STATE OF CONNECTICUT HEALTH AND EDUCATIONAL
FACILITIES AUTHORITY

Minutes of
The Audit/Finance Committee Meeting
of May 25, 2004

The Audit/Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in session at 1:13 p.m. on Tuesday, May 25, 2004.

The meeting was called to order by Mr. Cohn, and, upon roll call, those present and absent were as follows:

PRESENT:	Benson R. Cohn, Committee Chair John M. Biancamano Catherine S. Boone Patrick A. Colangelo Barbara Rubin
ABSENT:	None
ALSO PRESENT:	Richard D. Gray, Executive Director, Jeffrey A. Asher, Managing Director/CFO, David A. Williams, Managing Director Kimberley Fontaine, Administrative Assistant, Eileen MacDonald, Manager, Administrative Services, and JoAnne Mackewicz, Manager, Accounting/Client Financial Services, of Connecticut Health and Educational Facilities Authority

The Notice of Meeting was read and ordered spread upon the Minutes of this Meeting and filed for the record.

MINUTES OF THE AUDIT/FINANCE COMMITTEE MEETING

May 25, 2004

The Meeting of the Audit/Finance Committee of the Connecticut Health and Educational Facilities Authority was called to order by Benson R. Cohn, Committee Chair, at 1:13 p.m.

The purpose of the Meeting was to: 1) Approve the Minutes of the Finance Committee Meeting of June 17, 2003, and 2) Review the Draft Operating and Capital Budget.

After brief discussion, Ms. Rubin moved that the Minutes from the June 17, 2003 meeting of the Finance Committee be approved. The motion was seconded by Mr. Colangelo.

Upon roll call, the "Ayes," "Nays," and "Abstentions" were as follows:

AYES	NAYS	ABSTENTIONS
John Biancamano	none	Catherine S. Boone[1]
Benson R. Cohn		
Patrick A. Colangelo		
Barbara Rubin		

Mr. Cohn stated that he would discuss the Draft Operating and Capital Budget in four sections, changes to the Reserves, changes in the Operating Budget, changes in the Capital Budget, and compensation and benefits personnel issues. He stated he would open with the personnel issues portion.

Personnel Issues

Mr. Asher stated that the Human Resources Committee met on May 14, 2004 to review the proposed compensation package. Mr. Asher stated that the Human Resources Committee voted to approve Staff's recommendation to the Audit/Finance Committee the proposed compensation and benefits package. There was no change in benefits, but Mr. Asher noted the $23,000 contribution by Staff toward their medical coverage. Four Staff members opted to participate in healthcare plans outside of the Authority last year, with an expectation that would continue. Mr. Asher stated that during the open enrollment in December 2004, should the opted-out Staff decide to join the Authority's plan, Staff would have to come to the Board for a budget modification.

Mr. Asher stated that proposed merit increases remained at 3% for senior management and a budgeted pool of dollars for managers and Staff of 4.5%. The average merit increase earned last year, exclusive of the Executive Director, was 3.8%. Mr. Asher stated that this year's proposal includes a $10,000 labor grade adjustment to be utilized for Staff that take on additional responsibilities or change job categories, and that this amount was also budgeted but unused for FY 2004. Mr. Asher stated the employee incentive program provided for up to a 20% maximum incentive for the Executive Director, 12.5% for the Managing Directors, and a 7.5% pool of dollars for all others.

[1] Ms. Boone abstained from the vote as she was not present during the June 17, 2003 meeting.

Responding to a question from Ms. Rubin, Mr. Asher stated that the Staff reimbursement rate for those that opt out of the Authority's medical benefits plans is a rate of 25% of the lowest Authority benefit cost for their category, not 100% of CHEFA's cost. He stated that the enrollment period begins December 1, 2004, so Staff will not know until December whether or not any additional Board appropriations would be necessary should any of those Staff decide to opt-in. Responding to a question from Mr. Biancamano, Mr. Asher affirmed that there is an annual opt in/opt out period for Staff, based on the personnel manual at the time of re-enrollment.

Capital Budget

Mr. Cohn opened discussion on the Capital Budget. Mr. Asher stated that there was a minor change to the Capital Budget mailed to the Committee, adding in $1,200 for a digital recorder for meetings. Mr. Asher stated he added $3,000 as the additional amount beyond the tenant improvement allowance for the file system for the accounting area as the system chosen is slightly more expensive than the original choice. Mr. Asher stated there was a carryover of hardware and software for business continuity and a $12,000 allowance for upgrades of the router and firewalls. Mr. Asher noted that the budget includes $2,000 for new computers as part of the planned recycling program, and that the database upgrades, not included in the original database figures last year, amount to $15,000. Mr. Asher stated that the total Capital Budget figure of $121, 750 would result in an impact of approximately $20,000 on the Operating Budget for FY 2005 for depreciation expense.

