Department of Labor and Workforce Development
- (6) Data is not available, prior year data is used

Table 17

CITY OF WORCESTER, MASSACHUSETTS

Full Time Employees

Last Ten Fiscal Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General government	201	175	176	167	175	181	194	189	195	193
Public safety										
Police										
Officers	448	438	415	409	418	426	441	427	441	461
Civilians	51	49	49	49	49	49	51	52	50	51
Fire										
Officers	403	384	385	399	413	393	407	386	391	404
Civilians	11	9	8	8	10	9	10	10	10	10
Other public safety	97	116	110	105	110	112	114	111	113	111
Health and human services	94	56	53	54	55	56	57	53	63	67
Education	3,384	3,433	3,446	3,478	3,456	3,499	3,552	3,565	3,637	3,667
Public works	189	189	174	163	158	168	171	172	169	173
Culture and recreation	135	129	125	117	115	122	130	135	134	141
Water	105	111	109	102	100	107	109	111	102	104
Sewer	54	58	59	52	50	51	53	51	47	52
Airport	16	16	17	20	—	—	—	—	—	—
Golf course (nonmajor)	2	2	2	2	2	2	2	2	2	2
Totals	<u>5,190</u>	<u>5,165</u>	<u>5,128</u>	<u>5,125</u>	<u>5,111</u>	<u>5,175</u>	<u>5,291</u>	<u>5,264</u>	<u>5,354</u>	<u>5,436</u>

Source: Payroll database as of June 30th of each respective fiscal year

Table 18

CITY OF WORCESTER, MASSACHUSETTS

Principal Employers

Current year and nine years ago

Employer	Type of business	2017			2008		
		Employees	Rank	Percentage of total City Employment	Employees	Rank	Percentage of total City Employment
UMass Memorial Health Care, Inc.	Healthcare	12,906	1	12.45%	13,672	1	17.51%
City of Worcester	Government and education	5,436	2	5.24	5,249	2	6.72
Umass Medical School	Education	4,445	3	4.29	N/A	N/A	N/A
Reliant Medical Group	Healthcare	2,500	4	2.41	N/A	N/A	N/A
Saint Vincent Hospital	Healthcare	2,350	5	2.27	1,954	3	2.50
The Hanover Insurance Group, Inc.	Insurance	1,950	6	1.88	1,804	4	2.31
Saint Gobain Abrasives, Inc.	Abrasives manufacturer	1,572	7	1.52	1,432	6	1.83
Seven Hills Foundation, Inc.	Health and human services	1,236	8	1.19	N/A	N/A	N/A
Worcester Polytechnic School	Education	1,150	9	1.11	814	10	1.04
Quinnisamond College	Education	1,088	10	1.05	N/A	N/A	N/A
Fallon Health, Inc.	Healthcare	N/A	N/A	N/A	1,564	5	2.00
College of the Holy Cross	Education	N/A	N/A	N/A	1,146	7	1.47
Clark University	Education	N/A	N/A	N/A	969	8	1.24
Polar Beverages	Bottling company	N/A	N/A	N/A	922	9	1.18

Sources: 2017 - Worcester Business Journal
2008 - Worcester Area Chamber of Commerce

