

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL
FACILITIES AUTHORITY

Final Approved Minutes of
The Audit-Finance Committee Meeting

of May 24, 2005

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in session at 12:59 p.m. on Tuesday, May 24, 2005.

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
William J. Cibes, Jr.
Patrick A. Colangelo
Howard G. Rifkin
Barbara Rubin
Laurence R. Smith, Jr.
Dori Taylor Sullivan

ABSENT: John M. Biancamano

ALSO PRESENT: Richard D. Gray, Executive Director,
Jeffrey A. Asher, Managing Director/CFO,
David A. Williams, Managing Director,
Kimberley Fontaine, Grants Administrator,
Cynthia D. Peoples, Manager, Systems and Financial Analysis,
Eileen MacDonald, Manager, Administrative Services, and
JoAnne Mackewicz, Manager, Accounting/Client Financial Services, 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.

MINUTES OF THE AUDIT-FINANCE COMMITTEE MEETING

May 24, 2005

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 12:59 p.m.

The purpose of the Meeting was to review the proposed operating and capital budget for FY 2006.

Mr. Cohn asked Staff to review the major changes.

Mr. Gray stated that Staff has proposed an increase in staff by of a total of three FTE employees. This is a reaction to what has been a very large increase in numbers of clients and outstanding loans and bonds, and also the complexity of the clients and Information Technology ("IT"). As a result, Staff proposes an attempt to move to a full-time compliance auditor, who would deal with all areas of compliance and legislative reporting, which have become considerable. The budget includes some proposed initiatives in the IT areas that now warrant these expenditures, specifically document imaging of all existing CHEFA transactions.

Mr. Asher stated that the Authority projects an excess of revenues over expenses of \$296,000 for FY 2006. What has changed in the budget that was presented to the Human Resources Committee is that the Committee has suggested an increase of salary levels for the three new positions from \$150,000 to \$200,000. Staff estimates the associated increases for benefits and taxes would be another \$15,000.

Responding to a question from Mr. Rifkin, Mr. Asher stated that Staff had not calculated individual salaries for each position. The Human Resources Committee felt that the salaries would probably be significantly higher and should be increased, with a range of \$70,000 to \$80,000 given that the Authority is seeking someone for IT, a compliance auditor, as well as someone with experience in the childcare industry.

Mr. Asher explained that projected revenue over expenses for FY 2006 will be reduced to approximately \$200,000 as a result of the increases to the salaries for the proposed new positions. That compares to a budgeted excess of revenues over expenses of \$270,000 for FY 2005. Staff had originally projected an excess of revenues over expenses of \$751,000 for FY 2005, but Mr. Williams has indicated that the expenses that we have projected so far this year associated with legal expenses for the 3030 Park Fairfield Issue workout are expected to amount to about \$400,000, which includes accounting fees. This will reduce the excess of revenues over expenses to approximately \$351,000 for FY 2005.

Staff has budgeted for the closing of approximately twelve new bond issues, including a new money refinancing issue for the University of New Haven. The total projected dollar amount for FY 2006 is approximately \$807 million which includes three bond issues in excess of \$100 million. Staff projects a \$200 million transaction for Yale University, although that figure is a moving target; approximately \$230 million for the new cancer center at Yale-New Haven Hospital, also subject to change; and an estimated \$100 million for a hospital pooled equipment program that would be backed by the State's SCRF guarantee. An additional childcare bond issue is expected that will include as many as seven childcare providers for about \$18 million. Staff also changed the projected assumptions on investment income. In FY 2005, Staff assumed a projected investment income of 1.9%; the projected investment income for FY 2006 is 2.5%.

Mr. Asher stated that budgeted expenses for FY 2006 have a proposed increase of \$889,000 as compared to projected actual for FY 2005. Discussion took place regarding the increases as approved by the Human Resources Committee, including the budget incentives at 90% of the maximum for all categories. Benefits for the new staff will cost approximately \$54,000, and that number will change as the salary amount increases. Placement fees have been budgeted at \$40,000, which is a \$22,000 increase over what Staff has as the projected actual for FY 2005. Staff is trying very hard not to use an agency which will require us to pay placement fees. The Authority has started to advertise on CareerBuilder.com, and Staff has been pleasantly surprised with the number, and quality, of the resumes received thus far.

Mr. Asher stated that \$17,000 is included in the projected budget for modifications to the accounting systems. This was budgeted for in FY 2005, but the work has not been completed yet because Staff was still finalizing the conversion to the BONDS system.

An expansion of the Authority space is proposed, to add approximately 1,800 square feet of an additional, contiguous space. Staff proposes to move the board room from its current area to the additional space as the current meeting room configuration is cramped, and to reconfigure the present boardroom into new staff offices.

Mr. Asher stated in the projected actual budget for FY 2005 that the program-related expenses did not include spending on the focused investment reserve, which was \$480,000. The Authority went over the budget on client grants, by awarding more than \$700,000 when only \$550,000 had been budgeted. Staff proposes to award only \$550,000 client grants in FY 2006. The additional interest expense subsidy on childcare transactions by the end of FY 2006, based on the volume of deals that the Authority has in progress for the Guaranteed Loan Fund, is expected to be \$375,000 of the \$475,000 that was originally approved by the Board in FY 2003.

Mr. Asher discussed the details of the actual childcare transactions. In the past, Staff has estimated four to five deals that there was no identified institution for. This year, Staff has already met and spoken with almost all the providers so the figures are fairly realistic expectations of what the Authority may have in additional transactions.

Mr. Asher indicated that within the compensation package, there are three new positions

that have been identified: a childcare program manager, a compliance auditor, and an IT data systems developer. The childcare program manager is warranted by the volume of childcare transactions and the involvement that is required with each one of those providers. The Authority has financed 19 providers on the tax-exempt side, for 22 childcare facilities, and expects to complete another seven in each of the next three fiscal years. The GLF has financed 14 outstanding loans. Staff proposes a program manager to assist with the compliance, assist with the application process, visit municipalities, school districts and other nonprofit providers, and talk with them about the financing programs. The program manager would also facilitate project development and connect the providers with architects with experience designing childcare facilities, quarterly reports to the State, and site visits to assess the quality of the programs. This individual would have some financial background but also childcare industry experience.

Mr. Asher stated that the Authority also recommends the hiring of a compliance auditor. That position would report directly to the Audit-Finance Committee, with an indirect reporting responsibility to the Executive Director. This position would review all aspects of compliance for individual transactions, state ethics requirements, Authority ethics policy, the various state reports that are required to be filed, adherence to the personnel policies, testing and monitoring of 188 facilities that the Authority maintains information on, grants compliance, and also data integrity of the BONDS system. The Audit-Finance Committee would set the goals and the reporting requirements and frequency for that individual as it sees fit.

Mr. Asher indicated that Staff also proposed the hiring of an IT data systems developer that is necessary as the Authority has significantly grown. Ms. Peoples was originally hired to work in the new business areas of the Authority and right now is probably spending 80-90% of her time in the areas of IT-related work. She has one person that is working on IT, but there is a need for a second person in this area in order for the Authority to meet the current needs and allow room for growth. This will allow Ms. Peoples to spend more time working on new business transactions.

Mr. Asher stated that the current Board conference room could be converted into office space. The new proposed space would be converted into meeting space for closings, conferences, and Board and Committee Meetings. Building management has indicated that we could get that space for lease terms and use costs which would be on parallel with our existing lease.

Responding to questions from Members, Mr. Asher stated that the current lease expires in five years and that the proposed space lease would cost another \$37,000 per year. There are improvements to the space that would be necessary, and they have been included in the capital budget.

Mr. Gray added that the proposed additional space would also be used as training space for clients, for example as the childcare providers can be brought in for technical assistance, and CHEFA staff training, there would be a much more flexible space.

Mr. Asher indicated that Staff is reluctant to schedule those types of trainings and meetings

due to the limits of the current meeting space; he referenced a meeting of childcare providers at the Authority that had approximately 50 people overcrowded into the current boardroom space. Those meetings should be taking place on a more ongoing basis.

Mr. Asher indicated that Staff has plans to modify the annual report to make it more of a marketing brochure, and include the financials in CD or DVD format, in addition to posting the financials on the CHEFA website to comply with State reporting guidelines.

Mr. Asher stated that the total estimate in the capital budget is approximately \$254,000. He provided detailed discussion to Members of the need to electronically capture the legal documents and maintain them in the electronic offsite facility for business continuity purposes and to facilitate access from a remote location.

Mr. Gray commented that the electronic document conversion will also allow the Authority to comply with FOI requests, and indicated the example of numerous Yale-New Haven Hospital FOI requests. Additionally, CD-Rom materials may deteriorate after ten or eleven years, and given that CHEFA issued bonds for thirty years, the conversion to the electronic format is necessary.

Mr. Asher stated that most of the Authority employees are connected to allow remote access to the Authority systems and files from off-site, which is part of the Authority's business continuity plan.

Mr. Asher detailed the proposed upgrade of the telephone equipment and one printer, in addition to equipment for the new boardroom that would allow more flexible configuration of the meeting spaces. The current table in the board room is so heavy that it requires professional movers to come to move the table at all. The new space and equipment will allow CHEFA to provide far more options to its clients and Staff in meeting and training space. A brief review of the additional items included in the capital budget took place.

Ms. Rubin moved to recommend the proposed capital and operating budget, with the modifications made by the Human Resources Committee, to the Full Board for approval.

Discussion took place amongst the Members and Staff regarding the rationale and ability to meet or exceed the projected number of new bond issues for FY 2006. Mr. Asher indicated that Yale University may pay for many of their projects out of their endowment funds. Responding to a question from Ms. Rubin, Mr. Asher indicated that the nine basis points annually are billed to the Authority clients semi-annually.

Ms. Rubin has the concern that if meeting budget is a large portion of the compensation plan, she does not want the Authority to be perceived as making it easy for Staff to achieve. She felt it should be a push to get things done.

Mr. Asher responded that Staff has no control over whether or not a client decides to take advantage of our services. We cannot push the clients to step up and do a bond issue because we have to meet some sort of a revenue deadline for our budget. Staff provides its best guess as to what would happen.

In response to a question from Ms. Rubin, Mr. Gray stated that the incentive revenue is tied to the bottom line. Ms. Rubin suggested perhaps the incentive revenue should only be tied to the expenses since they are controllable.

Mr. Gray stated that he does not want to mislead the Board, because, as illustrated by the tenuous nature of the pending Yale deals and the CCSU residence hall, estimates of FY 2006 new bond issues could be off by as much as \$100 million. Expense control is clearly a large portion of the incentive program.

In response to a question from Members, Mr. Asher stated that the cost of the CD imaging of issues is included in new bond issues, and the historical data would be a one-time budgeted item. The Authority transcripts would be replicated and stored on our own servers and would be maintained by the Authority. We would then have control over the access to these files. The Authority has had a very bad experience with outsourcing this type of service in the past and Staff is reluctant to repeat that experience.

Mr. Rifkin questioned how the calculations in the proposed capital and operating budget for new staff positions relate to the State administration's concerns regarding quasi-public compensation. He wanted to know if the proposed salaries parallel equivalent public sector positions.

Ms. Rubin stated that Kevin Rasch, on behalf of the Governor's office, has indicated that quasi-public agencies must have a consistent written policy that reflects even-handed management of the entire organization, and effective evaluation of performance. She stated that what Staff has proposed conforms to the policies that have been discussed with the Governor's office.

Dr. Cibes stated that if the General Assembly were to declare that there shall be no incentive compensation in quasi-public agencies, this budget permits some latitude to make changes to the structure of compensation.

Mr. Rifkin asked if there was any concern about the comparability outside of the incentive packages, for compensation at the Authority. Dr. Cibes responded that the consultant previously engaged by the Committee to conduct the salary comparison has been unable to complete the project due to bypass surgery.

Ms. Rubin explained that the governor's office has encouraged the Authority to obtain studies to support the salaries, so the Authority hired a human resources consultant. About halfway through the project the consultant had major heart surgery. The consultant is available by phone and should have the study completed in a few weeks.

Mr. Rifkin expressed concern about voting for a budget that will end up having the Authority compromised in some way in terms of spending. He stated that he is prepared to vote for the proposed operating and capital budget, but he questioned if there was an issue about the compensation relationship between the quasi-public agencies and the public sector.

Ms. Rubin stated that Mr. Rifkin has brought up a good question in that the Human Resources Committee did not make their vote subject to the results of the compensation study. Mr. Gray stated that the proposed capital and operating budget is not going to the Full Board for approval until June, so there is time to make changes to the proposals. Mr. Rifkin asked that the Members revisit the compensation study issue before it is brought to the Full Board for review, to which all Members agreed.

Mr. Gray stated that Staff presented the proposed capital and operating budget to the Committees this month, but he also wants to wait to see what happens with some of the legislative bills that are under consideration as they may render some of the proposed compensation structure moot. The governor's office is looking for quasi-public boards to approve and develop procedures in June.

Mr. Colangelo requested that Staff make the Member-directed changes to the proposed capital and operating budget prior to submission to the Full Board in June.

Members discussed the compensation study and felt that it was important to wait until it had been reviewed before the vote by the Full Board on the capital and operating budget.

Mr. Gray stated that the Committee Minutes will reflect that the Board Members desire to review the comparables in the compensation study prior to a vote on the proposed capital and operating budget.

Ms. Rubin made a motion to approve the recommendation to the Full Board to accept the proposed operating and capital budgets, subject to the changes as approved by the Human Resource Committee earlier in the day. Mr. Rifkin seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Benson R. Cohn, Committee Chair	None	None
William J. Cibes, Jr.		
Patrick A. Colangelo		
Howard G. Rifkin (rep. Denise L. Nappier)		
Barbara Rubin		
Laurence R. Smith, Jr.		
Dori Taylor Sullivan		

There being no further business, at 1:41 p.m. Dr. Cibes made a motion to adjourn the meeting. Ms. Rubin seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Benson R. Cohn, Committee Chair	None	None
William J. Cibes, Jr.		
Patrick A. Colangelo		
Howard G. Rifkin (rep. Denise L. Nappier)		
Barbara Rubin		
Laurence R. Smith, Jr.		
Dori Taylor Sullivan		

Respectfully submitted,

Benson R. Cohn
Chair, Audit-Finance Committee