

MINUTES OF THE REGENTS'
COMMITTEE ON FINANCE AND FACILITIES

Date: Wednesday, June 2, 2004

Place & Time: Campus Center Conference Chamber, Rm. 220
University of Hawai# at M~noa
2:20 p.m.

Committee Members Present: Regents Tatibouet (presiding)
Haynes
Tanaka
Yamasato
Lee (ex-officio)

Other Regents Present: Regents Bender
Kakuda
Kawakami
Lagareta
Nunokawa

Others Present: Evan S. Dobbelle, President, University of Hawai#
James R. W. Sloane, Vice President for Administration
and Chief Financial Officer
Sam Callejo, Chief of Staff
Carolyn Tanaka, Associate Vice President
Rodney Sakaguchi, Vice Chancellor for Administration,
Finance and Operations
Andrew Hashimoto, Dean, College of Tropical
Agriculture and Human Resources
David Lassner, Director, Information Technology Services
Jan Yokota, Director, Office of Capital Improvements
Derek Aoki, Wachovia Securities
David Iha, Executive Administrator and Secretary of the
Board
Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

Regent Haynes moved to approve the minutes of the meeting of the Regents' Committee on Finance and Facilities held on March 18, 2004. The motion was seconded by Regent Tanaka and unanimously carried.

Subjects:

1. Rebalancing of Investment for the University of Hawai'i Endowment Fund
2. Reassignment of Money Management Duties for ASUH Stadium Stock Fund
3. Lease Agreements with Kenneth A. Bansemer and Patricia A. Bansemer, Christa Limberg Trust, Hawaiian State Enterprises Located in Kealahou, Hawai'i
4. Extension of Contract with Cassidy and Associates, Inc.
5. Request for Approval to Competitively Procure the Server Used by the University's Financial Management Information System on a Budget-Neutral Basis
6. Grant a Lease Extension to the U.S. Department of Agriculture for its Research Facilities on Woodlawn Drive in Manoa

Rebalancing of Investment for the University of Hawai'i Endowment Fund

Mr. Aoki recommended that the Board rebalance the investments of the Endowment Fund in international equities from the current 11% to the benchmark weighting of 8% of the total fund and reallocate the proceeds to the NWQ which is a large cap value balanced manager. He explained that the reason for this recommendation is to reduce the portfolio's risk. International equities had been slowing because of the increased volatility and the uncertainty in the world financial markets. Therefore, it would be prudent to lower the exposure in this more volatile asset class at this time.

Chief of Staff Callejo stated that the administration concurred with Wachovia's recommendation.

Regent Yamasato moved that the Committee authorize the rebalancing and subsequent reallocation of investments in international equities for the University of Hawai'i Endowment Fund with the proceeds to NWQ as recommended by Wachovia Securities, LLC. The motion was seconded by Regent Haynes and unanimously carried.

Reassignment of Money Management Duties for ASUH Stadium Stock Fund

Vice Chancellor Sakaguchi requested that the Committee authorize the reassignment of money management duties of the ASUH Stadium Stock Fund from Rittenhouse Financial Services Inc. and Laurel Capital Advisors, LLP to Lord, Abbett & Co., PIMCO/NFJ, and Neuberger Berman, LLC.

Board policy states that the ASUH-M~noa portfolio management performance will be measured on a year-to-year basis and will be evaluated over a three-year moving average. The current managers have managed the ASUH Stadium Stock Fund for three years from October 2000 to October 2003. Over this period, the annualized total return has been -6.2% ending September 2003.

Analyses by ASUH Stadium Stock Fund third party monitor, Merrill Lynch, revealed that Rittenhouse Financial Services Inc., and Laurel Capital Advisors, LLP underperformed their benchmarks since October of 2000 by 12.1% and 1.7%, respectively. Both Rittenhouse and Laurel had negative active management scores, and ranked low to very low in performance relative to managers of the same asset classes. The proposed new fund managers, Lord, Abbett and PIMCO/NFJ have had very high performances. Lord, Abbett, PIMCO/NFJ, and Neuberger Berman had positive 5, 10, and 13 year returns.

The third party monitor suggests a model asset allocation for a growth portfolio to be 10% cash, 25% fixed income, 55% equities, and 10% international equities. Using this asset allocation, Merrill Lynch recommends a style allocation for growth with the following asset classes :

Large-Cap Value	25%
Large-Cap Growth	20%
Mid/Small-Cap Value	5%
Mid/Small-Cap Growth	5%
International	10%

Based on past performance, a portfolio holding the rebalancing assets is expected to have an approximate standard deviation of 9.5%. Past returns on a portfolio of this allocation have had an approximate average gross (10-year) return of 10%.

If approved by the Board of Regents, the ASUH Stadium Stock Fund will be rebalanced with the following style allocation, well in alignment with Merrill Lynch's recommendation for style allocation and in compliance with Board policy.

Large-Cap Value	22%	(Lord Abbett)
Large-Cap Growth	22%	(Regent)
Global Equities	14%	(INVESCO Global)
Mid/Small-Cap Value	10%	(PIMCO/NFJ)
Fixed Income	32%	(Neuberger Berman, LLC)

The ASUH Senate has determined that the rebalancing of the ASUH Stadium Stock Fund will reflect ASUH investment policies by effectively keeping the portfolio in line with ASUH's intended asset allocation targets, and improving performance to achieve expected average annual portfolio returns "over a 5-10 year period of 10.5%." At its meeting on

February 3, 2004, the ASUH Senate approved Senate Resolution 13-04, "Urging the Board of Regents to Approve a Rebalancing of Asset Allocation for the ASUH Stadium Stock Fund."

Vice Chancellor Sakaguchi informed that this was at the recommendation of Merrill Lynch, Third Party Monitor for the ASUH Stadium Stock Fund.

Regent Lagareta stated that the Committee was very impressed by the leadership demonstrated by ASUH Senator Alexandra Novitske who chaired the ASUH Committee on Investments. It was through her leadership that this matter came to the Board.

Regent Yamasato moved, upon advice from Merrill Lynch, Third Party Monitor, that the Committee authorize the reassignment of money management duties for the ASUH Stadium Stock Fund from Rittenhouse Financial Services Inc., and Laurel Capital Advisors, LLP to Lord, Abbett & Co., PIMCO/NFJ, and Neuberger Berman, LLC. The motion was seconded by Regent Haynes and unanimously carried.

Lease Agreements with Kenneth A. Bansemer and Patricia A. Bansemer, Christa Limberg Trust, Hawaiian State Enterprises Located in Kealahou, Hawai'i

Chief of Staff Callejo requested that the Committee authorize the Administration to execute three lease agreements with Kenneth A. Bansemer and Patricia A. Bansemer, the Christa Limberg Trust, and Hawaiian State Enterprises, for classroom and office facilities at the Central Kona Center and Kealahou Business Plaza for the University of Hawai'i Center, West Hawai'i. This will permit the University to continue the leases essential to the operation of the West Hawai'i Educational Program at its existing location in Kealahou.

The University of Hawai'i Center, West Hawai'i was established by Board action in June 1996. The Center establishes a permanent UH presence in a community that otherwise lacks access to programs offered elsewhere in the UH system. The Center is a site at which qualified students who are unable to travel to other UH campuses can enroll in courses or credential programs offered by one or more of the University's accredited institutions.

While the primary purpose of the University of Hawai'i Center, West Hawai'i, is instructional, it also serves as the receiving site for various research and public service programs. University of Hawai'i Centers are assigned for administrative purposes to existing University campuses. While University of Hawai'i Centers are not separately accredited, their program offerings derive accredited status because they are provided by accredited UH campuses.

The Center has been based in Kealahou since 1988 and currently occupies approximately 12,435 square feet of space at a monthly cost of \$18,727. This is

approximately \$1.50 per square foot. All of the current lease agreements were previously approved by the Board of Regents and are scheduled to terminate on June 30, 2004.

The leased premises are utilized for offices, classrooms, a culinary arts center, a library and learning center, a computer lab, and a multi-purpose science laboratory. As proposed, continuation of the three current leases with Kenneth A. Bansemer and Patricia A. Bansemer, Christa Limberg Trust and Hawaiian State Enterprises would be for a term of two years commencing on July 1, 2004, to and including June 30, 2006 with the option to extend the term of the leases for two (2) additional one year terms. This option would enable the University to occupy the facilities through June 2008 if necessary.

The first proposed lease for approximately 7,126 square feet of space in the Central Kona Center, Buildings 3 & 4, is being leased from Kenneth A. Bansemer and Patricia A. Bansemer. This lease would remain fixed at its present rent of \$8,900.00 per month, which includes common area maintenance fees. This lease is for approximately \$1.25 per square foot.

The second lease for approximately 3,151 square feet of space in Central Kona Center, Building 2, is being leased from the Christa Limberg Trust. This lease would remain fixed at its present rent of \$5,310.70 per month, which also includes common area maintenance fees. This lease is for approximately \$1.69 per square foot.

The third lease for approximately 2,158 square feet of space in the Kealahou Business Plaza is being leased from Hawaiian State Enterprises. The current monthly rent is \$4,516.78 per month, which includes an annual adjustable common area maintenance fee. This arrangement is being proposed to continue during these new periods. The total rent under this lease would be approximately \$2.09 per square foot. It should be noted that the rent under this lease, as opposed to the Central Kona Center leases, covers utility expenses attributable to the educational operations in the leased premises.

The lease prices noted above are reasonable. For example, in the new buildings recently constructed at the shopping center and fully occupied, the rate is \$1.75 per square foot including common area maintenance with the requirement that the tenant install required improvements. In an older building in the shopping center, an available space of 950 square feet is priced at \$1.65 square foot including common area maintenance excluding an air conditioning unit which the tenant would need to install.

Regent Haynes inquired as to the principal of these properties. Chief of Staff Callejo stated that he would check into that. Chairperson Lee said it would be good practice if the administration routinely checked on principals given the Board's sensitivity to any appearance of a conflict of interest.

Regent Haynes moved to authorize the administration to enter into the described three (3) lease agreements as described in Kealakekua in support of the University of Hawai'i Center, West Hawai'i. The motion was seconded by Regent Yamasato and unanimously carried.

Extension of Contract with Cassidy and Associates, Inc.

Associated Vice President Tanaka requested that the Committee authorize a six-month extension of the current contract with Cassidy & Associates, Inc., (Cassidy) of Washington, D.C. for consultant services to assist the University in obtaining federal funding for new and continuing initiatives. The term of this contract would be from July 1, 2004 to December 31, 2004 at the estimated cost of \$134,718. Funds are to be provided by the Research and Training Revolving Fund.

The proposed issuance of the six-month contract extension will enable the University to: 1) secure the continued services of Cassidy in the University's efforts to obtain federal funds for new and continuing programs for FY 2005; 2) adjust the contract period to better coincide with the federal appropriations process; and 3) provide an opportunity for the University to solicit proposals pursuant to a new Request for Proposals for the consultant contract for a period of five years with annual renewal.

The new initiatives being requested in FY 2005 are: 1) Authorization and appropriations for the Cancer Research Center, \$80 million; 2) Portable Electro-Optical Suite for Rapid Detection of Chemical and Biological Threats, \$4.76 million; and 3) Monitoring Technology Research Program, \$10 million. These new program requests total \$94.76 million.

For FY 2005, the continuing programs for which funding is currently being sought are: 1) Mauna Kea Astronomy Education Center, \$4 million; 2) Panoramic Survey Telescope and Rapid Response System, \$20 million; 3) Integrated Vehicle Health Management Systems, \$5 million; 4) Hawai'i Energy and Environmental Technology, \$5 million; 5) Hawai'i Coral Reef Initiative Research Program, \$1 million; 6) University of Hawai'i at Hilo Pharmacy Program, \$10 million; 7) Hyperspectral Imager for the Coastal Ocean, \$5 million; 8) Computational Proteomics, \$4 million; 9) International Pacific Research Center, \$2 million; 10) Environment for Design of Advanced Marine Vehicles and Operations Research, \$5 million; 11) Pacific Rim Corrosion Research Program, \$2 million; 12) Adaptive Damping and Positioning Using Intelligent Composite Active Structures, \$750,000; 13) Collaborative Research for the Development of a Semi-Autonomous Underwater Vehicle for Intervention Missions, \$2 million; 14) Alliance for Coastal Technology, \$4 million; and 15) Marine Mammal Hearing Research, \$2.19 million. These continuing program requests total \$71.94 million.

Cassidy was selected because it offered the University widely-acknowledged expertise in securing building and programmatic funds for universities. The current contract was awarded to Cassidy following a February 23, 1996 issuance of a formal Request for Proposals (RFP). Cassidy submitted a proposal that was evaluated according to the categories and thresholds published in the RFP. Under this contract, the Board approved renewals through June 30, 2004.

Pursuant to this contract, Cassidy has worked closely with the University and the Hawai'i congressional delegation to identify and describe the University's needs and to assist Hawai'i's Congressional delegates guide funding requests through complicated negotiations over several legislative sessions. Over the 18 years in which Cassidy has assisted the University in securing federal funds, there have been many successes. More recently, Cassidy assisted in obtaining a total of \$34.35 million for the University in FY 2004.

Funding requests for FY 2005 have been submitted to the Hawai'i delegation, and the University is now working with the delegation and Cassidy in attempts to obtain special authorization and appropriations from Congress. The requests total \$166.7 million. Considering that Cassidy is currently assisting in these ongoing efforts, it is in the best interest of the University to continue contracting for their services in order to maintain continuity of effort. A further need for these consulting services exists, because of the University's interest in obtaining federal funding for continuing and new initiatives as listed above.

The proposed fee to Cassidy for the contract extension will remain at the current monthly rate of \$22,453 for a six-month fee of \$134,718. Payments will come from the Research and Training Revolving Fund as they have in the past.

During the six-month extension period, a Request for Proposals will be advertised and a new contract will be awarded for services to assist the University in obtaining federal funds. Prior to award, the new contract will be submitted for approval by the Board of Regents.

Regent Lagareta asked why only six months. Associate Vice President Tanaka said that Cassidy has had the contract for nine years and so the feeling of the administration was that it might be wise to issue a new RFP. She asked who does Cassidy work with in Washington. Associate Vice President Tanaka said the congressional delegation and members of the Office of the Vice President for University and External Affairs.

Regent Yamasato moved to approve the extension of the contract for consultant services with Cassidy and Associates, Inc., of Washington, D.C., for a six month period from July 1, 2004 to December 31, 2004 at a cost not to exceed \$134,718. The motion was seconded by Regent Haynes and unanimously carried.

Request for Approval to Competitively Procure the Server Used by the University's Financial Management Information System on a Budget-Neutral Basis

Director Lassner requested that the Committee approve a budget-neutral competitive procurement of a server to replace the nearly obsolete server on which the University runs its Financial Management Information System.

There are no additional costs associated with this action. The cost to continue to maintain the current nearly obsolete server for the next 5 years is higher than the combined cost of a 5-year lease/purchase and maintenance of a more modern server. The current server is over 5 years old. Vendor support for the operating system that this server can run will not be available after September 2004 and this server cannot run newly released versions of the operating system. In addition, as the current machine continues to age, the cost of maintaining the hardware will continue to increase faster than the cost of maintaining more current hardware technology.

The total 5-year cost of this requested procurement is expected to be approximately \$1.13 million and therefore requires Board approval.

The University of Hawai'i Financial Management Information System (FMIS) was adapted from a best-in-class financial system in the late 1980s and early 1990s to run in a Natural/Adabas software environment on the IBM MVS operating system. MVS was later upgraded/renamed to OS/390, and FMIS currently runs on OS/390 on an IBM 9672 server. This 5-year old server is now two generations older than current technology. The IBM 9672 cannot run current versions of the IBM operating system, and the version of OS/390 now in use will no longer be maintained or updated by IBM after September 2004. At this point the University will be exposed to a relatively low level of immediate risk, but that level of risk will grow over time as other software components are updated to levels that require current versions of the operating system.

Last fall, the University established a new Business Process Council (BPC) and, as its first order of business, charged the BPC to develop a recommendation on the future of FMIS. The full BPC Report is provided as an attachment to this request. In brief, the BPC recommends that the University not acquire a new commercial financial management system at this time. Rather, the BPC recommends that UH retain FMIS and invest in the development of new web-based end-user services that leverage FMIS as the core financial system. The BPC further recommends that when/if a national-scale open source financial initiative emerges, UH should participate as a partner in this effort as the eventual replacement of FMIS. The BPC therefore recommends that a new server be acquired, on a budget-neutral basis, to ensure the effective and reliable continued operation of FMIS. The BPC sees this as a 5-year recommendation that should be reassessed toward the end of that period. At that time the environment and options for financial management systems

in higher education may have changed. And through following the BPC recommendation, by then the University will have made substantial improvements in its financial information and services.

The University considered a number of alternative approaches before requesting approval of the competitive procurement of a new server. Multiple vendors were requested to provide information about out-sourcing options. None of the vendors willing to discuss possible out-source solutions believed they could economically compete against the University's in-house options, and the only vendor willing to provide an estimate of their price for an out-sourced solution provided a preliminary quotation in the range of \$3.5 million per year. The University also considered rehosting FMIS to less expensive server technology using some other operating system. It turns out this would require a multi-year reprogramming effort that would more than eliminate any cost savings associated with moving to a completely new hardware and operating system platform. It would also consume all available technical resources, so the rehosting activity would therefore supplant the ultimate goal of providing improved financial services and information as quickly and cost-effectively as possible. Finally, the University considered the purchase of used hardware. Unfortunately, this would not provide the recommended 5-year window since it would be obsolete much sooner than a new system. In addition, maintenance costs on older hardware would escalate much more quickly over a 5-year period and would likely eliminate any cost savings associated with the lower initial cost of the used hardware itself.

Independent of the "end-of-life" position of the current server's operating system, the estimated cost to simply maintain the current server over the next five years is approximately \$1.22 million. The estimated cost of a competitively procured 5-year lease/purchase of a new system, including maintenance for 5 years, is approximately \$1.13 million. The reason for this overall cost differential is that the cost of maintaining new systems is much less than the cost of continuing to maintain old technology. In addition to being a roughly budget-neutral solution, this recommendation provides improved capabilities, ensures support and improvement of the operating system and will allow greater focus on the ultimate goal of improving financial information and services for the University.

Following a discussion, Regent Yamasato moved to authorize the administration to procure at a budget-neutral basis a server for the University's Financial Management Information System. The motion was seconded by Regent Haynes and unanimously carried.

Grant a Lease Extension to the U.S. Department of Agriculture for its Research Facilities on Woodlawn Drive in M~noa

Vice Chancellor Sakaguchi requested that the Committee approve amendments to the current lease with the U.S. Department of Agriculture, Agricultural Research Service by extending the termination date to December 31, 2009 for the use of approximately

32,000 square feet of University of Hawai'i land located at 2727 Woodlawn Drive in Mānoa.

The USDA-ARS presently leases approximately 32,000 square feet of UH property located at 2727 Woodlawn Drive, Honolulu, Hawai'i, TMK (1)2-9-23: Por 1. This site is used by the USDA-ARS for research on fruit fly pests.

Fruit fly pests have been a major roadblock to agriculture in Hawai'i since the introduction of the melon fly to Hawai'i in 1895. Since that time three additional species have invaded the islands: the Mediterranean fruit fly in 1912, the oriental fruit fly in 1944, and the Solanaceous fruit fly in 1983. Together, these fruit fly pests limit production of tropical fruits and vegetables, result in increased usage of pesticides on farms, and require costly postharvest quarantine treatments to allow Hawai'i-grown commodities to be shipped to the U.S. mainland.

USDA-ARS has had a long history of collaboration with the University dating back to 1930 when the then named Bureau of Entomology and Plant Quarantine of the USDA joined forces with the University to build and house fruit fly researchers on campus. In 1949, several fruit fly field stations were established on all of the major islands. In 1973, USDA-ARS on Oahu moved to its present location on Woodlawn Drive in Mānoa. USDA-ARS continues to work cooperatively and collaboratively with the University community to develop technologies for use in fruit fly detection, control, and eradication. This long association has benefitted both the University and USDA-ARS over more than 70 years. The most recent successful collaborative program is called the "Hawai'i Fruit Fly Area-Wide Pest Management" (AWPM) program.

Growers who have been educated in the AWPM program have already been able to cut organophosphate pesticide use by 75-90 percent. Using the AWPM program rather than chemical pesticides, growers have been able to reduce fruit fly infestation from 30-40 percent to less than 5 percent. Growers are extremely pleased with the success of the program.

CTAHR strongly supports the lease extension requested by USDA-ARS. The lease extension will insure that the USDA-ARS fruit fly research program at the Mānoa facilities will continue without interruption. Continuity of this program is especially important at this critical juncture because the technologies developed by USDA-ARS are being applied to directly benefit agriculture in Hawai'i.

CTAHR also strongly supports the lease extension requested by USDA-ARS because CTAHR and USDA-ARS work cooperatively on a wide range of programs and activities. The current Director of USDA-ARS PBARC and three PBARC research leaders received degrees from CTAHR. In addition, numerous USDA-ARS scientists and their technical staff have graduated from or worked previously for CTAHR. USDA-ARS scientists have appointments as graduate affiliate faculty in CTAHR and participate in graduate student theses and dissertation committees.

USDA-ARS hires undergraduate CTAHR students to work on various research

projects. Many of the undergraduate students have gone on to federal employment at the USDA-ARS Mānoa facility after graduating from CTAHR. Over the years, USDA-ARS has provided CTAHR researchers with biological materials such as fruit flies and fruit fly parasites that are mass-reared at the Mānoa facilities at little or no cost. Scientific publications resulting from these biological materials have added to the stature and quality of research for which CTAHR is known worldwide. The best example of previous USDA-ARS and CTAHR work is the development of a transgenic papaya variety that is resistant to the papaya ringspot virus. This work saved the papaya industry on the island of Hawai'i.

Dean Hashimoto added that research on fruit fly is very crucial for Hawai'i because \$300 million loss in State revenues was created by fruit fly infestations.

Chairperson Lee asked what would happen to the facility after the current lease is expired. Dean Hashimoto informed that the facility would revert back to the University for use by CTAHR.

Regent Tanaka asked about the condition of the facilities. Dean Hashimoto said that they do periodic inspections. Regent Tanaka suggested that because the University will eventually take back the facility in 2009 it would be prudent if more frequent inspections were conducted.

Regent Haynes moved to extend the USDA-ARS lease of approximately 32,000 square feet of UH property located at 2727 Woodlawn Drive in Mānoa, Honolulu, Hawai'i, TMK (1) 2-9-23: Por 1 to December 31, 2009, with the understanding that the administration shall conduct annual inspections of the facilities. The motion was seconded by Regent Tanaka and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 3:09 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: July 21, 2004

c: Chairperson Patricia Y. Lee
Members, Committee on Finance and Facilities
President Evan S. Dobbelle
Vice President James R. W. Sloane
Chief of Staff Sam Callejo
Director Jan Yokota