

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of
The Human Resources/Audit-Finance Committee Meeting
of April 28, 2009

The Human Resources/Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in joint session on Tuesday, April 28, 2009 at 12:00 p.m.

The meeting was called to order by William Cibes, Ph.D., Chair at 12:06 p.m. and, upon roll call, those present and absent were as follows:

PRESENT: William J. Cibes, Jr., Ph.D., Chair, Human Resources Committee
Benson Cohn, Chair, Audit-Finance Committee
John Biancamano
Patrick A. Colangelo¹
John Mengacci
Barbara Rubin
Sarah K. Sanders

ALSO PRESENT: Jeffrey A. Asher, Executive Director
Paula L. Herman, General Counsel
JoAnne Mackewicz, Controller
Debra M. Pinney, Manager, Administrative Services
Norberto Ramirez, Compliance/Internal Auditor
Jeanette Weldon, Managing Director
and Kathy Owens, Receptionist/Administrative Assistant, of
the 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.

¹ Mr. Colangelo arrived at the meeting at 12:10 p.m.

The purpose of the Meeting:

1. Approval of Minutes – Human Resources Committee Meeting of April 22, 2008; Human Resources/Audit-Finance Committee Meeting of September 9, 2008
2. Review Proposed FY 2010 Compensation and Benefits Package

Dr. Cibes requested a motion to approve the Minutes of the Human Resources Committee Meeting of April 22, 2008. Ms. Rubin moved to approve the minutes; Mr. Mengacci seconded her motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano William Cibes Benson Cohn John Mengacci Barbara Rubin Sarah K. Sanders	None	None

Dr. Cibes then requested a motion to approve the Minutes of the Human Resources/Audit-Finance Committee Meeting of September 9, 2008. Mr. Biancamano moved to approve the minutes; Ms. Rubin seconded his motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano Benson Cohn John Mengacci Barbara Rubin Sarah K. Sanders	None	William Cibes ²

Proposed Compensation and Benefits Budget for FY 2010

Mr. Asher reviewed the Authority’s ability to generate sufficient revenues to cover expenses. Staff has had discussions with a number of institutions that have put their projects on hold because of the financial market crisis. However, the biggest roadblock for everyone is the lack of the ability to obtain credit enhancement in any form. There are no bond insurers doing business other than Assured Guaranty. The banks are reluctant to provide letters of credit and many of the institutions that currently have LOC’s have seen or will see significant increases in their pricing.

² Dr. Cibes abstained from voting because he did not attend the September 9, 2008 Human Resources/Audit-Finance Committee Meeting.

Mr. Asher reported that he and Stephen Frayne, Sr. V.P. from the Connecticut Hospital Association met in Washington to try to obtain support for a federal municipal bond insurance program. In addition, Ms. Weldon and Mr. Asher put together a presentation to the Treasurer's Office on the creation of a Connecticut insurance program that would be structured as a SCRF program within an insurance premium.

In the next couple of weeks, Barney Frank, Chairman of the House Financial Services Committee is expected to introduce legislation to create a federal liquidity facility. It is not clear what form that will take, but the Authority has received assurances that 501(c)(3) entities will be included.

The Authority is reaching out to our client institutions. Mr. Morris, Ms. Weldon and Mr. Asher will be meeting with the hospital CFO's in a forum on May 15th to discuss CHEFA's underwriting guidelines and the rating process. In addition, on May 29th, Staff will be presenting to the higher education CFO's. This is a joint presentation to the Connecticut Association of Independent Colleges. One of the presenters is John Nelson from Moody's. Yale University is planning another significant bond issue. Staff has also had conversations with Bridgeport, Stamford and Norwalk Hospitals.

A discussion ensued. Mr. Cohn inquired if Congressman Frank's proposal can help in efforts to establish a federal bond insurer. Mr. Asher responded that Mr. Frank could help, but will be met with opposition. The insurance industry appears to be against a federal municipal bond insurance program. Mr. Asher stated that a group of former executives from ACA that have formed a consulting group and are traveling the country having discussions and pushing for the creation of an FDIC-like insurance program where the institutions make a premium payment.

