

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
CAPITAL REGION DEVELOPMENT AUTHORITY  
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2018*

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

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August 2, 2019

## EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122 and 2-90 of the Connecticut General Statutes we have audited certain operations of the Capital Region Development Authority. The objectives of this review were to evaluate the authority's internal controls, compliance with policies and procedures, as well as certain legal provisions, and management practices and operations for the fiscal years ended June 30, 2017 and 2018.

The key findings are presented below:

<b>Page 7</b>	The Capital Region Development Authority spent \$4,039,356 of bond funds for the construction of Dillon Stadium prior to the City of Hartford and a professional sports team entering into an agreement, as required by the State Bond Commission and its own board of directors. The Capital Region Development Authority should ensure that it meets the terms of its board of directors and the State Bond Commission prior to spending bond funds. (Recommendation 1.)
<b>Page 8</b>	We reviewed personnel records for all 11 authority employees and did not find any current or prior performance appraisals on file. The Capital Region Development Authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees. (Recommendation 2.)
<b>Page 9</b>	We reviewed 11 construction loan and grant contracts and found that 3 did not have the required state affidavit forms executed and included in the agreements. The Capital Region Development Authority should strengthen internal controls to ensure that contracts include affidavits required by the General Statutes. (Recommendation 3.)

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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State Capitol  
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ROBERT J. KANE

August 2, 2019

### AUDITORS' REPORT

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 years ended June 30, 2017 and 2018. 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 effectiveness, 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 various available sources including, but not limited to, the authority's management and the state's information systems, 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. Apparent noncompliance with policies and procedures or 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, Dillon Stadium, 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, 2018, were as follows:

Appointed members:

Suzanne Hopgood	Chairperson
Andy Bessette	Vice Chairperson
David Jorgensen	
Joanne Berger-Sweeney	
Kiley Gosselin	
Glendowlyn Thames	
Michael Matteo	
David Robinson	

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

During the audited period, Sean Fitzpatrick also served as a member of the board of directors.

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

## New Legislation

**Public Act 18-137** - Section 11, effective June 11, 2018, eliminated the requirement that the authority contract annually with a person, firm or corporation to perform a compliance audit of the authority's activities during the prior fiscal year.

## 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,		
	2016	2017	2018
<b>Assets</b>			
Current assets	\$ 28,272,909	\$ 31,083,307	\$ 35,230,527
Noncurrent assets	344,688,525	337,245,158	337,970,545
<b>Total assets</b>	<b>372,961,434</b>	<b>368,328,465</b>	<b>373,201,072</b>
<b>Liabilities</b>			
Current liabilities	24,508,425	22,284,995	27,180,713
Noncurrent liabilities	125,219,052	123,477,774	122,576,005
<b>Total liabilities</b>	<b>149,727,477</b>	<b>145,762,769</b>	<b>149,756,718</b>
<b>Net Position</b>			
Net investment in capital assets	174,524,727	167,323,359	161,079,913
Restricted	40,901,083	47,596,900	12,638,495
Unrestricted	7,808,147	7,645,437	6,727,556
<b>Total net position</b>	<b>223,233,957</b>	<b>222,565,696</b>	<b>223,444,354</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 372,961,434</b>	<b>\$ 368,328,465</b>	<b>\$ 373,201,072</b>

The authority's total assets decreased by \$4.633 million in fiscal year 2016-2017 or approximately 1%, and increased by \$4.873 million, or 1%, in fiscal year 2017-2018. The fluctuations were primarily due to timing differences within the housing loan portfolio draw schedules.

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 deemed to constitute debt of the state. As of June 30, 2018, the authority was authorized to issue up to \$122,500,000 in bonds and other obligations. As of June 30, 2018, the authority 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, 2018, the authority's bonds outstanding totaled \$79,029,000. Loans outstanding totaled \$7,549,000 as of June 30, 2018.

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 2017-2018 and 2016-2017, amounts available from parking and energy fee revenues to reimburse the state for contract assistance payments were \$3,231,900 and \$2,216,406, respectively, less than the amounts required to fully reimburse the state. As of June 30, 2018, the authority is obligated to repay \$40,149,791 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:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Operating Revenues:</b>			
Grants-State of Connecticut	\$ 7,333,291	\$ 6,379,121	\$ 6,301,621
Combined Facilities	39,212,821	38,653,583	38,624,724
Other Operating Revenue	218,880	45,400	466,635
<b>Total Operating Revenues</b>	<b>46,764,992</b>	<b>45,078,104</b>	<b>45,392,980</b>
<b>Operating Expenses</b>			
Personnel and General	1,279,987	1,598,044	1,491,090
Pension Expenses	616,205	634,953	691,349
Combined Facilities	38,641,856	38,052,974	39,474,365
Depreciation and amortization Expense	11,829,709	12,530,327	13,069,853
<b>Total Operating Expenses</b>	<b>52,367,757</b>	<b>52,816,298</b>	<b>54,726,657</b>
<b>Income (Loss) from Operations</b>	<b>(5,602,765)</b>	<b>(7,738,194)</b>	<b>(9,333,677)</b>
<b>Non-Operating Revenue (Expense)</b>			
Interest Income	372,417	432,220	705,522
Interest Expense	(2,175,208)	(2,390,496)	(2,637,631)
<b>Non-Operating Revenue (Expense), net</b>	<b>(1,802,791)</b>	<b>(1,958,276)</b>	<b>(1,932,109)</b>
Capital Contributions - State of CT	3,853,894	2,339,333	4,737,671
Transfer - State of CT Housing Loan Program	4,882,813	6,688,876	7,406,773
<b>Change in Net Position</b>	<b>\$ 1,331,151</b>	<b>\$ (668,261)</b>	<b>\$ 878,658</b>