Table 19

CITY OF WORCESTER, MASSACHUSETTS

Operating Indicators by Function
Last Ten Fiscal/Calendar Years

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police (1)										
Total arrests	9,360	8,658	7,584	7,174	6,785	7,385	8,124	6,254	5,964	N/A
Different individuals arrested	7,082	6,584	5,837	5,591	5,204	5,627	5,935	4,847	4,439	N/A
Arrests for selected charges										
Drug-related	2,574	2,582	844 (2)	705	719	850	762	655	769	N/A
Assault and battery	679	704	1,465 (2)	1,409	1,309	1,327	1,266	952	863	N/A
Disorderly conduct, disturbing peace	1,291	1,210	1,222	1,054	920	916	888	672	626	N/A
Prostitution and related	214	223	133	156	121	181	160	86	150	N/A
Sexual assault, including rape	41	39	38	20	28	28	23	22	32	N/A
Armed robbery	70	43	59	70	47	64	48	38	39	N/A
Murder/manslaughter, attempted murder	6	12	10	15	15	7	11	3	4	N/A
Fire (1) (source: WFD)										
Total Incidents	24,735	29,002	27,605	27,782	28,348	28,333	30,099	31,933	33,373	N/A
Selected incidents										
EMS	15,086	18,167	20,285	19,654	20,472	20,307	21,707	22,779	24,408	N/A
Structure fires	663	828	732	728	845	779	799	828	829	N/A
Arson fires	29	37	25	30	43	29	18	19	19	N/A
Vehicle fires	132	120	96	123	102	82	78	91	94	N/A
Good intent	1,452	1,665	1,571	1,621	1,819	2,137	2,127	2,165	1,959	N/A
False alarm	3,134	3,849	2,926	3,177	2,871	3,017	3,070	3,214	3,287	N/A
Highways and streets (source: DPW)										
Streets and resurfacing (1)	15	14	11	11	16	21	12	12	19	19
Potholes repaired	13,088	12,030	14,932	12,954	9,392	9,264	12,320	18,095	27,706	12,154
Sanitation										
Refuse collected (tons/day)	91.06	88.65	82.30	81.83	81.71	79.30	79.22	80.97	83.93	83.37
Recyclable collected (tons/day)	36.07	33.97	34.71	36.1	35.42	36.4	37.13	37.91	39.58	39.26
Water										
New connections	239	188	48	95	104	97	98	109	103	121
Water main breaks	55	72	52	74	29	55	42	80	48	42
Average daily consumption (thousands of gallons)	22,960	22,264	21,225	22,099	22,539	22,110	21,700	22,682	22,945	21,707
Wastewater										
Average daily sewage treatment (thousands of gallons)	31,700	34,600	31,160	26,550	33,000	25,200	22,300	25,060	25,145	25,145

Source: Various government departments. Police statistics from FBI data as reported by WPD.

- (1) Based on a calendar year rather than a fiscal year.
(2) During 2010 the arrest categories were redefined, and no distinction was made between aggravated assault and simple assault, pursuant to Massachusetts General Law. Prior to 2010 only aggravated assault is shown.

N/A - data is not available for calendar year 2016

Table 20

CITY OF WORCESTER, MASSACHUSETTS

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	11	10	10	10	10	10	10	10	10	10
Education:										
Schools	46	46	45	46	46	46	46	46	46	46
Libraries	3	3	3	3	4	4	4	4	4	4
Public works										
Streets:										
Streets (miles)	420	423	424	425	430	431	431	435	435	436
Sidewalks (miles)	483	487	487	489	488	488	487	487	488	488
Streetlights	13,321	13,321	13,759	13,759	13,759	13,759	13,763	13,783	13,783	13,783
Water:										
Main pipes (miles)	582	584	585	586	585	585	597	597	625	625
Fire hydrants	5,675	5,680	5,726	5,748	5,762	5,770	5,805	5,827	5,864	5,864
Reservoirs	10	10	10	10	10	10	10	10	10	10
Reservoir gallons of capacity (in thousands)	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938
Sewers:										
Sanitary sewers (miles)	393	396	396	397	397	398	398	398	399	399
Combined sewers (miles)	61	61	61	61	61	61	61	61	61	61
Surface sewers (miles)	368	370	371	371	371	372	371	371	372	372
Municipal parking garages:										
Capacity - cars										
Pearl Elm	800	800	800	800	800	800	800	800	819	819
Federal Plaza	511	511	511	511	511	511	511	511	511	511
Major Taylor Boulevard	981	981	981	981	981	981	981	984	983	983
Union Station (1)	N/A	N/A	500	500	500	500	500	500	500	500
Worcester Common (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	500
Culture and recreation										
Parks	60	60	60	60	60	60	60	60	60	60
Parks and playground acreage	1,316	1,316	1,316	1,328	1,328	1,328	1,328	1,326	1,326	1,326
Municipal cemeteries	1	1	1	1	1	1	1	1	1	1
Lakes	2	2	2	2	2	2	2	2	2	2
DCU Center										
Seating capacities										
Center stage	14,639	14,639	14,639	14,639	14,800	14,606	14,596	14,595	14,595	14,595
End stage	14,751	14,751	14,751	14,751	14,751	14,587	14,587	14,581	14,581	14,524
Basketball	13,500	13,500	13,500	13,500	13,500	13,342	13,342	13,347	13,347	13,270
Hockey with open curtain	12,239	12,239	12,239	12,239	12,239	12,118	12,118	12,118	12,118	12,108
Hockey with closed curtain	6,880	6,880	7,230	7,230	7,230	7,304	7,304	7,304	7,304	5,436
Ice show	12,297	12,297	12,297	12,297	12,297	12,198	12,198	12,198	12,198	12,194

