

# CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Board Meeting  
September 19, 2012

The State of Connecticut Higher Education Supplemental Loan Authority (CHESLA) met at 3:00 p.m. on Wednesday, September 19, 2012.

The meeting was called to order at 3:00 p.m. by Barbara Rubin, Chair of the Board of Directors of the Authority. Those present and absent were as follows:

Present: Barbara Rubin, Chair  
Jeffrey A. Asher  
Martin L. Budd  
Steven Kitowicz (Rep. for Secretary Benjamin B. Barnes)  
Peter W. Lisi  
Sarah K. Sanders (Rep. for Honorable Denise L. Nappier)  
Julie B. Savino, Vice Chair<sup>1</sup>

Absent: Richard Bishop (Rep. for Robert Kennedy, President of CT Board of Regents for Higher Education)  
Paul Mutone

Also Present: Joshua Hurlock, Portfolio and Marketing Assistant, CHESLA  
Carlee Levin, Accountant, CHEFA  
Paula L. Herman, General Counsel, CHEFA  
JoAnne N. Mackewicz, Controller, CHEFA  
Debra M. Pinney, Manager of Administrative Services, CHEFA  
Samuel E. Rush, Deputy Director, CHESLA  
Jeanette Weldon, Executive Director, CHESLA

Guests: Judith Blank, Day Pitney (General Counsel and Bond Counsel)  
Reed W. Risteen, Partner, Blum Shapiro

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<sup>1</sup> Ms. Savino joined the meeting at 3:06 p.m.

## **APPROVAL OF MINUTES**

Mr. Asher moved for approval of the minutes from the July 3, 2012 meeting and Mr. Lisi seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
Barbara Rubin Jeffrey A. Asher Martin L. Budd Steven Kitowicz Peter W. Lisi Sarah K. Sanders	None	None

## **PRESENTATION OF FY 2012 DRAFT AUDITED FINANCIAL STATEMENTS**

Mr. Risteen from Blum Shapiro provided highlights of the draft audited financial statement report for FY 2012. Blum Shapiro is planning to issue an unqualified or clean opinion of the financial statements. Mr. Risteen stated that the auditors didn't report any internal control weaknesses or any noncompliance issues.

In terms of a financial overview, Mr. Risteen reported that student loans outstanding were slightly increased. The major change in the balance sheet was that liabilities declined because some bonds were paid off and CHESLA refunded some bonds. There were also restricted investments for that purpose in the prior year. Mr. Risteen added that net assets increased by \$1.5 million which is a positive, as opposed to the loss of \$300,000 last year.

Mr. Risteen stated that in the income statement, revenues expenses were very similar to the prior year. Operationally, there was a larger benefit in reducing the arbitrage liability and there were also some favorable investment results. For required audit communications, Mr. Risteen reported that for the accounting practices being used, CHESLA is using the accounting practices that should be used for this type of organization and estimates are inherent in the audit process for the financial statement preparation. Mr. Risteen added that one of the sensitive estimates is the loan loss reserve and CHESLA has continued with its methodology using an historical look back on its collection rates on all the various loans outstanding.

Mr. Risteen reported that the loan loss reserve is slightly less than the national average. He pointed out that this was due to a more favorable collection experience. Mr. Risteen indicated that there were no difficulties with management or the contract accountant. The auditors asked management to make written representation in connection with the audit which is standard practice.

In summary, Mr. Risteen reported that the audit went very well.

Mr. Budd asked Ms. Weldon when she expects her staff to start handling the accounting for CHESLA. Ms. Weldon stated that the outside accountant's contract will expire on December 31, 2012 and they will prepare the September quarter of the financials. The accountant is already working with CHEFA's staff to get our staff up to speed. Ms. Weldon added that the December quarter will be done by her staff.

Further discussion ensued.

### **EXECUTIVE SESSION**

Mr. Asher moved to go into Executive session at 3:15 p.m.; Mr. Kitowicz seconded his motion.

The Board Members reconvened at 3:17 p.m. No votes were taken during Executive Session.

Mr. Kitowicz moved to accept the Draft FY 2012 Audited Financial Statements Report as presented by Blum Shapiro and Mr. Lisi seconded his motion.

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

#### **AYES**

Barbara Rubin  
Jeffrey A. Asher  
Martin L. Budd  
Steven Kitowicz  
Peter W. Lisi  
Sarah K. Sanders  
Julie B. Savino

#### **NAYS**

None

#### **ABSTENTIONS**

None

### **COMMITTEE STRUCTURE AND APPOINTMENTS**

Ms. Weldon stated that included in the Board package was a proposed resolution on the committee structure of the Board. The resolution recognizes three committees: Audit-Finance, Human Resources and Consultant/Vendor Committee. Ms. Weldon stated that subsequent to this draft, there was a recommendation by Ms. Rubin to combine two of the committees (Audit-Finance and Human Resources) into one committee because many of the topics will overlap.

Ms. Rubin introduced Resolution #2012-01, which was included in the materials distributed to the Board, regarding the Committee structure as proposed with the amendment to combine two of the committees (Audit-Finance and Human Resources) into one committee. Mr. Budd moved to approve Resolution 2012-01 as modified. Ms. Savino seconded his motion. All were in favor.

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

**AYES**

Barbara Rubin  
Jeffrey A. Asher  
Martin L. Budd  
Steven Kitowicz  
Peter W. Lisi  
Sarah K. Sanders  
Julie B. Savino

**NAYS**

None

**ABSTENTIONS**

None

The following members will serve on the Consultant/Vendor Committee:

Ms. Rubin, Mr. Kitowicz, Ms. Sanders and Ms. Savino.

The following members will serve on the Audit-Finance/Human Resources Committee:

Mr. Asher, Mr. Kitowicz, and Ms. Savino.

Mr. Mutone will be asked if he is interested in serving on the Committee and Ms. Rubin will serve as ex officio.

**ETHICS POLICY, PROCEDURES AND BY-LAWS – PROPOSED REVISIONS**

Ms. Herman referred to the proposed revised documents provided in the Board packet: the Ethics Policy, Written Procedures and By-Laws. She added that, in the interest of operational efficiency, she drafted the policies and procedures to be consistent with CHEFA's policies and procedures.

With respect to the proposed revised by-laws, Ms. Herman pointed out there has been more flexibility added as it pertains to the Board. For example, providing the ability to participate in Board meetings telephonically.

Ms. Herman stated that the major goal with the written procedures is to make them consistent with operations day-to-day being the responsibility of Staff, with the Board providing governance and oversight. Consequently, certain responsibilities previously given to the Board are assigned to the Staff within certain parameters, e.g., ability to deal with personnel decisions within the boundary of an approved budget.

Ms. Herman reviewed the major features of the Ethics Policy as it would apply to the Board and to CHESLA Staff.

Ms. Herman stated that proposed modifications of the Written Procedures requires publication of a notice of intent to adopt revised written procedures in the **Connecticut Law Journal** and scheduling a hearing to provide the opportunity for public comment. Consequently, the modified procedures are being approved today on a preliminary basis, and will be presented for final approval at the November Board meeting.

Mr. Asher inquired if the procedures included the same threshold as for CHEFA Request for Proposals (RFPs), i.e., \$25,000. Ms. Herman indicated that the procedures are essentially

identical to CHEFA, so anything below \$25,000 that is not subject to a specific statutory RFP requirement and that is included in an approved budget will not require an RFP. Ms. Herman added that the procedures also allow the Executive Director the ability to make unbudgeted expenditures, so long as they do not exceed \$5,000 per expenditure.

Further discussion ensued.

Ms. Rubin introduced Resolution #2012-02, which was included in the materials distributed to the Board, regarding the Ethics Policy, By-Laws and Written Procedures as proposed with an additional clause added in the resolution at the end of paragraph three stating “provided that the provision prohibiting the ownership of CHESLA bonds shall be effective as of September 30, 2012.” Mr. Budd moved to approve Resolution #2012-02 with the proposed change. Mr. Kitowicz seconded his motion; all were in favor.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Barbara Rubin Jeffrey A. Asher Martin L. Budd Steven Kitowicz Peter W. Lisi Sarah K. Sanders Julie B. Savino	None	None

A discussion ensued concerning having a single auditor for both CHEFA and CHESLA and CHEFA presenting consolidating statements that incorporate CHESLA.

Ms. Sanders left the meeting at 3:34 p.m.

Ms. Rubin surveyed Board members about holding the CHESLA Board meetings on a separate date other than the CHEFA Board meeting dates. The Board members agreed to hold the next Board Meeting on **Tuesday, November 13, 2012 at 11:30 a.m.** instead of holding it on Wednesday, November 14, 2012 at 3:00 p.m. For subsequent meetings, Ms. Weldon will come up with some recommendations for the 2013 meeting schedule and provide it to the Board members for their feedback.

### **REPORT OF THE CONSULTANT/VENDOR COMMITTEE**

Ms. Kitowicz reported that the Committee interviewed the two candidates recommended by Staff for the RFP for Financial Advisor: FirstSouthwest and Public Financial Management. After the candidates’ presentations and discussion with Staff, the Committee recommended that they contract with FirstSouthwest.

Ms. Weldon added that CHEFA has used FirstSouthwest for some arbitrage rebate calculations. The State of Connecticut uses FirstSouthwest as one of their financial advisors. In the student loan arena, the firm has a very strong practice. Ms. Weldon stated that FirstSouthwest had excellent references. She added that Lee Donner is the senior person at FirstSouthwest who

would have primary responsibility; he would be assisted by Tim Webb, Vice President. Ms. Weldon stated that FirstSouthwest also has a small Connecticut office in Glastonbury that is staffed with traditional municipal bond advisors. Ms. Weldon believes that FirstSouthwest would be able to service CHESLA quite well and added that FirstSouthwest is willing to negotiate with CHESLA on their fees.

Mr. Martin Budd moved for approval of FirstSouthwest as financial advisor for a period not to exceed three years. Mr. Kitowicz seconded the motion; all were in favor.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
Barbara Rubin Jeffrey A. Asher Martin L. Budd Steven Kitowicz Peter W. Lisi Julie B. Savino	None	None

### **EXECUTIVE DIRECTOR’S REPORT**

Ms. Weldon asked Mr. Rush to provide some highlights on the quarterly Portfolio Fact Sheet and Loan Disbursement Data as of June 30, 2012 and the Market Segment.

After Mr. Rush’s presentation, a discussion ensued.

In response to a request by Mr. Budd, Ms. Weldon informed the Board that she will forward a copy of the FY 2012 Annual Report to the Governor to the Board members for review before it is mailed to the Governor’s office.

Ms. Weldon reported that the State Auditors’ Report for FY 2010 and 2011 is complete and in draft form and she is waiting to receive the final version. The Auditors identified three recommendations: (1) Strengthening internal controls on personnel matters (concerning a vacation carryover policy); (2) Ensuring that required certifications are completed (regarding contracts having a value of \$50,000 or more); and (3) Ensuring that the loan services has established proper procedures regarding loan disbursements. (The Auditors found a student loan that was disbursed despite the fact that the available documentation state indicated that the amount exceeded the net cost of attendance. Ms. Weldon pointed out that the documentation was incorrect. CHESLA staff will continue to monitor the disbursements so this does not occur in the future.)

Ms. Weldon stated that she will be looking at the timing of the next bond issue and she will have more specifics on it at the next Board meeting.

Ms. Weldon added that Mr. Rush and Mr. Hurlock will be moving from the Farmington office to the Hartford office on Thursday, September 27, 2012.

Further discussion ensued.

**ADJOURNMENT**

There being no further business, at 4:15 p.m., Mr. Budd moved to adjourn the meeting and Mr. Lisi seconded his motion.

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

**AYES**

**NAYS**

**ABSTENTIONS**

Barbara Rubin  
Jeffrey A. Asher  
Martin L. Budd  
Steven Kitowicz  
Peter W. Lisi  
Julie B. Savino

None

None

Respectfully submitted,

Jeanette W. Weldon  
Executive Director