Ms. Rubin inquired as to what is the status of the State's response to extend the SCRF program. Mr. Asher responded Staff is waiting to schedule a meeting with the State Treasurer's Office which has been very busy. Ms. Sanders stated that first there will be an internal meeting held to address questions. The next step for the Treasurer's Office would be to give CHEFA the questions and then schedule a meeting with CHEFA. Ms. Sanders added that CHEFA might want to also contact OPM because the State's SCRF is not just a Treasurer's issue. Mr. Cohn suggested that Staff start thinking now about how CHEFA would do the underwriting.

Ms. Weldon stated that the Human Resources budget is the first step in developing the budget and everything Mr. Asher reported is a backdrop and gives context for where the Authority is headed with the overall budget. What is included in the HR packet is a preliminary full budget so the Committee can get a sense of where compensation and benefits fit in and can see the revenue available to cover the compensation and benefits dollars.

The Authority is budgeting \$6,157,577 total revenue for FY 2010 and that is based on very conservative revenue assumptions. Presently, there is one deal that is currently on the schedule to close in 2010, which is the small private placement transaction for ECHN. Otherwise, CHEFA is assuming no new deals and the normal principal pay-downs of outstanding bonds. Staff is not assuming any extraordinary redemptions.

The other conservative revenue assumption that CHEFA has is in the investment income area. The Authority assumed a 1% rate on STIF which is currently 0.8%. The average for the month of February was 1.05%; for March it was 0.96%. Staff believes that a 1% assumption is reasonable and perhaps on the conservative side.

Ms. Weldon reported that compensation and benefits is approximately 70% of the expense budget. On the last page of the packet, there is a comparison to the projected actual, as well as to the 2009 budget and 2008 actual. On a budget-to-budget comparative basis, 2009 budget compared to 2010 proposed budget, the salary compensation line has decreased by \$56,652 and that is the function of the impact of merit increases and incentives on a reduced base. The reduction was based on the elimination of two positions - the administrative assistant position and the senior financial analyst position. Staff believes the elimination of these two positions in the 2010 budget demonstrates the Authority's commitment to be responsive to a changing environment and acknowledgment that it may not be business as usual going forward. On the other hand, the Authority wants to maintain some flexibility for the future. It wants to have a compensation budget that is manageable, but the Authority also wants to be able to create additional programs, and should volume increase from its extreme assumption of one new transaction, CHEFA will respond appropriately to that volume increase.

As far as the merit increase assumption, Staff budgeted a 3% merit increase for officers and for all others, 90% of the top of the 3%-5% range was budgeted, i.e., 4.5%. Staff put in this level for budget purposes, and it is not necessarily the increase that everyone will receive. From a budget perspective, CHEFA is separating the merit increase, from the Employee Incentive Plan. The merit increase will be based on the manager's assessment of Staff having fulfilled job responsibilities, routine goals and objectives and how well the employee performed routine job functions.

The Employee Incentive Plan will require Staff to achieve stretch goals which are not part of their routine job. A discussion ensued.

Mr. Mengacci inquired if the numbers being used are the maximum. Ms. Weldon responded that 90% of the maximum of the range was used for non-officer merit increases. The range for non-officers is 3% to 5% and 4.5% is the budgeted amount. Ms. Rubin inquired why compensation increased 12% from FY 2009 projected actual to FY 2010 budget. Ms. Weldon explained that the projected 2009 budget level has been reduced by staffing vacancies that occurred in FY 2009, making it not directly comparable to FY 2010 budget. Mr. Gray resigned, and then Mr. Asher moved into Mr. Gray's position leaving Mr. Asher's position vacant. Dr. Cibes added that there were also two additional hires projected in the budget for FY 2010. Ms. Weldon further explained that the senior financial analyst position which was budgeted in FY 2009 was never hired in FY 2009. That position is not in the projected actual budget for 2009. Ms. Weldon stated that the administrative support person who was only here for five months; her full years' salary is not in this figure, but her full years' salary is in the 2010 budget. Mr. Asher added that effectively his position was vacant salary-wise, from September 2008 to February 2009. Dr. Cibes requested that Ms. Weldon do a breakdown of merit increases and incentives in the compensation budget for the next HR/Audit-Finance meeting.