Source: Various government departments

(1) N/A is being reported because the Union Station and Worcester Common garages did not open until 2010 and 2017, respectively.

(THIS PAGE LEFT BLANK INTENTIONALLY)



GLOSSARY

GLOSSARY

Accounts Payable – Accounts payable include warrants payable for invoices and payroll, reserve for prior year encumbrances, and payroll withholdings outstanding at year-end. Accounts payable are reflected as current liabilities on the Basic Financial Statements.

Accrual Basis of Accounting – Under the accrual basis of accounting, revenues are recognized when earned and expected to be realized rather than when received or currently available. Expenses are recognized in the period they are incurred rather than when paid. The matching of expenses incurred in the same period as when revenues are earned provides a consistent measurement of the change in the net position that is not influenced solely by the timing of cash inflows or outflows (Exhibit 2 of CAFR). The measurement focus is based on economic resources which have a longer view than the current resources measurement used in the Governmental Funds Financial Statements. Consequently assets, liabilities and deferred inflows/outflows of resources are reported on the Statement of Net Position (Exhibit 1) that are not reported on the Governmental Funds Balance Sheet (Exhibit 3).

Accrued Liabilities – Accrued liabilities represent expenses incurred but not paid at year end. The adjustment of the liability and corresponding expense is a step in the accrual basis of accounting to match the expense incurred to the period being reported. The liability and expense adjustments are made to the Government-Wide Financial statements in Exhibit 1 and Exhibit 2, respectively. The accrued liabilities included in the City’s financial statement include accrued interest on debt and estimated health insurance claims incurred during the year but reported and processed after year-end.

Basic Financial Statements – The Basic Financial Statements is a series of financial statements, required by GASB, grouped as Government-Wide Financial Statements (CAFR Exhibit 1 and 2) and Fund Financial Statements (Exhibits 3 through 11) and the related footnotes (CAFR pp 41 - 114). Each statement uses a prescribed basis of accounting and measurement focus.

Budgetary Basis of Accounting – The General Fund in the City’s accounting system is accounted for using the Budgetary Basis of accounting which is essentially a modified cash basis for revenue and encumbrance system for expenses, the purpose of which is to match the expenditure with the budget period as required by state law. Revenue is reported as collected with accruals for some reimbursable state and federal funds. Expenses are matched against the budget year through warrant payables and a reserve for prior year encumbrances. The report on the General Fund using the Budgetary Basis, a required supplementary report by GASB, is reported in the CAFR on pages 116 through 123.

Capital Assets – Capital assets are included on the Statement of Net Position in the Government-Wide Financial Statements (Exhibit 1). These are assets that provide an economic resource over a longer term, generally with a life of over two years and a cost of \$50,000 or more. Capital assets include both depreciable assets (building construction and improvements, infrastructure, equipment, trucks) and non-depreciable assets (land, construction-in-progress). These assets are generally acquired with debt and sometimes with local, state and federal funds. Assets are depreciated over their class useful life as shown in footnote 1 on page 49, “accounting policies”. Details of changes in capital assets for the year by class are reported in footnote 10 on page 88.

Certificate of Achievement for Excellence in Financial Reporting - The CAFR is submitted to the GFOA for review before December 31st. The GFOA will issue a certificate of achievement if reporting criteria are met. The certificate for the prior year CAFR is included in the current year CAFR and can be

GLOSSARY

found on page 8. The certificate adds to the reliability of the financial statements when used by third parties.

Comprehensive Annual Financial Report (CAFR) – The CAFR includes the Basic Financial Statements and other Required Supplementary Information and components as prescribed by GASB 34. Also included is additional information prescribed by the GFOA including supplementary statements and schedules, a section containing statistical data, a transmittal letter, and a copy of the GFOA certificate from the prior-year. The report is provided to third parties and available to the public on the City’s website.

Current Financial Resources Measurement Focus – The Governmental Funds Financial Statements (Exhibits 3 and 5) included in the Basic Financial Statements uses the current financial resources measurement focus where the reporting focuses on short-term inflows and outflows of available resources. The information may be useful in evaluating the government’s near-term financial requirements. A modified accrual basis of accounting is used in the measurement of resources. For example, the collection of property taxes 60 days after year-end are realized as available resources and included in revenue and reported as an asset on the Balance Sheet as accounts receivable. The treatment of bond proceeds in the Capital Projects Fund is such that they are considered revenue and reported in the other financial sources section because they are current inflow of resources. The related capital outlays and principal debt payments are expenditures as they are considered near-term outflows of resources.

Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or balance sheet 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The primary government has two types of items that qualify for reporting in this category. Deferred inflows related to pensions are reported in the government-wide and proprietary funds financial statements in accordance with GASB Statement No. 68. The instances of deferred inflows related to pensions related to actuarial gains such as gains on experience that are ratably recognized, usually averaging five years. The primary government also has deferred inflows which arise under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources; school construction reimbursement; property taxes, and other unavailable revenue. These amounts are deferred and will be recognized in the future because they are considered not currently available for recognition under the current financial resources measurement focus.

Deferred Outflows of Resources – A relatively new reporting term prescribed by GASB Statement #63. In addition to assets, the Government-Wide Statement of Net Position (Exhibit 1) and the Governmental Funds Balance Sheet (Exhibit 3) 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. For example, the City has deferred outflows related to pensions which are reported in the government-wide and proprietary funds financial statements. This includes deferring the recognition of pension losses from changes of actuarial assumptions and investment earnings falling short of the expected return. Both are the result of the annual actuarial valuation which are capitalized and recognized ratably over an extended period of time; five years for

GLOSSARY

deferred investment gains and losses and approximately five years for changes in the actuarial assumptions.

Deficit Balance – A deficit balance is the accumulation over time of expenses exceeding revenues that result in liabilities exceeding assets. A deficit in the Statement of Net Position (Exhibit 1) is when the net of Assets plus Deferred Outflows less Liabilities less Deferred Inflows is negative. In the Governmental Funds Financial Statements (Exhibit 3) it is not unusual for capital project fund types to have a negative fund balance because temporary loans in the form of bond anticipation notes (BAN) are not considered resources (i.e. revenue) until the bonds are issued in the subsequent year but as liabilities. A deficit in the Statement of Net Position (Exhibit 1) indicates that the measurement of revenue and expenses over time was in deficit. This usually occurs when there are liabilities for which there is not a corresponding asset, such as the net pension liability, the balance in the pension obligation bonds or the OPEB payable. In these cases expenses have been previously recognized but not provided for with revenue and a future obligation is recognized thereby creating a deficit net position. In analyzing a deficit balance it is important to understand the source and the impact the future obligation will have on short term resources. In the case of the pension liability, continued shortfalls in investment income or increase in benefits through low mortality rate coupled with a statutory deadline to fund unfunded liabilities may put pressure on future budgets. In the case of OPEB, increasing inflation costs in the health industry through advancement in health service coupled with low mortality rates could drive up the pay-as-you-go amounts and put pressure on future budgets.

Economic Resources Measurement Focus – The Government-Wide set of financial statements as required by GASB, is measured on economic resources where the investment in capital is considered a resource in addition to the current resources such as labor and supplies. This includes general long-term capital debt-liabilities resulting from capital asset acquisitions that have long-term economic benefit. Other examples include long-term receivables that are reported as resources such as the long-term receivable from the MSBA which has been recognized as income when it was realized and is part of the net position. Conversely, future uses of resources in the form unfunded pension liabilities for past service costs are recognized as liabilities and have a negative effect on the net position when using this measurement focus.

Fiduciary Net Position / Fiduciary Accounts – Fiduciary Funds Financial Statements are required by GASB 34 in the Basic Financial Statements. Fiduciary funds are used to account for assets held in trust by the government for the benefit of individuals or other entities. The pension trust fund, created to provide retirement benefits for its employees, is one of two fiduciary funds being reported. The other fiduciary fund being reported are agency funds for the funds derived from student activity accounts. Fiduciary funds are not included in government-wide statements because they are not activities of the government. However, a liability owed by the government for its share of the pension liability to the trust fund is reported in the Government-Wide Financial Statements. The Fiduciary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Except for the agency fund, revenues are recorded when earned and expenses are recognized when incurred. Agency funds do not present the results of operations or have a measurement focus.

Fiscal Year – An entity's financial performance is generally measured over a twelve month period or fiscal year. The City's fiscal year begins July 1 and ends on June 30th. The financial statements reflect

GLOSSARY

the results of operations over this twelve month period and report the assets and liabilities as of June 30th based on the accounting method and measurement focus used.

Free Cash – Free Cash is the amount of undesignated fund balance of the City’s General Fund, on a budgetary basis, that the Commonwealth of Massachusetts allows to be appropriated in the following fiscal year. The General Fund includes both the undesignated balance and the reserves for the Bond Rating Stabilization and Emergency Stabilization Funds. The year-end balance of the total fund is reflected on page 123 of the CAFR. The undesignated amount is adjusted by the Commonwealth before it is certified as Free Cash for appropriation. Adjustments include grant receivables received after September 30th, the reserve for abatements and exemptions (i.e. overlay), and unreconciled tax receivables. Free cash also includes the retained earnings in the Water, Sewer and Golf funds that are also available for appropriation for those enterprise funds. Amounts not appropriated remain in the accounts (e.g. undesignated fund balance, retained earnings) and become part of the following year’s Free Cash calculation.

Fund Balance – Fund balance is the term used in fund accounting to describe the unexpended balance remaining of a particular fund at a point in time. Fund accounting is the accounting system to track resources and their uses that are restricted by law or donors, such as granting agencies. Each fund is a self-balancing set of accounts with assets, liabilities, revenues and expenses. Assets less liabilities results in the fund balance. The statement of revenues and expenses reflects the change in the fund balance for the period. The fund balance may be available in future periods or may need to be returned to the source as in the case of used grant funds that have expired. GASB 54 requires that fund balances reported on the Government Funds Balance Sheet (Exhibit 3 of the CAFR) be classified as Nonspendable, Restricted, Committed, Assigned, or Unassigned.

Nonspendable — represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund). Generally the principal balance and any limitations on the income balance of the trusts are classified as nonspendable.

Restricted — represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. Most of the fund balances in the Special Revenue Fund for grants and revolving accounts are restricted funds. The positive fund balances for Capital Project Funds are also classified as restricted. In the General Fund, the OPEB account is currently not considered a trust fund because there is not an irrevocable trust established. Consequently the balance in OPEB account is considered a General Fund restricted fund balance.

Committed — represents amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing City Council is the highest level of decision-making authority for the City that can, by adoption of an order prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the order remains in place until a similar action is taken (the adoption of another order) to remove or revise the limitation. The fund balances of the Receipts Reserved for Appropriation in the Special Revenue Fund and the fund balances in the Debt Service Fund are classified as committed.

GLOSSARY

Assigned — represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. The governing City Council has the authority to assign fund balance (by adoption of an order) as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. Currently no fund accounts are classified as assigned.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund. In the General Fund the reserves for the Bond Rating Stabilization and Emergency Funds are included as unassigned as the amounts are not restricted to a specific purpose.

Fund Financial Statements - Under GASB 34 this is the second series of statements known as the Basic Financial Statements that focus on information about the government's major governmental and enterprise funds. It also includes statements about the government's fiduciary funds. It includes Governmental Funds, Proprietary Funds and Fiduciary Funds as shown in CAFR Exhibits 3 through 11.

General Fund – From the *Uniform Massachusetts Accounting System* manual: the General Fund is the largest and single most important fund of a local government. Most of a local government's revenue resources are accounted for in it and substantially all of the day-to-day departmental operating expenditures are financed and accounted for in it. The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund. Generally, all funds received by a governmental entity belong to the General Fund under G.L. c. 44, § 53, unless otherwise directed by Massachusetts General Laws or by Special Acts of the Massachusetts Legislature. The General Fund is considered an unrestricted operating fund. Grants must be separated as well as funds received in which the entity is acting as a trustee or agent. It is improper for a governmental entity to reserve General Fund monies in any other fund without proper authority granted by legislation or by the Director of Accounts. The principal revenue resources of the General Fund include real estate and personal property taxes (assessments for districts), motor vehicle and other excises, departmental receipts and state aid. With the exception of the portion of the annual budget which is funded through Enterprise and certain Special Revenue Funds, substantially all of the annual budget and recurring departmental expenditures are accounted for in the General Fund. The General Fund will also have transactions or transfers with other funds.

Government Finance Officers Association (GFOA) - An association of government finance professionals. The GFOA provides publications, continuing education and the latest information on best practices. It also reviews and certifies the CAFR as meeting criteria for excellent reporting.

Government-Wide Financial Statements – This is the first series of financial statements in the Basic Financial Statements (CAFR Exhibits 1 and 2). The basis of accounting is the accrual basis and the measurement focus is the economic resources measurement focus. Governmental activities are reported separately from business-type activities(water, sewer, golf) and component units (WRA and UBWPAD).

Governmental Fund Financial Statements – This set of statements (CAFR's Exhibit 3 and 5) are required by GASB 34 and part of the Fund Financial Statements of the Basic Financial Statements. The governmental fund types include General Fund, Special Revenue Fund, Capital Projects Fund, Debt Service Fund, and Permanent Fund. Activities are reported using the current financial resources

GLOSSARY

measurement focus and the modified accrual basis of accounting. Those funds that meet the criteria of a major fund are reported in separate columns and nonmajor funds are aggregated into one column. The 27 nonmajor funds that are shown aggregated on Exhibits 3 and 5 are reflected in detail by fund type in the “Combining Statements” shown in Exhibits A-1 and A-2 starting on page 136. Separate accounting divisions are maintained within the Special Revenue, Capital Projects, Permanent Fund types whose names and descriptions are listed on page 134-135.

Governmental Accounting Standards Board (GASB) - An independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP). Some of the terms used in the CAFR are from the following GASB statements.

GASB Statement No. 11 – Issued in 1990, *established measurement focus and basis of accounting.*

GASB Statement No. 34 – Issued in 1999, *established a new reporting model for basic financial statements and required components* issued in the following order: Management’s Discussion and Analysis (MD&A); Government-Wide Financial Statements; Fund Financial Statements; Notes to Financial Statements; and Required Supplementary Information (RSI).

GASB Statement No. 54 – Issued in 2009 *clarified fund type definitions and provides clearer fund balance classifications.*

GASB Statement No. 63 – Issued in 2011 established the guidance for reporting *deferred outflows of resources, deferred inflows of resources, and net position* in a statement of financial position.

Independent Auditor’s Report – This is an opinion from an independent Certified Public Accountant that the Basic Financial Statements are fairly presented in all materially respects in accordance with Generally Accepted Accounting Principles. An unqualified opinion adds to the reliability of the financial statements when used by third parties.

Internal Service Fund (ISF) – This type of fund is used to report an activity that provides goods or services to other departments of the government. The City’s self-funded health insurance program is an ISF designed to provide quality cost-effective benefits to eligible recipients in the City’s departments. Under GASB 34, the ISF is reported in a separate column on the proprietary funds statement (CAFR Exhibits 7 through 9). The assets and net position of the ISF is included on the government-wide financial statements (Exhibit 1) and any doubling effect for the fact the expenses are also included in the government funds financial statements is eliminated when reporting expenses on Exhibit 2.

Major Fund – GASB 34 requires separate reporting of major funds in the Governmental Funds Financial Statements and Proprietary Funds Financial Statements. Nonmajor funds are consolidated but details are reported in supplementary statements and schedules. The General Fund is always considered a major fund. Other funds are classified as major funds upon passing two thresholds of the size of its total assets, liabilities, revenues or expenditures/expenses. In some cases where a fund meets the criteria of a major fund one year but not the next it will still be reported as a major fund for consistency purposes or until it is decided that its activities have diminished to nonmajor status for the foreseeable future. Any other fund

GLOSSARY

may be reported as a major fund if the government's officials believe that fund is particularly important to financial statement users.

Measurement Focus - What is expressed in reporting an entity's financial performance and position. A particular measurement focus is accomplished by considering which resources are measured (e.g. capital assets, debt) and when the effects of transactions and events involving those resources are recognized (e.g. depreciation, amortization of debt service).

Modified Accrual Basis of Accounting – The Governmental Funds Financial Statements (Exhibits 3 through 5) of the Basic Financial Statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. The focus is on short-term inflows and outflows of available resources. The City's accounting system uses a Budgetary Basis of Accounting. Adjustments are made to revenues for certain accruals where they are considered measurable and available. Property taxes and motor vehicle excise taxes collected within 60 days of year end are considered measurable and available and are therefore accrued at year end. Changes to the allowance for doubtful accounts also affect revenue as they are considered not available. Other revenue, such as prepaid taxes, not considered available is recorded as deferred outflows of resources.

Net Position / Total Net Position – It is the residual amount of assets plus deferred outflows of resources less liabilities and deferred inflows resources reported on the Government-Wide Financial Statements (e.g. Exhibit 1) using the economic resources measurement focus. It is similar to equity in private sector reporting. It was previously reported as net assets (i.e. assets less liabilities) and now changed to net position under GASB 63 to account for the effect of deferred resources. Net position is further displayed in three components; net investment in capital assets; restricted net position and unrestricted net position. Over time increases or decreases in net position may serve as a useful indicator of the financial health of the City.

Net Investment in Capital Assets - This is the net position related to amounts spent on capital assets. The basic calculation is the gross investment in capital assets net of accumulated depreciation less outstanding debt attributable to the acquisition of the assets, excluding unspent short-term debt.

Restricted Net Position – The residual amounts of assets less liabilities that are restricted by outside parties for a specific future use such as grants and trusts. The Restricted Net Position cannot have a negative balance.

Unrestricted Net Position - It is the amount of Net Position not reported as Investment in Capital Assets or Restricted Net Position. A negative amount or deficit balance reflects liabilities and deferred inflows of resources that exceed the assets and deferred outflows of resources. A growing deficit balance may indicate a deterioration of financial health which may affect the budget process at some point when short-term outflows outpace or exceed short-term inflows requiring cuts in other areas.

OPEB – Other Post-Employment Benefits (OPEB) are the other benefits besides pension payments that a retiree and spouse are entitled to receive at the start of retirement and continue usually until death. The City offers health insurance coverage until death and also a \$5,000 life insurance policy up until age 70.

GLOSSARY

The City's contribution to the health premium cost is 75%. If a retiree is eligible for Medicare then they must enroll. The City offers several Medicare supplementary plans and is responsible for any Medicare Part B penalty assessed by the federal government on the individual. Currently the city is funding OPEB on a pay-as-you-go basis and making additional contributions to a designated OPEB account.

OPEB Payable – GASB 45 requires that the present value of the future benefits of retirees, spouses and active employees be determined on an actuarial basis called the Actuarial Accrued Liability. GASB 45 allowed for the gradual phase-in of the liability over a 30 year open ended amortization where the difference between the annual required payment and the pay-as-you-go payment was recorded as an accrued liability. This is reflected on the Statement of Position (Exhibit 1) as a noncurrent liability. Beginning with fiscal year 2018, GASB 75 will require the full recognition of the Actuarial Accrued Liability or Total OPEB Liability.

Payroll Warrants - Amounts owed to employees for a payroll period that have been reviewed, approved for payment and entered on a disbursement warrant but that have not yet been disbursed. The warrant is disbursed on the scheduled pay date. The payroll warrant payable at year-end includes the pay period ending at year-end and for teachers it includes the amount remaining for the school year. Teachers are paid over a twelve month cycle for the school year and the amounts paid in July and August that relate to the prior school year are included in payroll warrants payable. Payroll warrants payable at year-end are grouped with accounts payable.

Permanent Fund - Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

Prior Year Encumbrances – The City uses an encumbrance system to control the budget for the General and Enterprise Funds. Commitments in the form of purchase orders are approved and charged to the budget prior to the order of supplies or services. At year-end, open purchase orders are reserved and expensed thereby matching it with the budget. Prior year encumbrances are grouped with accounts payable on the Basic Financial Statements.

Required Supplementary Information – The statement of reporting as required by GASB includes Required Supplementary Information (RSI) in addition to the Basic Financial Statements. This includes the Management, Discussion and Analysis, a report on the General Fund under the legal level of control of the budgetary basis, certain prescribed schedules related to pension liability and expense, and schedules related to OPEB.

Uniform Massachusetts Accounting System (UMAS) – Massachusetts General Laws (G.L.) c. 44, § 38 requires the Director of Accounts in the Department of Revenue to *prescribe uniform accounting systems for local governmental entities*. A three tier account classification system is used including Fund, Account Type and Subcategory.

Warrants Payable - Amounts owed for goods and services received that have been reviewed, approved for payment and entered on a disbursement warrant but that have not yet been disbursed.

Facsimile Bid Form

City of Worcester, Massachusetts
\$34,574,000*

GENERAL OBLIGATION BOND ANTICIPATION NOTES

Thomas F. Zidelis, Chief Financial Officer and
Acting City Treasurer and Collector of Taxes
City of Worcester, Massachusetts 01608

Sale Date: April 25, 2018
Dated Date: May 11, 2018

By Fax to: (508) 234-1938

Dear Mr. Zidelis:

For all or a portion of the principal amount of \$34,574,000* General Obligation Bond Anticipation Notes (the "Notes"), legally issued as described in the Notice of Sale dated April 18, 2018, we will pay the City a price of not less than par **plus a premium of not less than \$50,000** as follows, plus accrued interest to date of delivery, provided the Notes bear the following interest rate or rates:

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Premium</u>	<u>NIC</u>	<u>NIC</u>
\$ _____	_____ %	\$ _____	_____ %	\$ _____
\$ _____	_____ %	\$ _____	_____ %	\$ _____
\$ _____	_____ %	\$ _____	_____ %	\$ _____

Interest on the Notes is payable at maturity on January 31, 2019. The Notes are not subject to redemption prior to maturity.

In making this bid, we accept the terms and conditions as defined in the Notice of Sale dated April 18, 2018. All blank spaces in this bid are intentional and are not to be construed as an omission.

All Bids are subject to verification prior to award.

Submitted by: _____

Phone: _____

Mailing Address:

* Preliminary, subject to change.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

