

MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

NOVEMBER 1, 2017

I. CALL TO ORDER

Committee Chair Wayne Higaki called the meeting to order at 9:01 a.m. on Wednesday, November 1, 2017, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2420 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Wayne Higaki; Committee Vice Chair Benjamin Kudo; Regent Simeon Acoba; Regent Norma Doctor Sparks; Regent Michael McEnerney; Regent Douglas Shinsato; Regent Michelle Tagorda

Others in attendance: Board Chair Jan Sullivan; Board Vice Chair Randy Moore; Regent Brandon Marc Higa; Regent Lee Putnam; Regent Ernest Wilson, Jr.; Regent Stanford Yuen (ex officio committee members); President/Interim UH-Mānoa (UHM) Chancellor David Lassner; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Interim Vice President for Academic Planning & Policy Donald Straney; Vice President for Research & Innovation Vassilis Syrmos; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; UH-West O'ahu (UHWO) Chancellor Maenette Benham; Executive Administrator to the Board of Regents Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE SEPTEMBER 7, 2017 MEETING

Regent Tagorda moved to approve the minutes of the September 7, 2017 meeting, seconded by Committee Vice Chair Kudo, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Executive Assistant to the Board Melissa Matsuura announced that the Board Office received no written testimony, and no individuals had signed up to give oral testimony.

IV. AGENDA ITEMS

A. Recommend Board Approval

1. ASUH selected Investment Managers and Fund Investments for the ASUH stadium stock fund

Bonnyjean Manini, Director of Student Involvement & Leadership introduced Associated Students of the University of Hawai'i (ASUH) President Jannah Lyn Dela Cruz; Treasurer Maggie Hinshaw; and Chairperson of ASUH Committee on Investments & Long Range Planning Clinton Ng who gave a presentation on the history of the stadium stock fund; what the funds are used for; investments consultants/financial advisors; the due diligence process used to select funds managers; and recommendations made by Graystone Consulting Advisors with support by the ASUH Committee on Investments &

Long Range Planning, and subsequent unanimous support of the ASUH Senate via a resolution included in the materials. ASUH requested approval of the hiring of the selected investment managers and index fund investments for the stadium stock fund.

Board Chair Sullivan arrived at 9:08 a.m.

Discussions held regarding the number of designated benchmarks; how ASUH came to retain Graystone and if Graystone was affiliated with Morgan Stanley; the targeted rate of return; Graystone's experience advising student groups; the level of risk for the blended portfolio; whether policies could be amended to allow this type of transaction to be delegated given there are sufficient controls and monitoring; if plans were in place if returns fell short of expectations; how much of the funds were used on average for the past several years; and the bonds grades.

Davin Kubota of Graystone explained that there was a benchmark for the total portfolio based on the targeted long-term allocation of 60% equities/35% fixed income/5% cash, and each asset category will have a benchmark. Some back testing was performed and over the portfolio has outperformed the benchmarks for the last several years, and the overall level of risk is below the targeted benchmark. Administration indicated Graystone was selected via bid process in 2015 and is a Morgan Stanley company. Mr. Kubota noted that the target rate of return for the portfolio is Consumer Price Index (CPI) plus 5% over the long term, and the portfolio is structured in a way that will achieve at least a targeted 7% return. Graystone noted that ASUH is the only student group they are currently working with, but they are working with another university on their endowments. A portion of the portfolio is involved in high-yield bonds, which are more high risk, but the amount that can be invested is limited by policy to 20%. The overall portfolio will maintain an average credit rating of A or A-, depending on how much is allocated into the high-yield space. Historically ASUH budgets for 5% but usually only spends 3% to 4% on average. If returns fell short of expectations, then adjustments would be made to the budget annually. The amount used annually varies depending on the market value of the portfolio.

VP Young clarified that Regents Policy 8.207, Investments, requires the board to approve the selection of the investment manager, and once investment managers are selected ASUH can authorize investment managers to make decisions on executing trades. The committee is not approving the selection of Graystone, they are approving the investment funds and those specific managers of the stadium stock fund.

The committee commended ASUH for their thorough work and thorough presentation.

Committee Vice Chair Kudo moved to recommend board approval of the ASUH selected Investment Managers and Fund Investments for the ASUH stadium stock fund, seconded by Regent Doctor Sparks, and the motion carried unanimously.

2. UBS Contract Revision – Institutional Consulting Services Agreement

VP Young noted that administration had been working with UBS since July on an agreement that elevates the level of services received from UBS that maximizes performance and execution of the fossil fuel free investment strategy. The draft institutional consultant services agreement was provided in the materials allows UBS to

establish separately managed accounts. UBS is negotiating a fee structure with managers and administration is comfortable that the process will result in something acceptable and sufficient for the university. The board needs to approve the proposed contract as a contract adjustment, as UBS has been under contract for the legacy endowment since 2013.

It was clarified that the committee is being asked to recommend to the full board to enter into this institutional consulting services agreement and to authorize administration to negotiate, finalize and execute the agreement with UBS. Any material change in the agreement would be brought back to the board.

Extensive discussions held regarding the mandatory arbitration clause in the contract given the U.S. Senate's revocation of the consumer protection recommendation to delete mandatory arbitration clauses from investment reports; the consequences of deferring action until the final contract is negotiated; whether the contract would be ready by December; the need to delineate the role of the board versus administration; and the fiduciary responsibilities of the board.

Committee Vice Chair Kudo suggested a motion to recommend board approval to enter into this institutional consulting services agreement and to authorize administration to negotiate, finalize, and execute the agreement with UBS include the requirement for administration to come back to the committee with any significant revisions, Regent McEnerney seconded.

Questions were raised regarding when the current agreement was signed.

Administration clarified that the board approved the current agreement on August 22, 2013, which did not have an arbitration provision, but there was a 2014 agreement that does. Administration is trying to negotiate back to the 2013 terms, and every indication is that this provision can be removed.

Regent Acoba made a statement in opposition to the pending motion and proposed an amendment to authorize administration to negotiate the contract but defer action on final approval until December 14, 2017. Regent McEnerney seconded.

The board took a short recess at 10:07 a.m. and reconvened at 10:11 a.m.

After hearing the concerns expressed by the committee, and discussion with UBS representatives, administration requested this agenda item be deferred until the next committee meeting.

VP Okinaga stated that the board's responsibility is to approve the transaction, notwithstanding any helpful comments and expertise on specific contract provisions; it is not advisable the board be in the position of approving specific contract language – it is always a negotiated result. If one provision is revised, it may result in a price point adjustment, which is something that is involved in the negotiation. Pending motions were withdrawn in light of the request deferral of this agenda item. There were no objections.

3. FY19 Supplemental Budget Request

[Link to FY19 Supplemental Budget Request](#)

VP Young presented the FY19 Supplemental Operating Budget Request, which will be the formal request submitted to the Legislature and the Governor for inclusion in the Governor's proposed executive budget. The vetting process of requests by the State Department of Budget & Finance (B&F) is underway, and they have a copy of this proposal and are prepared to consider whatever the board may approve. Due to the university's semi-autonomous status, whatever the board approves will also be submitted under separate cover to the Legislature outside of the Governor's proposed budget. The presentation included an overview of the general fund situation; budget requests by campus and theme; and next steps.

Extensive discussions held regarding insourcing expenses and concerns were expressed over moving on Konno decision requests without understanding the implications and developing a strategy to deal with that situation. Questions and comments were raised requesting clarification of what special R&M was; whether there had been any legislative post-mortem done by administration; and the importance of support for specific student populations.

VP Young explained that only certain types of repairs & maintenance (R&M) projects are considered "special," and the \$3 million request is for a finite list of R&M projects. Administration has obtained feedback from several legislators regarding why some university requests have not been able to be supported, and what UH can do to improve its approach or presentation. Reasons vary by legislator, but many legislators feel the university should cover these types of expenses via its own revenue stream and there is some lingering perception that the university is not a good entity to fund, although that perception has been changing over time. Lastly, when it comes to education, many legislators prefer to fund the Department of Education first. Administration has evaluated all requests to determine the likelihood of these requests resonating with legislators and feels there are more compelling reasons for legislative support, and different structures at certain legislative committees provides opportunity.

The committee requested the information on community colleges be broken down by individual campuses. VP Young explained that the information was prepared in the format submitted to the state in accord with budget guidelines, but that information could be provided to the committee in appendices that would not be part of the official budget submittal.

Committee Vice Chair Kudo made a motion to accept the FY19 Supplemental Budget Request as presented, except for those positions referenced as insourcing due to the Konno decision because he was uncomfortable moving on this request without understanding Konno and its ramifications more broadly, and without developing an overarching strategy. Regent Doctor Sparks seconded.

The committee asked for clarification regarding what positions were considered as insourcing due to Konno. Administration requested the committee only exclude the 8 FTE positions and security at UHH, as the College of Pharmacy and security positions at the Community Colleges are all new positions.

Regent Acoba requested the existing motion be amended to only exclude the 8 FTE positions and security at UHH unless doing so affects safety considerations at UHH and

remove any reference to Konno. Committee Vice Chair Kudo accepted the amendment to his motion, and Regent Doctor Sparks seconded.

A question was raised regarding whether the 8 FTE positions were already on payroll at UHH. UHH Administration explained it that requested 34 positions a couple of years ago, and 27 were granted; the request for 8 FTE positions includes 7 additional security officers to meet the original request and 1 staffing position to assist the new department of security. These positions are replacing services currently provided to UHH via a contract with a private security firm. UHH currently has a hybrid security arrangement, and has filled some positions, is recruiting for others, and pending recruitment on these additional 8 FTE positions.

Administration agreed to revise the Supplemental Budget transmittal memo to address concerns expressed by the committee with respect to the inclusion of references to Konno or the Konno court decision, and remove all references to Konno and update all dollar amounts, position accounts, and budget totals to reflect the removal of Konno throughout the transmittal memo and presentation consistent with the committee's recommendation.

Committee Vice Chair Kudo restated the pending motion to recommend board approval of the FY19 Supplemental Budget Request, with the caveat that the 8 FTE positions and \$283,932 for security at Hilo will be deferred so a comprehensive strategy can be developed and there is a better understanding of the Konno implications, seconded by Regent Doctor Sparks, and the motion carried unanimously.

4. Tax Exempt Lease-to-Purchase (TELP) Resolution

VP Young requested the committee recommend board approval of a financing resolution authorizing UH to enter into certain (TELP) arrangements, the funds of which will be used to finance the purchase of equipment at two community colleges that will advance energy savings measures. The community colleges already have this program, and this is a second phase approach on getting additional energy savings equipment that will help further additional utility savings. It was clarified that the committee is not being asked to approve the project itself, but to authorize the university to enter into a financing arrangement and authorize the sale of debt. This is similar to revenue bond provisions in Regents Policy 8.201, Contracts & Official Documents, and Regents Policy 8.205, University Projects, that require board approval to authorize the university to sell debt paper to finance university projects, and this financing structure is being characterized as similar.

Questions and comments were raised regarding the process and why a resolution was necessary; additional opportunities for other campuses to take advantage of this program; whether UH or the third party financier were the owner of record; and whether the projects were eligible for any federal reimbursement.

VP Young explained that board policy regarding establishment of debt requires the board of regents to pass a resolution authorizing administration to enter into long-term debt arrangements and Hawai'i Revised requires require the board to pass a resolution for revenue bond issuance. TELP arrangements are not specifically mentioned, but this resolution is being brought forth because this is a long-term debt situation and the bank

partner that will be purchasing the paper has requested for formal authorization documents. Associate VP for Administration Affairs Mike Unebasami noted that there was a performance contract for Kaua'i Community College (KauCC) with Chevron Energy Solutions, and administration is looking to see if there are additional opportunities for Kaua'i Community College (KauCC) and Hawai'i Community College (HawCC). This current projection will allow administration to bring UH Maui College (UHMC), Leeward Community College (LeeCC), and Honolulu Community College (HonCC) campuses close to net zero. Power purchase agreements were initially contracted through Johnson Controls and the contracts were assigned to subsidiaries of Kairos Energy Capital LLC. The university will be looking into exercising its option to purchase back the agreement in year 7. Administration was not sure if this project was eligible for any federal reimbursement, and as a public entity the university is not eligible for any tax credits, but the project is structured so the university could sell off tax credits to help offset the economics of the project.

Committee Vice Chair Kudo moved to recommend board approval of a financing resolution authorizing UH to enter into certain (TELP) arrangements, the funds of which will be used to finance the purchase of equipment at two community colleges that will advance energy savings measures, seconded by Regent Acoba, and the motion carried unanimously.

The committee commended administration for their efforts in this area and noted that when looking at where the university will be after this, the university will be leading the state and meeting our goals.

5. 2017-18 UH Revenue Bond Resolution

VP Young requested the committee recommend board approval authorizing administration to issue of one or more series of revenue bonds and to declare the Sinclair Library project to be a university project. Additionally, the president or chief financial officer is authorized to undertake means necessary to successfully sell UH revenue bonds. Administration explained that UH currently has \$30 million in revenue bond authority issued by the Legislature set to expire on June 30, 2018. The university also has approximately \$100 million of existing UH revenue bonds that they believe are in the money for refunding or financing for debt service savings. The revenue bond issuance would be undertaken on or about the start of the new year to refund approximately \$100 million of existing revenue bonds as the market will allow for debt service savings, and to issue between \$3 to \$5 million in new university revenue bonds to fund a university renovation project at Sinclair Library. The size of the transaction and the amount of bonds refinanced will largely be dependent on the time of the market, so administration is requesting authorization to undertake whatever means in the nimbleness and dynamics of a financial transaction, to basically determine how to structure the bonds to achieve optimal debt service savings, and how much and what bonds are going to be called for refunding.

Committee Vice Chair Kudo moved to recommend board approval authorizing administration to issue of one or more series of revenue bonds and to declare the Sinclair Library project to be a university project. Additionally, the president or chief financial

officer is authorized to undertake means necessary to successfully sell UH revenue bonds, seconded by Regent Shinsato.

Discussions held regarding whether the Sinclair Library project received prior board approval. VP Syrmos explained that the original project for 15,000 square feet was approved by the board in 2012, however, 5,000 square foot was occupied so they were only able to renovate 10,000 square feet. This bond will cover the remaining 5,000 square feet as Phase II of the project.

There being no further discussions and a motion having been moved and seconded, the motion was put to a vote and the motion carried unanimously.

B. For Information

- 1. FY18 First Quarter Financial Report**
- 2. FY16 Bond Compliance Report**

Due to time constraints, these items were deferred. There were no objections.

V. ADJOURNMENT

There being no further business, Regent Tagorda moved to adjourn, and Regent Doctor Sparks seconded, and with unanimous approval, the meeting was adjourned at 10:20 a.m.

Respectfully Submitted,

/S/

Melissa Matsuura
Executive Assistant
to the Board of Regents