Ms. Sanders commented that with regard to State employees, in the first year, 2010, there will be no wage increases and employees must take at least three unpaid furlough days. The second year, the Union employees will get a 3.25% increase and must take three unpaid furlough days.

Dr. Cibes stated that he believes that even though CHEFA has the funds, they should try to work out something similar to the State. Dr. Cibes added that he believes that CHEFA should maintain the current level of Staff going forward so that when the business rebounds, the Authority will have the same high quality staff that is here now. Just because CHEFA isn't doing any deals is not a reason to

cut the staff in half because presumably there will be future deals. However, he suggests that the Audit-Finance Committee might look into a reduction of fees.

Ms. Rubin stated that she believes the Committee has the same sensitive issue as always which is the fact that CHEFA is not a state government entity or a private entity but falls somewhere in between. On the private sector side, it is difficult to determine where compensation is going. The newspapers report on how big ticket bonuses are being cut back but it is clear that they are not being eliminated. Ms. Rubin added that there are companies that do not have federal support and their compensation is under less scrutiny. Generally speaking, senior level people are not being paid increases in salary but junior level people are getting paid some kind of increase in salary because of their lower base. It may be cost of living driven. Ms. Rubin stated that at her company there are senior level staff who have not received an increase in pay; all their increases came through their bonuses. A discussion ensued.

Dr. Cibes inquired if the State's freeze on salaries is a hard freeze or a freeze with a cost of living adjustment. Mr. Mengacci responded that there are no cost of living increases; it is a hard freeze. Dr. Cibes stated at CHEFA there is no cost of living increase, just merit increases. Ms. Weldon explained that the amount that is in the FY 2010 budget is \$74,376 for merit increases and \$220,474 for the Employee Incentive Plan which is close to what was budgeted in 2009. In FY 2009, CHEFA has approximately \$72,000 budgeted for merit and \$4,000 more (i.e., approximately \$224,000) budgeted for incentive.

Mr. Cohn stated that he believes that if the Authority does a semi-freeze, it should be done to benefit someone. He added that either the fees should be cut for all the Authority clients or increase its balances for a future State redemption.

Ms. Rubin stated that she believes the Authority should not be adjusting salaries based on either giving money back to the State or cutting fees. It would be one thing if the Authority weren't making enough to cover its expenses, but it is making enough to cover them.

Mr. Biancamano stated that he believes 4.5% is more than most businesses are giving in this area. Mr. Biancamano added that he would like to see if CBIA has done a study. He added that there are studies all over of what management either in the healthcare field, educational field, or investment field are getting for increases. Ms. Rubin stated that she agrees that 4.5% is too strong. The standard for lower paid Staff is around 2.5% to 3%.

Dr. Cibes suggested that in addition to CBIA, the Authority should poll its clients both in healthcare and education. Ms. Rubin pointed out that CHEFA should not be comparing itself to hospitals; but believes the Authority should be comparing itself to finance companies.

Dr. Cibes stated that the budget for the Employee Incentive Plan of \$220,000 is reasonable at some level. He added that the Authority needs to rethink what can be done over the next year to radically step up what is being done in terms of service to clients and what CHEFA can do to benefit the State and use that to measure the Employee Incentive Plan.

Mr. Asher stated that comments have been made over the years about CHEFA's incentive plan and there have been concerns about it because the goals and objectives were too light and there was too much of a tying together of the individuals' performance evaluation based on the job they were hired to do. Staff is committed to divorce the two (i.e., merit increase and incentive bonus). Mr. Asher

explained that the incentive bonus is to reward out-of-the-box thinking. Mr. Asher further stated that he expects there will be a decline in the percentage and dollar amount of incentives that are given out this year due to this change in approach.

Dr. Cibes stated that the things that Staff has been doing with respect to trying to find some new forms of credit enhancement is something that has never been done and he praises the Authority for doing those kinds of things. Ms. Weldon added that Staff is going through the strategic planning process and this will enable the Authority to plan what it will be doing moving forward.

Ms. Rubin stated that a decision based on one private label reference point should not be made. She added that she would like to see what other agencies are giving for merit increases and bonuses.

Mr. Asher stated that when he looks at what is practical and right for him, he believes he needs to do exactly what all of his commissioner counterparts for 2010 will be doing. Mr. Asher referred to when the Governor asked commissioners to give up one day's pay. Mr. Asher stated that he believed it was pointless for him to give up one day's pay because the only effect would be to deprive the State of a small amount of tax income. Instead, Mr. Asher stated that he donated a day's pay to Foodshare. Mr. Asher added that he believes for 2010 he should not get an increase in compensation. Ms. Rubin stated that she does not believe the Committee needs to make that kind of decision today. Mr. Mengacci agreed that a decision can be made at the next HR/Audit-Finance Committee meeting in May. Further discussion ensued.

Ms. Sanders pointed out that CHEFA is a quasi-public agency and the State has granted a tax-exempt status to this agency and it's the State assets that the Authority is working with. Ms. Sanders further stated that she believes that CHEFA needs to be responsive to what is happening within the State. She added that this is not to say the Authority needs to match the State's salary freeze, but whatever is done at CHEFA, it should not be business as usual. It should be materially different than what has been done for the last few years. Ms. Sanders further added that she is not saying 0% but when there is a range the Authority should look at the lower end.

Dr. Cibes suggested that CHEFA canvas what is happening to businesses to see what education, hospitals and finance companies are doing. He added that the Authority might want to consider 1.5% increases as a target, depending on what the cost of living looks like in May. Dr. Cibes stated that for the Employee Incentive Plan, a random number should not be picked; if a comparable company in the industry is cutting bonuses by 20% then CHEFA ought to be considering cutting bonuses. That would still allow for a significant bonus.

Ms. Rubin suggested that 1.5% or 2% is fine at some levels. Dr. Cibes stated that along with that, the Authority did do a compensation study a couple of years ago. He believes it brought employees up to 100% of the median. Mr. Asher stated that it was 95%.

Mr. Mengacci stated that he has served on Boards of other quasi public agencies and they are all wrestling with the same issue. It is a philosophical issue irrespective of the structure. It is now a philosophical and appearance issue and each Board is going to be having the same discussion that CHEFA is having because it has happened over the years with all of the others. Further discussion ensued.

Ms. Rubin raised a concern about employees leaving jobs because they were not getting paid what they expected to be paid. She provided an example of an article in the Wall Street Journal about

people leaving big investment firms because they were not paid what they expected to be paid. She further stated that she does not think the Authority has to match what the State does but needs to be reasonable. CHEFA employees do not have access to the very favorable benefits available to State employees. Mr. Mengacci inquired that if \$295,000 in proposed merit increases and bonuses are not going to be paid out in this way, what can the Authority do with it to benefit its clients. He added that he is not sure that reducing fees by that magnitude would help clients.

Mr. Colangelo stated that he believes that even if the CHEFA did not do another deal, it would still need the infrastructure of the Authority. Mr. Mengacci agreed stating that the deals CHEFA carries still need to be maintained. There is ongoing work constantly that has to take place.

Dr. Cibes stated that in addition to the merit increases and Employee Incentive Plan, he would like to address health insurance and how important it is to have adequate health insurance. Maybe this may factor into an overall package. Last year the Authority made a significant change which did not appear to affect the coverage. He inquired if there was any feedback from employees with respect to health coverage; this may be an area the Authority might want to look at to improve the coverage at the same time as they adjust compensation. He added that the Authority health insurance program is still inferior to the State coverage. A discussion ensued.

Ms. Weldon reported that a comparison of the HSA (the Health Savings Account) structure with the CHEFA funded deductible which is a higher deductible plan with lower premiums, to a traditional insurance was done. Keeping the HSA saves CHEFA about \$32,500. Mr. Asher and Ms. Mackewicz both stated that they have not heard any complaints about the HSA insurance coverage. Ms. Mackewicz added that she will be sending out a survey in the to see if anyone has not elected health screening because they do not want to take the money out of their HSA. Ms. Mackewicz further stated that at the beginning of the HSA insurance plan, there was a little difficulty in getting Staff accustomed to keeping track of things. She reported that Staff did respond to a survey in November when she asked them for some feedback and she did not get a lot of negative feedback.

Mr. Asher provided an update on tuition reimbursement. He stated that the tuition reimbursement policy has been modified. In the past, Staff was reimbursed for approved work-related courses regardless of the cost. With the new policy, Staff is being limited to a maximum of \$5,000 annually for work-related courses unless the Authority states that an individual is required to take a class. Mr. Asher added that Staff has been told that that is the policy and this is a maximum dollar amount. Ms. Rubin inquired if this has had an impact on any of the Staff. Mr. Asher responded that it has; some Staff actually had to significantly curtail programs in which they are enrolled.

Dr. Cibes inquired if there was anything else the Committee wanted to add to the discussion. Ms. Mackewicz stated that presently the budget is at 3% and 4.5% for merit increases. The average last year for non-officers was 3.6%, for non managers and 4.7% for managers.

Mr. Mengacci inquired whether the merit increase ranges were a formalized policy. If the Authority deviates, from this does it have to go back and change the policy or is this just something that is being recommended as part of the budget preparation. Mr. Asher responded that this is part of the budget preparation, but once a decision is made Staff will notify Authority employees. CHEFA currently has an established Employee Incentive Plan and it spells out very clearly what each person is eligible to receive.

Other Business

Mr. Asher requested that the Committee discuss grant funding commitments that CHEFA has made to pay out grant funds over the next year or so. One of the commitments is to fund \$120,000 to the Nursing Education Program at Sacred Heart University.

Dr. Cibes stated that he would like to revisit the subject of reduced fees. He stated that CHEFA has the \$290,000 in addition to a projected surplus with that at \$1.7 million. He added that in the past, the Committee talked about reducing fees. Ms. Rubin responded that in the first round, the Authority did reduce fees. In the second round, the Authority reduced fees nominally. Then it was decided rather than to continue to reduce fees on an aggregate basis, that the fees were quite reasonable, and over a lifetime would not add significantly to the cost of funds for receiving parties and the Authority would take what it had and create the Grant Program. By doing this, the Authority would give back to the community and continue to promote not only the interest that CHEFA had which was for its Client Grant Program but for the Open Grant Program. Ms. Rubin added that she had no idea what the immediate prognosis is for the State or how long it is projected that the State is going to be running a deficit. But hopefully, at some point, CHEFA is going to be allowed to be on even ground again and it might be able to continue its Grant Program. She further added that the shame of it is that a time when the Grant Program is most needed is a time when CHEFA can't maintain it. Now more than ever is when all the nonprofits could use help. Ms. Rubin stated that she is hopeful the Authority will find a way in the future to protect those reserves so those reserves can be drawn from as long as they are used wisely and appropriately.

Dr. Cibes agreed with Ms. Rubin. Mr. Mengacci added that he was uneasy about because this economic landscape is too uncertain. He stated that he believes that the Authority will ultimately end up with a couple million dollars and shouldn't cut this down not knowing in 18 months what the economy will be and what CHEFA member institutions may be going through. He would like to have some money in the bank even if CHEFA has to transfer it to the State in the end. At least CHEFA would get through that next iteration.

Ms. Herman stated that one of the things that should be noted is what the Staff is doing. Staff that was handling deals is in large part now spending time working with clients who are having or expecting compliance issues under their bond documents. They have questions about what their documents say and they are really looking at them in a way they haven't before. She stated that Mr. Morris who is not currently busy with new transactions is very busy dealing with clients who have compliance issues. It also means that the Authority is going to have a larger compliance role. As was mentioned before, the Authority reassigned one staff member as a full time compliance analyst and the Authority is taking a much more rigorous approach to compliance. In addition, some of the problems clients are currently having are likely to turn into workouts or bankruptcies. At the moment, CHEFA has no legal contingency reserves. That was part of the reserves given to the State. The Authority should focus on rebuilding a reasonable legal contingency reserve.

Ms. Rubin stated that everyone is aware that the legislature is looking to "sweep" whatever remaining cash the Authority has based on the premise that those funds are unrestricted when in fact they are restricted. Part of the commitment which CHEFA has made is moral and ethical and the Authority has made a commitment to fund certain grants and the money is sitting there. That money should not be pulled whether it's for the Nursing Program or for the Science Center and there were one or two other smaller pieces. That money is not unrestricted; it is restricted and we need to find a way to protect it. If the Authority builds more unrestricted funds so that can be given to the State or

the State comes to get it, there is nothing we can do. However, the Authority has made a commitment and is obligated to keep that commitment.

Mr. Asher stated that he was going to suggest that CHEFA keep its contingent commitment to the CT Science Center because it is performance based each year. That is, if they don't meet their performance, then they won't get the funding; but assuming they do meet their performance; CHEFA has a commitment to fund over \$635,600 the next three years. The Authority has a commitment to fund \$20,000 to the Women and Families Center in Meriden and that's part of a prior grant. The Authority has a commitment to Sacred Heart University's Nursing Education Program of \$120,000 and then an additional \$180,000 to the CT Coalition Against Domestic Violence. Mr. Asher added that he believes it is appropriate from an accounting perspective to set up grants payables and book the expense for that. It comes out of the reserve funds but it is recorded as a payable because it is restricted for those purposes.

Mr. Asher stated that he also had a conversation with John Mengacci of OPM and Lisa Moody in the Governor's Office and if the legislature takes \$4.5 million dollars from CHEFA that will force the Authority to terminate the Governor's Credit Union Student Loan Program. Mr. Mengacci stated that the Office of Fiscal Analysis did not look at that close enough when they tapped into those non-appropriated accounts or where they got some of their descriptions about those funds. Mr. Mengacci believes that the General Assembly was led to believe that this money was a lot more fungible than it actually is.

Mr. Asher stated that the Authority expects to make those entries by the end of the month. On the staffing issue, in addition to all of the work that is being done with compliance, CHEFA has had 22 requests for consents and waivers and there is a significant amount of work going on there. Mr. Asher stated that he was invited to meet with business managers from the Connecticut Association of Independent Schools and they all have concerns about what's going to happen with their financials this year. They have asked the Authority to intervene on their behalf with their bond insurer or their letter of credit providers where there's a common issue to basically begin the conversation with them that there is potentially going to be this issue. CHEFA is going to be doing a lot more of that with a lot more of its smaller credits and spending a lot more time working with them and negotiating. It's going to take a great deal of time to do some of these deals.

Mr. Mengacci stated that Ms. Fontaine contacted him about the idea of creating a foundation. The Authority could seek funding for that, and it would fulfill the Authority's mission and that may be a way of giving grants in conjunction with other foundations that may want to contribute.

Mr. Asher added that CHEFA is also looking at plans to help many of its nonprofits. The Authority is looking to collaborate with the University of Connecticut in one of the public policy areas to create a nonprofit database. There is no one independent organization in the State that maintains a database in nonprofits. The database would enable CHEFA to reach every nonprofit in the State and do potential financing. At some point in time, many of these organizations could end up becoming clients of CHEFA's.

Mr. Cibes inquired if there was any other business. There being none, the meeting adjourned at 1:20 p.m.

Respectfully submitted,

William J. Cibes, Jr., Ph.D., Chair
Human Resources Committee

Benson Cohn, Chair
Audit-Finance Committee