The State of Connecticut provides an operational grant to fund the authority's payroll and administrative costs. The authority carries forward any unexpected balances. Grants from the state also include funding to assist with the operations of the Convention Center, XL Center, Front

Street District, and support for the Connecticut Tennis Center. Revenues from combined facilities decreased by \$559,238 in fiscal year 2016-2017 when compared to fiscal year 2015-2016, primarily driven by decreased event revenues at the XL Center offset by increases in event and ancillary revenues at the Convention Center and the related parking facility revenue over the prior year.

During fiscal year 2013-2014, the State of Connecticut 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 under the State of Connecticut Housing Loan Program, as provided in Section 32-617g of the General Statutes. In fiscal year 2014-2015, the State of Connecticut Bond Commission established an additional \$30 million to provide for the acquisition of property in Hartford. In fiscal years 2015-2016, 2016-2017, and 2017-2018, the authority established \$50,000,000 per year for the purposes and uses in Section 32-602 of the Connecticut General Statutes. A summary of amounts established for CRDA use and amounts formally allocated follows:

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Amount Established	\$ 60,000,000	\$ 30,000,000	\$ 50,000,000	\$ 50,000,000	\$ 50,000,000
Allocated as of FYE 18	58,942,627	26,750,000	31,340,000	16,360,000	500,000
Unallocated as of FYE 18	\$ 1,057,373	\$ 3,250,000	\$ 18,660,000	\$ 33,640,000	\$ 49,500,000

### **Other Examinations**

An independent public accounting firm 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.

The independent public accounting firm 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**

**State Bond Funds**

*Criteria:* The State of Connecticut Bond Commission authorized the Capital Region Development Authority to use bond funds for citywide/neighborhood oriented projects outside the core downtown Hartford area. The CRDA Board of Directors and State Bond Commission must approve each specific project prior to CRDA expending the funds.

*Condition:* The State Bond Commission and CRDA Board of Directors approved the use of \$10,000,000 in state bond funds for the construction and renovation of Dillon Stadium in Hartford. The approval was subject to the City of Hartford entering into an agreement to license the stadium to a professional sports team. CRDA spent \$4,039,356 of these state bond funds for the construction of the stadium between July 20, 2018 and February 24, 2019 without an executed agreement in place between the City of Hartford and a professional sports team. The City of Hartford subsequently entered into an agreement with a professional sports team on February 25, 2019.

*Effect:* The authority did not comply with the State Bond Commission and its board of directors' requirement that an executed agreement be in place prior to spending bond funds.

*Cause:* It appears that the agreement between the City of Hartford and the professional sports team (Hartford Athletic) was delayed while contractual details were being worked out. Management moved forward with the project without an executed agreement in place.

*Prior Audit Finding:* This finding has not been previously reported.

*Recommendation:* The Capital Region Development Authority should ensure that it meets the terms of its board of directors and the State Bond Commission prior to spending bond funds. (See Recommendation 1.)

*Agency Response:* "Appreciating the uniqueness of this project, CRDA nonetheless agrees with the recommendation.

CRDA believed that (1) the Hartford City Council Resolution (April 9, 2018) authorizing an agreement with the Hartford Sports Group, a professional soccer franchise; (2) the License Agreement between the City and CRDA authorizing the reconstruction of the stadium (June 8, 2018); as well as (3) the USL's acceptance of the HSG franchise (July

11, 2018) as the critical approvals necessary prior to the CRDA's first expenditure of funds (July 26, 2018)

The execution of the agreement between the City of Hartford and HSG franchise did lag (not getting final signature until February 25, 2019) due to matters of form, not substance. But the project had to proceed to honor the very understandings of the actions and agreements noted above.

Members of the CRDA Board, which includes the Secretary of OPM as well as the Hartford Mayor and City Council President were routinely briefed on both the status of the construction and the various legal and funding agreements either within monthly Venue Committee meetings or at full board meetings including April 19, May 11, May 24, June 1, June 11, June 21 September 7, September 20, October 10, October 18, November 2, December 6, 2018 and January 10, and February 14, 2019."

### **Performance Evaluations**

- Criteria:* The authority's personnel policy and procedures manual does not require written performance evaluations for employees. Sound business practices suggest that regular written evaluations are necessary to support pay increases for positive performance or potential disciplinary action for poor performance.
- Condition:* We reviewed personnel records for all 11 authority employees and did not find any current or prior performance appraisals on file.
- Effect:* The authority cannot adequately support pay increases or potential disciplinary action without proper documentation of job performance.
- Cause:* The authority changed its policy during the audited period to no longer require written performance evaluations for its employees.
- Prior Audit Finding:* This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2015 to 2016.
- Recommendation:* The Capital Region Development Authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees. (See Recommendation 2.)
- Agency Response:* "We do not agree with the comment. In response to a comment previously reported by the auditors, CRDA management responded that: "CRDA is a small authority consisting of 11 employees who work closely with each other routinely on a daily basis. 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." This in-depth review with the CRDA Board occurred on September 20, 2018 at which time the CRDA Board discussed and adopted its current Personnel Policy and Procedures Manual. CRDA management has operated in accordance with its Personnel Policy and Procedures Manual and its CRDA Board directives."

*Auditors' Concluding  
Comments:*

We are not indicating that CRDA management has not operated within its current policies and procedures. We recommend that the authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees. Sound business practices suggest that regular written evaluations are necessary to support pay increases for positive performance or potential disciplinary action for poor performance.

**Grants/Loans**

*Criteria:*

Connecticut statutes require quasi-public agencies to obtain certain affidavits and certifications when entering into any type of contract, including construction loans and grant agreements valued at \$50,000 or more. Section 9-612 of the General Statutes requires an executed affidavit relating to campaign contributions by state contractors and Section 4-252 requires an executed affidavit with respect to gifts from state contractors. Section 4a-60 requires an affidavit regarding non-discrimination in state contracting. Additionally, the authority's own policies state that any award of a contract by the authority is subject to all state contracting requirements applicable to quasi-public agencies.

*Condition:*

We reviewed 11 construction loan and grant contracts and found that 3 did not have the required affidavit forms executed and included in the agreements. As a result, 9 out of 33 affidavits were missing for all loans and grants reviewed.

*Effect:*

The authority did not comply with the General Statutes or its own policies relating to affidavit requirements in loan and grant agreements.

*Cause:*

There was a lack of managerial oversight.

*Prior Audit Finding:*

This finding has not been previously reported.

*Recommendation:* The Capital Region Development Authority should strengthen internal controls to ensure that contracts include affidavits required by the General Statutes. (See Recommendation 3.)

*Agency Response:* “We agree with the comment. CRDA takes its commitment to be in compliance with state legislation very seriously. From time to time, CRDA outsources legal contract work in relation to grants and loans. One of these outsourced legal firms did not obtain the proper affidavits when preparing loan and grant agreements and the missing documents were not realized by CRDA. All proper affidavits have been requested. CRDA will ensure continued compliance.”

## RECOMMENDATIONS

Our prior audit report on the Connecticut Region Development Authority contained one recommendation. The recommendation has been repeated or restated with modifications during the current audit. The following is a summary of the action taken on the prior recommendation.

### Status of Prior Audit Recommendations

- The Capital Region Development Authority should complete written annual performance evaluations for all permanent employees in accordance with its Personnel Policy and Procedures Manual. **We continued to note exceptions regarding performance evaluations; the recommendation will be modified and repeated. (See Recommendation 2.)**

### Current Audit Recommendations

1. **The Capital Region Development Authority should ensure that it meets the terms of its board of directors and the State Bond Commission prior to spending bond funds.**

Comment:

The Capital Region Development Authority spent \$4,039,356 of bond funds for the construction of Dillon Stadium prior to the City of Hartford and a professional sports team entering into an agreement, as required by the State Bond Commission and its own board of directors.

2. **The Capital Region Development Authority should adopt and follow a policy that requires annual written performance evaluations for all permanent employees.**

Comment:

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

3. **The Capital Region Development Authority should strengthen internal controls to ensure that contracts include affidavits required by the General Statutes.**

Comment:

We reviewed 11 construction loan and grant contracts and found that 3 did not have the required affidavit forms executed and included in the agreements. As a result, 9 out of 33 affidavits were missing for all loans and grants reviewed.

**ACKNOWLEDGEMENTS**

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

David Tarallo  
Taulant Baci

**CONCLUSION**

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Capital Region Development Authority during the course of our examination



David Tarallo  
Principal Auditor

Approved:



John C. Geragosian  
State Auditor



Robert J. Kane  
State Auditor