Reserve Funds

Mr. Cohn asked for discussion on the Reserve Funds. Mr. Asher replied the Grant Committee had discussions at its last meeting and voted to recommend to the Audit/Finance Committee reallocating a total of $6 million from the Operating Reserves to a Focused Investment Reserve. Staff is also recommending $1.5 million be set aside for a Malpractice Captive Insurance Demonstration Program Grant Fund for hospitals and physicians as mandated by the State Legislature in the May 2004 session.

Responding to questions from Ms. Rubin, Messrs. Asher and Gray stated that the client grant fund was not eliminated, but that $550,000 per year was proposed to be utilized for open grants and $550,000 per year was proposed to be utilized for client grants with only one cycle of each per year. Mr. Gray stated that the $6 million would be set aside for targeted investments by the Grant Committee, and the spending rate would be limited to approximately 8% of that fund per year, to total approximately $480,000 annually. Mr. Asher stated that the intent is to utilize the interest earnings from the $6 million for the program, which would be invested in a separate fund. Mr. Gray stated that this was given the current interest rates, and assuming an 8% spending rate. A significant amount of funds would have to be transferred from the annual operating surplus. To the extent that funds could be invested at higher rates within Authority Investment Guidelines, the reliance on operating surplus could be less This proposal would take a total of $6 million from CHEFA's operating reserves for the establishment of two equal focused investment reserve funds, one for health care and one for education, with the flexibility to subdivide those for areas such as child care. The medical malpractice grant program would not fall under the focused investment initiative, as it is a mandated program.

Ms. Rubin stated she did not feel comfortable with leaving anything less than $400,000 in the Operating Reserve. Mr. Gray stated that the Staff's proposal for the reallocations is with the assumption that the $1.6 million Contingency Reserve, with Board approval, be moved up to the Operating Reserve. Mr. Gray stated that the Grant Committee made recommendations to the Audit/Finance Committee, but did not make allocations. He stated that Staff is currently reviewing a total of 29 applications for the current round of grantmaking. Responding to a question from Ms. Rubin, Mr. Gray stated that the next round of client grants are slated to be decided upon in December, with $550,000 available for that round, should this Committee and the Board approve the proposed budgets.

Mr. Gray stated that the spending rate is $480,000 for the proposed targeted investment program, and he further recommends that the Authority move the Contingency Reserve to the Operating Reserve.

Responding to a question from Mr. Biancamano, Mr. Gray stated that the nature of the $1.5 million malpractice captive insurance program could become a politically-charged issue, especially since the Authority has received two proposals already regarding the program for which no guidelines have yet been written. He stated that he recommends that this program be a competitive RFP program to ensure fairness in the program. The legislation specifies no more than two demonstration project captive insurers and not in excess of $750,000 per captive insurer. He does not want to waste funds on consultants, and asked Mr. Biancamano to assist in the development of the program as he could lend his expertise in that undertaking. Mr. Gray stated that it was up to the Board of the Authority to determine how the program money is to be spent.

Responding to a question from Mr. Cohn, Mr. Gray stated that there was not a possibility of just one project; that it was supposed to be multiple projects. Mr. Gray stated he felt that this legislation came from Griffin Hospital. Mr. Biancamano stated that the Connecticut Hospital Association (CHA) went through a similar malpractice captive insurance development process, and he recommended a joint meeting of Authority representatives with CHA and its consultant on that project. Responding to a request from Mr. Gray, Mr. Biancamano confirmed he would participate in that meeting.

Ms. Rubin stated that she didn't feel that $750,000 was nearly enough to fund a captive insurance program. Members briefly discussed the insurance levels needed for the primary layer and reinsurance. Mr. Gray stated that the program should have an RFP process and that if it were extended to physicians, it would have more value. Mr. Biancamano questioned whether or not we could use Physician's Malpractice Company.

Following Member discussion regarding the proposed Operating and Capital Budgets, Mr. Cohn called for a motion to move the contingency reserve into the operating reserve of the Authority and to approve the recommendation to the Board to approve the proposed Focused Investments as submitted by Staff. Ms. Rubin moved to transfer the contingency reserve into the operating reserve of the Authority and to approve the recommendation to the Board to approve the proposed Focused Investments as submitted by Staff. Mr. Colangelo seconded the motion.

