

STATE OF CONNECTICUT



*AUDITORS' REPORT
CAPITAL REGION DEVELOPMENT AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2016*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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July 9, 2018

AUDITORS' REPORT CAPITAL REGION DEVELOPMENT AUTHORITY FISCAL YEARS ENDED JUNE 30, 2015 AND 2016

We have audited certain operations of the Capital Region Development Authority (CRDA) in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2015 and 2016.

The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance, as applicable; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed

and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the authority. For the areas audited, we identified:

1. No deficiencies in internal controls;
2. No apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Capital Region Development Authority.

COMMENTS

FOREWORD:

The Capitol Region Development Authority was established as the successor to the Capital City Economic Development Authority in 2012 under Title 32, Chapter 588x of the General Statutes. As a quasi-public agency under Section 1-120 of the General Statutes, the authority is a body politic and corporate, constituting a public instrumentality and a political subdivision of the state. For financial reporting purposes, the authority is a component unit of the state and its financial statements are included in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

The purpose of CRDA is to stimulate new investment within the capital region to create a vibrant, multidimensional downtown; operate, maintain, and market the Connecticut Convention Center; coordinate the use of all state and municipal planning and financial resources that are available for any capital city project; strengthen Hartford's role as the region's major business and industry employment center and seat of government; manage facilities through contractual agreement; and encourage residential housing development in downtown Hartford.

The authority is responsible for the development and/or management of a number of major area venues, including the XL Center, the Connecticut Convention Center, the Connecticut

Science Center, Front Street development, as well as a number of housing projects and parking facilities in the downtown Hartford area. Various contractors manage the day-to-day operations of the various venues and report regularly to CRDA. CRDA is also responsible for managing the Stadium at Rentschler Field on behalf of the State of Connecticut Office of Policy and Management. A memorandum of understanding has been in place since July 1, 2013 detailing CRDA's responsibilities. CRDA has contracted with a venue management firm to manage the day-to-day activities of the stadium.

Board of Directors and Administrative Officials

In accordance with Section 32-601 (b) of the General Statutes, the governing body of the authority consists of 14 members, as follows: 4 that shall serve as ex-officio members, 4 appointed by the Governor, 2 appointed by the mayor of the city of Hartford, 2 appointed by the General Assembly, and 2 that are the mayors of the cities of Hartford and East Hartford.

Members of the board of directors as of June 30, 2016, were as follows:

Appointed members:

Suzanne Hopgood Chairperson
Andy Bessette Vice Chairperson
David Jorgensen
Joanne Berger-Sweeney
Sean Fitzpatrick
Michael Matteo
2 Vacancies

Other members:

Luke Bronin Mayor, City of Hartford
Marcia Leclerc Mayor, City of East Hartford

Ex-officio members:

Benjamin Barnes Secretary, Office of Policy and Management
Catherine Smith Commissioner, Department of Economic and Community Development
Evonne Klein Commissioner, Department of Housing
James Redeker Commissioner, Department of Transportation

There has been a General Assembly appointed vacancy since the inception of the authority as the Capitol Region Development Authority in 2012. The second vacancy was due to the resignation of a mayoral appointee in 2015.

During the audited period, Pamela Reid, Thomas Deller, Floyd Green, and Pedro Segarra also served as members of the board of directors.

Michael Freimuth is the current executive director and served in that capacity throughout the audited period.

New Legislation

There was no new significant legislation during the audited period.

RÉSUMÉ OF OPERATIONS

Statement of Net Position

Based on the authority's audited financial statements, a summary of assets, liabilities, and net position for the audited period follows:

	Fiscal Year Ended June 30,		
	2014	2015	2016
Assets			
Current assets	\$ 19,761,262	\$ 22,642,007	\$ 28,272,909
Noncurrent assets	301,666,187	342,780,013	344,688,525
Total assets	321,427,449	365,422,020	372,961,434
Liabilities			
Current liabilities	18,814,753	16,082,908	24,508,425
Noncurrent liabilities	129,243,605	127,436,306	125,219,052
Total liabilities	148,058,358	143,519,214	149,727,477
Net Position			
Net investment in capital assets	143,323,308	179,269,948	174,524,727
Restricted	25,885,758	36,149,872	40,901,083
Unrestricted	4,160,025	6,482,986	7,808,147
Total net position	173,369,091	221,902,806	223,233,957
Total Liabilities and Net Position	\$ 321,427,449	\$ 365,422,020	\$ 372,961,434

The authority's total assets increased by almost \$44 million in fiscal year 2014-2015, primarily due to capitalized renovations at the XL Center, the purchase of the Church Street parking garage, and an increase in housing loan receivables due to 3 additional loan closings.

The authority is able to issue its own bonds, bond anticipation notes, and other obligations to achieve the purposes outlined in Section 32-602 of the General Statutes. Obligations of the authority are not a debt of the state. As of June 30, 2016, the authority received authorization to issue bonds and other obligations up to \$122,500,000. As of June 30, 2016, the authority had issued \$110,000,000 in 4 series of parking and energy fee revenue bonds, the proceeds of which provided financing for the Adriaen's Landing project. CRDA also entered into a \$12,500,000 loan agreement with the Travelers Indemnity Company prior to the audited period. As of June 30, 2016, the authority's bonds payable totaled \$85,598,000, and loans payable totaled \$8,931,000.

Pursuant to the provisions of Section 32-608 of the General Statutes, the state and the authority entered into a contractual assistance agreement equal to the amount of the annual debt service on the outstanding bonds. The authority is required to reimburse the state for any assistance received under this contract utilizing parking and energy fee revenues. For the fiscal years 2015-2016 and 2014-2015, amounts available from parking and energy fee revenues to reimburse the state for contract assistance payments were \$1,592,632 and \$1,835,268, respectively. That is less than the amounts necessary to reimburse the state. As of June 30, 2016, the authority is obligated to repay \$34,701,484 in contract assistance.

Statement of Revenues, Expenses and Changes in Net Assets

Based on the authority's audited financial statements, a summary of revenues, expenses and changes in net assets for the audited period follows:

	Fiscal Year Ended June 30,		
	2014	2015	2016
Operating Revenues:			
Grants-State of Connecticut	\$ 10,392,577	\$ 9,098,493	\$ 7,333,291
Combined Facilities	35,183,266	37,096,913	39,212,821
Other Operating Revenue	184,830	426,111	218,880
Total Operating Revenues	45,760,673	46,621,517	46,764,992
Operating Expenses			
Personnel and General	1,265,275	1,615,815	1,279,987
Pension Expenses	750,086	562,250	616,205
Combined Facilities	39,617,074	37,898,616	38,641,856
Depreciation and amortization Expense	9,803,397	10,445,914	11,829,709
Total Operating Expenses	51,435,832	50,522,595	52,367,757
Income (Loss) from Operations	(5,675,159)	(3,901,078)	(5,602,765)
Non-Operating Revenue (Expense)			
Interest Income	105,916	328,059	372,417
Interest Expense	(4,546,012)	(2,176,274)	(2,175,208)
Non-Operating Revenue (Expense), net	(4,440,096)	(1,848,215)	(1,802,791)
Capital Contributions - State of CT	7,745,544	43,472,867	3,853,894
Capital Contributions - Other	1,750,000	536,450	-
Transfer - State of CT Housing Loan Program	20,473,793	10,273,691	4,882,813
Change in Net Position	\$ 19,854,082	\$ 48,533,715	\$ 1,331,151

The State of Connecticut provides an operational grant to fund the authority's payroll and administrative costs. The authority carries forward any unexpended balances. Grants from the

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State of Connecticut also include funding to assist with the operations of the convention center, XL Center, Front Street District, and support for the Connecticut Tennis Center. Increases in capital contributions during the 2014-2015 fiscal year from the State of Connecticut were for the purchase of the Church Street parking garage and renovation of the XL Center.

During the 2013-2014 fiscal year, the State Bond Commission, through the Special Revenue Bond Fund, established \$60 million in funding for CRDA to provide grants or loans to encourage residential housing development. The authority provides these loans under the State of Connecticut Housing Loan Program as prescribed within Section 32-617g of the General Statutes. In the 2014-2015 and 2015-2016 fiscal years, the bond commission established additional funding to provide for the additional acquisition of property under Section 32-602 of the General Statutes. A summary of amounts established for CRDA use and amounts formally allocated follows:

	Fiscal Year Ended June 30,		
	2014	2015	2016
Amount Established	\$ 60,000,000	\$ 30,000,000	\$ 50,000,000
Allocated as of FYE 16	53,342,627	16,000,000	-
Unallocated as of FYE 16	\$ 6,657,373	\$ 14,000,000	\$ 50,000,000

Other Examinations

Independent public accountants audited the CRDA financial statements for the years under review. The audits provided opinions that the financial statements presented fairly, in all material respects, the financial position of the Capital Region Development Authority for the audited period, and the results of the operations and cash flows during that period in conformity with accounting principles generally accepted in the United States of America.

Independent public accountants also separately audited the financial statements for the operations of the Stadium at Rentschler Field for the years under review. The auditors found that the financial statements presented fairly, in all material respects, the financial positions of the facility operations.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Employee Evaluations

Criteria: The CRDA Personnel Policy and Procedures Manual requires the authority to conduct performance evaluations annually to recognize employees for good performance or provide appropriate coaching on how performance and skills could improve.

Regular evaluations are necessary to support either pay increases for positive performance or potential disciplinary action for poor performance.

Condition: We reviewed 5 employee personnel records and did not find any current or prior performance evaluations on file. The 5 employees all received 2 pay increases during the audited period. Upon further inquiry, we found that management did not conduct annual performance evaluations for any of its 11 employees.

Cause: There is a lack of administrative oversight regarding the completion of written annual evaluations.

Effect: The authority did not comply with its own personnel policy. Without proper documentation of job performance, the authority cannot adequately support pay increases, or address the need for improvement plans or disciplinary actions in the future.

Recommendation: The Capital Region Development Authority should complete written annual performance evaluations for all permanent employees in accordance with its Personnel Policy and Procedures Manual. (See Recommendation 1.)

Agency Response: “CRDA agrees with the finding. CRDA is a small authority consisting of 11 employees who work closely with each other routinely on a daily basis. The Executive Director, officers, and directors offer timely and on-the-spot feedback to employees as needed. Employee feedback is generally verbal in nature.

All pay increases are approved by the Executive Director upon Board of Director’s notification.

CRDA will continue to provide employees with timely and on-the-spot feedback as needed. CRDA will discuss this course of action with its Board of Directors and implement any additional Board recommendations.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

There were no prior recommendations.

Current Audit Recommendations:

- 1. The Capital Region Development Authority should complete written annual performance appraisals for all permanent employees in accordance with its Personnel Policy and Procedures Manual.**

Comment:

Our current review disclosed that the authority did not complete annual performance evaluations.

ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Edna L. Maldonado
Matthew B. Wood

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Capital Region Development Authority during our examination.



Matthew Wood
Associate Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor