

**MEMORANDUM OF AGREEMENT
BETWEEN
THE STATE OF CONNECTICUT'S OFFICE OF POLICY AND MANAGEMENT
AND
THE TOWN OF SPRAGUE**

**Regarding the Distribution of Municipal Restructuring Funds to the Town of Sprague for
Fiscal Year Ending on June 30, 2020 in Accordance with Public Act 17-2 of the June
Special Session**

This Memorandum of Agreement (“MOA”) is entered into by the State of Connecticut’s Office of Policy and Management (“OPM”) and the Town of Sprague (“Town”) (collectively the “Parties”) pursuant to General Statutes Section 7-576i. This MOA shall take effect upon signature by both parties and, consistent with General Statutes Section 7-576f, shall end when the Town is removed from Tier II designation, or such later date as agreed to in writing by the OPM and the Town.

WHEREAS, the Town had operating deficits for four consecutive fiscal years FY 2015 to FY 2018 culminating in a General Fund balance deficit of \$1,084,244 as of June 30, 2018, inclusive of Board of Education anticipated deficits;

WHEREAS, the Town’s financial condition is further reflected in the downgrading of its general obligation bonds to Baa3 by Moody’s;

WHEREAS, the Connecticut General Assembly enacted Public Act 17-2 of the June Special Session, AN ACT CONCERNING THE STATE BUDGET FOR THE BIENNIUM ENDING JUNE 30, 2019, MAKING APPROPRIATIONS THEREFOR, AUTHORIZING AND ADJUSTING BONDS OF THE STATE AND IMPLEMENTING PROVISIONS OF THE BUDGET (“PA 17-2”), which contained provisions to provide for a system of accountability and assistance to distressed municipalities, including the creation of the Municipal Accountability Review Board (“MARB”), contract assistance for eligible municipalities, and Municipal Restructuring Funds (“Restructuring Funds”) to be awarded to eligible municipalities by the Secretary of OPM (“Secretary”);

WHEREAS, as a designated Tier II municipality under General Statutes Section 7-576i, the Town is eligible to receive Restructuring Funds;

WHEREAS, the guidelines, entitled “Guidance Related to Municipal Restructuring Funds”, issued by the Secretary on January 12, 2018, developed pursuant to the Secretary’s authority in General Statutes Section 7-576i, require that a municipality seeking Restructuring Funds submit to the Secretary a Five Year Recovery Plan detailing its overall restructuring plan, including local actions to be taken, the proposed use of Restructuring Funds, and such other related information as the Secretary may require;

WHEREAS, consistent with the foregoing, the Town has submitted to the MARB a proposed Five Year Recovery Plan, which was approved by the MARB on August 1, 2019;

WHEREAS, as per General Statutes Section 7-576i, the Secretary consulted with the MARB regarding conditions for the distribution of Restructuring Funds for the Town;

WHEREAS, the Town and the State have an interest in stabilization of the Town's financial condition, including maintaining a positive General Fund balance and reaching a fund balance level of at least 5% of expenditures as a general financial best practice;

WHEREAS, the Town has taken numerous steps to begin addressing its financial instability, including requesting designation as a Tier II municipality, raising its mill rate, reducing and controlling expenditures by both the Town government and Board of Education, pursuing solar energy development and other revenue generating opportunities, and pursuing redevelopment of foreclosed commercial properties;

WHEREAS, the Town through its First Selectwoman has expressed a strong desire to reimburse Restructuring Funds it receives once it has achieved established fund balance goals; and

WHEREAS, consistent with the guidance set forth in General Statutes Section 7-576i, the Secretary is authorized to attach conditions to any funding;

THEREFORE, in consideration of the mutual promises of the parties hereto, and of the mutual benefits to be gained by the performance thereof, OPM and the Town hereby agree as follows:

1. The Town represents, warrants and covenants it shall take immediate steps to continue to address its financial instability by presenting actual time limited plans and budgets that limit, reduce and controlling expenditures by both the Town government and Board of Education, and that it shall adhere to all direction prescribed by the MARB or the Secretary and the requirements set in forth this MOA.
2. The Town is a municipal corporation duly created and incorporated in 1861 and validly existing under the laws of the State of Connecticut. Further, the Town will preserve and maintain its existence as a municipal corporation duly organized, validly existing, and in good standing under the laws of Connecticut.
3. The execution and delivery of the MOA by the Town, and the performance of its obligations thereunder are within its power, have been duly authorized by all necessary action on its part, and are not in contravention of law nor in contravention of its organizational documents or governing bylaws, including its charter, or of the provisions of any indenture, agreement, or undertaking to which it, its principals or employees are parties or by which they are bound.
4. There has been no material adverse change in the financial condition of the Town since the date of application for the Restructuring Funds that has not been previously disclosed in writing to the Secretary.
5. All financial statements, including, without limitation, balance sheets and revenue and expenditure statements, delivered to the Secretary are correct and complete, and fairly present the financial position and results of operations of the Town at the times of and for the periods reflected by such financial statements. The financial statements and all other written statements furnished by the Town in connection with the requested distribution do

not contain any untrue statement of material fact and do not omit any material fact whose omission would make the statements contained therein or herein misleading.

6. The Secretary hereby agrees, subject to the terms of this MOA and controlling Public Act, to cause up to \$500,000 in Restructuring Funds to be funded and distributed by the State to the Town. The Secretary may make an additional \$400,000 distribution available to the Town, at her sole discretion, at a future date if the facts and conditions warrant (“Additional Restructuring Funds”) subject to all the restrictions and purposes stated herein.
7. The Town shall use the \$500,000 Restructuring Funds and the Additional Restructuring Funds, if any, for no other purpose than to pay down outstanding obligations and to eliminate its General Fund balance deficit. The funding shall be used for that purpose and for no other purpose. The Town shall submit a written request for each proposed expenditure to pay down outstanding obligations and the Secretary shall provide her/his written approval for such expenditures. The Town shall, as a minimum, provide a full accounting for the expenditures paid for by funding.
8. The Town shall annually update its 5-Year Recovery Plan and obtain MARB approval of its 5-Year Recovery Plan.
9. The MARB shall provide written guidance to the town regarding its annual operating budgets, and the MARB shall base such guidance on the Town’s 5-Year Recovery Plan.
10. The Town shall adhere to such guidance from the MARB and shall incorporate such guidance while preparing its annual operating budgets, and thereafter provide the MARB with written narrative explaining how such guidance has been incorporated into its annual operating budgets.
11. The Town shall prepare an annual budget and obtain approval by the MARB of its annual budgets that have been approved through the Town’s budget approval process during the entire duration of the Town’s designation as a MARB designated municipality.
12. The Town and Board of Education (“BOE”) shall evaluate the potential integration of their respective financial operations and financial systems, and thereafter provide the MARB with its written findings and conclusions of the evaluation, including recommendations for integration, potential savings and operational improvements, and other implementation obstacles.
13. The Town and BOE shall provide monthly financial reports in a format to be approved by OPM.
 - a. Such monthly reports shall include, at a minimum, the following columns:
 - i. Budget
 - ii. Year to date actual expended
 - iii. Encumbered
 - iv. Year to date actual as a percentage of budget
 - v. Projected end of year actual

- vi. Projected end of year balance
 - vii. Prior year to date actual for same period
- b. Monthly reports shall also include a cover memo highlighting existing or anticipated significant variances and plans for mitigating any potential deficits.
 - c. The Board of Education shall also adopt policies requiring monthly reporting and projections to be submitted monthly to the Town's Board of Finance.
14. The Town, working in conjunction with the BOE, shall submit for OPM approval a written corrective action plan to address all audit findings. The Town and BOE shall implement the approved corrective action plan, track progress on its implementation and provide monthly written status reports to the Sprague subcommittee of the MARB.
 15. Consistent with General Statutes Section 7-576d, labor and non-labor contracts, including contracts of the Town government and the BOE, shall be presented to the MARB for review and comment prior to execution.
 16. Upon the completion of each annual financial audit, the Town shall report its total General Fund balance and General Fund balance as a percentage of expenditures to the MARB and OPM.
 17. Beginning in the year following the first year in which the Town achieves a fund balance of at least 5% of expenditures, the Town shall begin to restore the Restructuring Funds distributed by the Secretary of OPM in FY2020 at a reimbursement rate of 60% of the surplus for that year. Thereafter, in each year in which the Town has a fund balance of at least 5%, but less than 7.5%, the Town will make a reimbursement to the State equal to 60% of the surplus for that year. For each year in which the Town achieves a fund balance of at least 7.5%, but less than 10%, the Town will make a reimbursement equal to 50% of its operating surplus. For each year in which the Town may achieve a fund balance of 10% or more, the Town will make a reimbursement of 40% of the operating surplus. For illustration purposes only, if in FY21/22 the Town has Total Expenditures of \$9,534,495, a baseline Ending Fund Balance \$497,450 and a Projected Surplus of \$290,976, the Town would have a Baseline Ending Fund Balance of 5.2% (i.e., \$497,450 / \$9,534,495 = 5.2%) and the Town would restore \$174, 596 (i.e., \$290,976 x 60% = \$174,586) to the Restructuring Fund. Further illustrations of the reimbursement calculus are set forth in Exhibit A, which is incorporated and included as part of the MOA. All reimbursements shall be due to OPM in the fiscal year following the reported surplus.
 - a. The Town's annual budget shall also authorize the use of the prior year fund balance to comply with the required annual reimbursement payment set forth in this section.
 18. Reimbursement shall continue according to this schedule until the cumulative reimbursement is equal to the amount of Restructuring Funds received by the Town in FY19/20. However, if within ten (10) years of receiving Restructuring Funds the cumulative reimbursements have not totaled the amount of Restructuring Funds received, the Town shall reimburse the balance as of the end of the tenth year. If the impact of

such reimbursement would negatively impact the ability of the Town to meet legal and other obligations, the Secretary, consistent with the intent of General Statutes 7-576i, may waive any final reimbursement requirement. The Town shall direct its financial auditor to report due reimbursement, according to these provisions, as Restricted Fund Balance on the Governmental Fund Balance Sheet.

19. The Town shall provide OPM with any other written reports or data the Secretary may require as to the Town's use of the Restructuring Funds provided by the State.
20. Failure to adhere with these requirements shall automatically give the Secretary the authority to accelerate the required reimbursements of the Restructuring Funds or Additional Restructuring Funds, if any, pursuant to a schedule that the Secretary may establish.
21. If any part or parts of this MOA shall be held to be void or unenforceable, such part or parts shall be treated as severable, leaving valid the remainder of this MOA notwithstanding the part or parts found to be void or unenforceable.
22. In no event shall the making by the Secretary of any distribution to the Town constitute or be construed as a waiver by the State of any breach of covenant, or any default which may then exist, on the part of the Town and the making of any such distribution by the Secretary while any such breach or default exists shall in no way impair or prejudice any right or remedy available to the Secretary in respect to such breach or default.
23. This MOA becomes effective as of the date it is signed by both parties herein.
24. This MOA may be modified by amendments or superseded in its entirety at any given time by mutual written agreement by the Parties.

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ACCEPTANCE AND APPROVALS
TOWN OF SPRAGUE

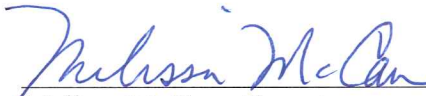
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Catherine Osten, First Selectwoman

9/19/2019

Date

OFFICE OF POLICY AND MANAGEMENT

_____

Melissa McCaw, Secretary

9/19/2019

Date