MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

MAY 2, 2019

I. CALL TO ORDER

Committee Chair Moore called the meeting to order at 8:45 a.m. on Thursday, May 2, 2019, at the University of Hawai‘i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai‘i 96822.

Committee members in attendance: Committee Chair Randy Moore; Committee Vice Chair Wayne Higaki; Regent Simeon Acoba; Regent Michael McEnerney; Regent Michelle Tagorda.

Others in attendance: Board Chair Lee Putnam; Board Vice Chair Jeffrey Portnoy; Regent Kelli Acopan; Regent Eugene Bal; Regent Ben Kudo; Regent Robert Westerman; Regent Ernest Wilson Jr. (ex officio committee members); President David Lassner; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Research and Innovation Vassilis Syrmos; Vice President for Budget and Finance/Chief Financial Officer Kalbert Young; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; UH-West O‘ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office did not receive any written testimony, and no individuals signed up to provide oral testimony.

III. AGENDA ITEMS

A. Fiscal Year (FY) 2019 Third Quarter UBS Legacy Endowment Fund Investment Performance Report

Kyle Yoneshige and Lori Hamano from UBS referenced a previous discussion on benchmarks and provided a report on the investment performance of the Legacy Endowment Fund for the 3rd quarter of the fiscal year ending March 31, 2019. The financial performance of the fund is on par with the fund’s benchmarks.

Regent Acoba and Regent Kudo arrived at 8:47 a.m.

UBS representatives commended the board for forming an Investment Task Group and noted that the purpose of investment policy is to delegate the day-to-day tasks related to investment endowment and suggested the board delegate what they can to administration.

Regent Bal arrived at 8:49 a.m.
Discussion occurred in response to previously raised concerns regarding benchmarks and the fossil fuel-free mandate. It was noted that due diligence was done with investment managers who are in compliance with the mandate and in line with benchmarks. UBS representatives noted that it is difficult to extract fossil fuel producers from mutual funds, but they have worked closely with investment managers to keep it under one percent of the investment.

Questions were raised regarding whether there is a record of return of individual investment managers. UBS representatives replied that equity managers’ performance is monitored relative to benchmarks and information is provided in the UBS reports in the materials packet.

The committee engaged in discussion on the rate of return compared to withdrawals and considerations for long-term growth. Questions were raised as to how the approximate 5 ½ percent return compares to other institutions. UBS representatives explained that UH’s portfolio is comparable to similar-sized endowments and the 5 ½ to 6 percent return is the net amount after fees. The only institutions of higher educations that receive a higher return are those such as Harvard, which have a greater level of assets.

Regent Bal observed that the performance of funds compared to the benchmarks resulted in very slim margins, with the exception of international funds. UBS representatives noted that there are fewer efficiencies in more developed markets and that value-oriented companies do well in less optimal economic cycles.

Board Vice Chair Portnoy asked about the fees paid to UBS and investment managers last year. UBS representatives did not have the exact amounts, but responded that the fees are roughly a ½ percent on a portfolio of $70 to $75 million, which equates to approximately $350,000.

Regent Kudo pursued the discussion on the rate of return and pondered ways in which the fund could grow its corpus. He asked the UBS representatives their thoughts on what the portfolio might look like in five years. UBS representatives indicated that with a withdrawal rate of about 4 ½ to 5 percent and a rate of return of 5 to 5 ½ percent, the portfolio balance would be about the same or perhaps a few million dollars more. Regent Kudo suggested that there be a focus on growing the corpus first then returning to a 4 ½ percent rate of withdrawal.

Board Chair Putnam noted that there are guidelines for the use of the funds that impact the programs that are currently supported and these should be assessed before considering other options. VP Young noted that the largest program is the Regents and Presidential Scholarships and although the amount of scholarships and awards hasn’t changed, it is a significant withdrawal amount and there may be serious consequences for those students if the program was suspended. It was noted that the number of scholarships are set by regents policy. VP Young suggested that if there is a desire to grow the corpus, it would involve a different portfolio management strategy. He also noted that there are indications that the economy is headed toward recession which would change the levels of return.

Board Vice Chair Portnoy questioned whether there was coordination with UHF in comparing investment strategies. VP Young explained that there is no formal
coordination, as UHF has its own investment officer and a larger corpus and diversified portfolio, allowing them to be more sophisticated in their investments and portfolio management.

