MINUTES

BOARD OF REGENTS' JOINT MEETING OF THE

COMMITTEES ON INDEPENDENT AUDIT

AND PERSONNEL AFFAIRS

OCTOBER 4, 2013

I. CALL TO ORDER

Joint Committee on Independent Audit and Personnel Affairs Chairs James Lee and Coralie Matayoshi, respectively, called the meeting to order at 3:30 p.m. on October 4, 2013, at University of Hawai‘i, Bachman 113, 2444 Dole Street, Honolulu, Hawai‘i 96822.

Committee on Independent Audit members in attendance: Chair James Lee, Regents Barry Mizuno, Saedene Ota, and Randy Moore.

Committee on Personnel Affairs members in attendance: Committee Chair Coralie Chun Matayoshi; Committee Vice Chair Chuck Gee; Regents Vice Chair James H.Q. Lee; Gene Bal; and Tom Shigemoto.

Others in attendance: Regents Chair, John C. Holzman (ex officio committee member); Interim President, David Lassner, Ph.D.; Executive Vice President/Provost Linda Johnsrud, Vice President for Budget & Finance/Chief Financial Officer, Howard Todo; Associate Vice President for External Affairs and University Relations, Lynne Waters; UH Mānoa Chancellor, Tom Apple, Ph.D.; Executive Administrator and Secretary of the Board of Regents, Cynthia Quinn; and others as noted.
II. PUBLIC COMMENT PERIOD

Secretary Quinn announced that no one provided written testimony nor signed up to provide oral testimony.

III. AGENDA ITEMS

1. Status Report on Faculty Housing
   Director of Campus Services Deborah Hubler presented on the status of faculty housing, including background, governance, and statistics on the current status of the three properties. Waahila built in 1960 is located on Dole Street, with 66 total units. Kau‘iokahaloa Nui (referred to as K-Nui) and Kau‘iokahaloa Iki (referred to as K-Iki) are collectively called Woodlawn Apartments and built in 1994. K-Nui has 142 rental units. K-Iki has 129 units that were initially built for sale, but due to a weak market, only 4 were sold, 3 eventually repurchased and one remains privately owned. The properties are self-supporting and financially solvent. K-Iki has no debt service, and some of its revenues help the other properties that still have debt service. The current Board Policies that govern the properties include maximum rental terms of 1 year for Waahila and 3 years for the Woodlawn apartments. She also shared current rental rates and composition of residents by employee classification. Records show that in early 2000, a previous chancellor instructed all renewal applications to be granted, and that practice has been followed ever since. The current records show that there are residents who have occupancy terms ranging from over 3 years to over 15 years. Of the 227 tenants, only 60 have occupancy terms of less than years. A total of 93% of the residents are faculty and 91% are Manoa employees. 57 percent are tenured and 38 are tenure track. There are 117 on a waitlist for Waahila, and 154 for the Woodlawn Apartments. To bring the units into compliance with the current occupancy term limits of the Woodlawn properties, upon expiration of the respective renewal periods, 106 tenants who have occupied the units exceeding 5 years would have to move, 157 tenants who have occupied the units exceeding 3 year would have to move, and everyone at
Waahilla have occupancy terms exceeding 1 year, and therefore all tenants would have to move.

Regent Gee commented that it was never the intention to provide housing for Rank 5 faculty. The original premise was to help tenure track or new faculty on the low end of the salary scale to afford to come to UH to work. The intention included Rank 3 and Rank 4, but never intended Rank 5 faculty other than for temporary housing with the intention to relocate. The importance is to enforce the original intent unless conditions have changed. Earlier, the market did go through a glut, but we may be coming into a time when shortage again, and if we don't enforce our policy, then what do we do about new hires? The equity of the original intent was to build a reputation with senior professors but the lifeblood is fresh, new talent to keep things from being stagnant. He recalls when there was no faculty housing, and it was hard to recruit junior faculty at the salaries then offering. If our premise is wrong and conditions have changed then we either have to change the policy or enforce it.

Regent Matayoshi added the concern of loss opportunity because the waitlist is so long. As they become tenured, their salary is higher and should be able to afford housing like anyone else. She noted that 57% of K-Iki and 43% of K-Nui are tenured.

Regent Moore asked for the reason for migrating away from the occupancy limits. Director Hubler explained that she found records that indicate that there was a point where there were vacancies so renewals were granted to generate revenue. At a later point there was a proposal to start clearing out in phases because there was an anticipated high number of recruits. However, renewals continued because of opposition from current tenants and the practice has remained to this date.

Regent Moore and Regent Gee discussed the role of the Board to be oversight for compliance with Board Policy. The Board needed Administration to make a
recommendation on whether the Policies are appropriate or should be modified if conditions have changed.

Upon inquiry by Regent Bal, Director Hubler explained that the waitlist numbers are current as of September 26, 2013, and they are usually able to place priority 1 applicants within a year. However, not all applicants can accept as they are already locked into another rental contract and have to decline. They then have to go to the end of the waitlist.

VP Symos shared that he has heard complaints about the difficulty in recruiting junior faculty without offering housing, and at the same time seeing high salaried employees, APTs and assistant coaches who immediately jump ahead.

Regent Gee asked about how many participate in the Housing Assistance program that was created to assist young professors to get inexpensive loans to buy their own housing. Director Hubler reported that there were two programs, one that actually provided direct loans, but was discontinued because of lack of funds, but all loans were paid. The second program is currently a mortgage guarantee assistance program, where the faculty can receive favorable lending terms from Bank of Hawaii, and UH provides a guarantee with $2.1 million deposited with Bank of Hawaii. Currently, there are 7 mortgages recorded, 2 are pending, and 6 withdrew.

Regent Gee explained that this program was intended to be interrelated with the rental program. The junior faculty would start at a low cost rental for a short period of time to allow time to find permanent housing with the low cost financial assistance program. It was a grand scheme to retain professors. However, treating it as two separate programs is different from the original intent.

Glenn Shizumura, Director of Internal Audit Office reported that the financial assistance program is still fully funded with $2.1 million still deposited in Bank of Hawaii. It is likely that there is either a lack of interest or lack of knowledge of the program. He conducted a review in December 2010 to audit compliance with occupancy terms and
assess the current rental rates. The review did find occupancy terms in excess of the policy limits. He conducted an update in February 2013, and found that the occupancy terms were still in excess of the policy limits, and believed that there was no incentive to move out because the rates appeared less than market rent. There was no appraisal done in 2010, but an appraisal was done in 2012. He noted that while the appraisal did show that two of the three properties were at below market, one property was reported as above market rent. However, upon his own research based on HUD valuations and City and County of Honolulu assessed value, the market rent should be higher. He also found that the appraiser used different methodologies for this property than for the other two properties.

Director Hubler added that given the change in the market in the past 2 years, and the inconsistent methodologies use in the prior appraisal, a new appraisal will be conducted.

Regent Gee added that a true comparison of square footage and location is important.

Director Hubler stated that this appraisal will help in reviewing rental rates and 1099 tax issues.

Director Shizumura explained further that the methodology differed between properties because the appraiser considered the original purpose of the properties rather than the current use of the properties.

2. Discussion of Board of Regents' Policy, Chapter 9-9: Faculty Housing

Regent Gee and Matayoshi discussed that the policy focuses on the length of occupancy but also stated that the properties were to be operated to be self-sufficient as a conglomerate, and set at slightly below market rent to attract new faculty.

Regent Shigemoto agreed that the current rents looked like affordable rents.
Regent Moore asked for an explanation as to why there were different policies between the Waahila property and the Woodlawn properties. Director Hubler explained that the Waahila property was initially built to house only Manoa faculty on a temporary basis. Later, the Woodlawn properties and the loan and guarantee programs were created as components of a Housing Assistance Program upon recommendation from a KPMG study on how the University can compete for faculty. As these components differ from Waahila, new policies were made. At some point, management of all three properties were centralized and became rental units, but the policies remained the same. Direction is needed on whether the policy should be recruitment or recruitment and retention and apply to all three properties.

Regent Matayoshi added that the Board Policies need to be reconciled as some had been taken out piecemeal and placed in Executive Policies.

Director Hubler confirmed and explained that, in 2011, the Board Policies were changed that removed policies regarding the Woodlawn properties as well as some of the policies. In result, it appears the Board Policies and Executive Policies are redundant and inconsistent.

EVP/Provost Johnsrud added that it would be helpful to hear from the Board as to whether or not the purpose and guidelines need to stay or make changes. Revision were drafted, but then UHPA sent a letter saying that housing is a benefit and therefore the union should be consulted before any changes to the Policies are made. After a recent meeting with UHPA where they expressed their concern that they had not been consulted earlier, Administration had decided to pull back and brief the Board to confirm the purpose and scope of the policies affecting housing.

Chancellor Apple apologized and explained that he did not involve UHPA as he was working with Faculty Senate based on his prior experience with other Universities. He recommended that the purpose should be recruitment and retention to at least tenure, or five years. He explained that the University loses more if faculty they leave before tenure than if they were not recruited at all. He also adds that recognizing the
differences of starting salaries among different fields, a means testing should be included to level the field.

Regent Gee recalled that it was discussed that not all rank 3 are the same, and some fields with high demand were never intended to be part of this equation. While these fields are important, housing was intended for those not making high enough salaries to afford housing.

EVP/Provost Johnsrud added that she is aware of a recent UHPA survey that revealed feelings of unfairness among faculty. Once we know the policy regarding housing, we can go back to UHPA accordingly.

Regent Gee clarifies that he believes in consultation, but does not believe that housing is a bargaining matter.

Chancellor Apple noted that he has seen more collaboration happen among the residents in faculty housing.

Regent Moore states that returning to what is governance and what is management, he believes that the direction and resulting policies are management functions and the Board decides whether the direction and policies make sense and are followed.

Regent Gee agrees, but notes that there is a standing policy that needs review.

Regent Moore stated that how the policy should be addressed should come from Administration. They should know best what makes sense now, and recommend what and how policies should be modified, if at all.

Regent Lee recalled that at the last Independent Audit Committee meeting that Administration was putting together recommendations for policy changes.

EVP/Provost Johnsrud confirmed and explained that the proposal was put on hold after UHPA provided notice that they believed this was a benefit and thus should be consulted.

IV. EXECUTIVE SESSION
Regent Lee moved and Regent Mizuno seconded the motion to go into executive session for discussion of collective bargaining and tax issues. By unanimous vote the motion carried. The Committee moved into executive session at 4:11 p.m.

V. ADJOURNMENT

The committee meeting reconvened at 4:38 p.m. Regent Matayoshi called the meeting back into order. Having no further business, Regent Moore moved and Regent Lee seconded the motion to adjourn. By unanimous vote the motion carried.

Respectfully submitted,

Cynthia Quinn

Executive Administrator and
Secretary of the Board of Regents