Upon roll call, the "Ayes," "Nays," and "Abstentions" were as follows:

AYES	NAYS	ABSTENTIONS
John Biancamano	none	none
Catherine S. Boone		
Benson R. Cohn		
Patrick A. Colangelo		
Barbara Rubin		

Operating Budget

Mr. Cohn initiated the discussion of the balance of the Operating Budget. Mr. Gray stated that in being sensitive to Mr. Biancamano's concerns during last year's budget process, he made cuts from the projected Operating Budget in areas where historical spending revealed it unlikely that the Authority would spend the full amounts in some areas. Mr. Asher stated that Staff had developed the budget amount for the Child Care Guaranteed and Small Loan based on projections by the lending banks of loans that are expected to close. This scaled back spending to be more realistic and makes it more difficult for the Executive Director to achieve incentive eligibility. Mr. Asher stated that there was an addition of $20,000 to IT and consultants for business recovery, and that conference expenses for FY 2004 were low because bond issue activity at the Authority was high, which made senior management and Staff unable to utilize those funds.

Mr. Gray stated that the only other area of significant change was the addition of $25,000 for the line item of public relations. Mr. Gray stated that the Authority could enter into an agreement with Capital City Economic Authority (CCEDA) to provide an individual to promote the Authority in the area of public relations, as Members have previously identified this as being an area they wished to address. Mr. Gray stated that at this time, all Staff are very busy, and the Authority lacks the personnel to provide that function. He stated that we could hire a firm to do the work, or we could hire a staff member, but we were presented with an opportunity to share a person with CTCSE and CCEDA, Dean Pagani. Mr. Gray stated that the Authority would limit its investment in that position to $25,000, pursuant to a memorandum of agreement for one year, and see how it worked out. Mr. Gray stated that there is some public relations risk to the Authority because Mr. Pagani is a former Chief of Staff to the Governor. Mr. Gray stated that he has worked with Mr. Pagani in the past and knows him and his capabilities. Member discussion took place regarding the positive and negative issues surrounding hiring a consultant for this purpose. Mr. Colangelo commented that at this time, the Authority receives minimal, if any, publicity and recognition for its programs. Ms. Rubin thought it was a great idea, and the Authority would be able to take the initiative in this area. Mr. Gray stated that he would monitor the hours and work of this function. Responding to a question from Mr. Biancamano, Mr. Gray stated that Mr. Pagani would be the employee of CCEDA in the position of Marketing and Public Relations. Responding to a question from Ms. Rubin, Mr. Gray stated that Mr. Pagani would take initiative in contacting CHEFA clients and identifying opportunities for collaboration in the public relations area.

Responding to a question from Ms. Boone, Mr. Asher confirmed that the full Board will be voting on the budget at the next meeting, on June 22.

Responding to questions from Ms. Rubin, Mr. Asher stated that the projected revenues in the budget included an estimated nine issues in the next fiscal year and that there was no proposed change in the Authority's fees. Mr. Gray stated that the number of issues does not include the SCRF-backed hospitals. Mr. Asher commented that there is also a possibility of $16 – $18 million in tax-exempt financing for child care issues. He stated that the Legislature has increased the child care debt service appropriation, and that he currently has five interested parties for those funds, including the municipalities.

Ms. Rubin made a motion to recommend approval of the proposed Capital Budget and Operating Budget, as presented in the Staff memos, and including the change in the reserves and compensation and benefits and forward it to the full Board for approval in June. Mr. Biancamano seconded the motion.

Upon roll call, the "Ayes," "Nays," and "Abstentions" were as follows:

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	none	Catherine S. Boone[2]
Benson R. Cohn		
Patrick A. Colangelo		
Barbara Rubin		

There being no further business, Ms. Rubin made a motion to adjourn the meeting at 1:50 p.m. Mr. Colangelo seconded the motion.

Upon roll call, the "Ayes," "Nays," and "Abstentions" were as follows:

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	none	none
Catherine S. Boone		
Benson R. Cohn		
Patrick A. Colangelo		
Barbara Rubin		

Respectfully submitted,

Benson R. Cohn
Committee Chair

[2] Ms. Boone abstained from the vote as to allow the Deputy State Treasurer to have a chance to review and opine on the budget.