Regent Westerman agreed with Regent Kudo and noted that a 4 ½ percent withdrawal rate may have been ideal previously, but that it may be time to revisit the policy and ensure long-term sustainability. VP Young noted that the policy limits distributions to 5 percent and that the corpus is assessed when making decisions. He added that the withdrawal amount does not always reach 4 ½ percent.

B. For Information Only: Update on Investments Task Group

Committee Chair Moore reported that the task group has not yet met, in part due to student schedules, and there is nothing yet to report.

C. FY 2019 Third Quarter Financial Report

VP Young provided the fiscal year 2019 3rd quarter financial report and noted that overall results are better than projected. Overall revenues were $515,720, or 0.05%, lower than projections and expenditures were $44.1 million, or 5.5%, lower than projections. Although there was general fund revenue growth, much of it can be attributed to collective bargaining. Many of the variances were a result of timing issues and noted that part of the general fund variance was due to the governor’s release of a restriction for the Cancer Center. VP Young cautioned that revenues will likely decrease in the 4th quarter, but noted that expenditures have been significantly managed.

The Tuition and Fees Special Fund (TFSF) revenue was $2.2 million below projections across all campuses, with about $1.8 million attributable to the community colleges and $800,000 attributable to UHH. VP Young noted the trend for TFSF has been declining, although some growth has occurred for UHM and is flattening for UHWO. The trend for TFSF expenditures increased mostly due to the timing of the transfer of funds for scholarships. Revenues for UHM Other Revolving Funds were lower than expected and also experienced some timing issues.

Regent McEnerney thanked administration for differentiating the community college financial reporting by campus and questioned the significant variance in personnel costs for some of the campuses. VP Morton replied that campuses typically manage the variances with lecturers.

Regent Acoba asked what the timing issues are related to. VP Young explained that the spending plan is split into specific quarters and that expenditures or revenues did not occur during the anticipated quarter, and that these are mostly a mechanical issue rather than intentional. He added that the expenditures that do not occur at all, i.e. intentional, are more concerning.

Regent Acoba asked whether VP Young’s references to “expenses are being managed” are an indication that expenditures are increasing. VP Young replied that expenditures are increasing overall as expected, mostly in the area of labor costs. He added that an increase is not necessarily unhealthy and that increases in non-personnel costs can be managed.
Regent Acoba noted that revenues have been less than projected at the beginning of the year and asked whether it is cause for concern. VP Young noted that it is not a great concern and that this has been discussed for several years in terms of enrollment decline, although enrollment at some campuses has increased.

D. For Discussion: Response from Administration on Discussion on RP 8.204, University Budget (Operating and Capital Improvements)

The committee previously requested that administration review and report back on the possibility of creating a dashboard of metrics, whether financial management best practices are being followed, and whether the budget is comprehensive. VP Young explained the history and evolution of Regents Policy (RP) 8.204, University Budget (Operating and Capital Improvements), an assessment of progress that has been made, and suggestions for policy enhancements.

Suggestions included a greater focus on strategic budgeting, performance metrics, and value-added processes satisfactory to Administration and the Board. VP Young noted that administration hopes to unveil a performance dashboard by the end of the fiscal year. He observed that the budget is currently more transactional and focused on reporting the bottom line, and suggested that the Board may want to have more of a strategic focus and also revisit the reserve policy.

The committee discussed next steps and the best approach toward making improvements. Committee Chair Moore suggested the options of having administration propose changes, forming a task group, or the committee working on it as a whole. Other suggestions included separating the budget request into something strategically focused, and keeping the operating budget focused on fiscal management, with two corresponding separate policies or distinguished in the same policy.

Regent Wilson expressed support for a task group and pondered how to involve those who develop the operational budget, including at the campus level. Others preferred having administration propose policy revisions for the board to consider and expressed that administration may be better equipped. President Lassner agreed to have administration develop a proposal and asked for guidance on items that should be addressed. Committee Chair Moore responded that the presentation in the materials provided by VP Young covers the primary areas. Board Chair Putnam added that administration should identify provisions in the RP that may be better suited to an executive policy.

E. Committee Annual Review

A matrix was provided that described the committees work plan and activities for FY 2018-2019 and how and when they were satisfied over the course of the year. There was no additional discussion by the committee on this item.

IV. ADJOURNMENT

There being no further business, Committee Vice Chair Higaki moved to adjourn, Regent Tagorda seconded, and with unanimous approval, the meeting was adjourned at 10:23 a.m.
Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents