I. CALL TO ORDER

Committee Chair Bal called the meeting to order at 12:03 p.m. on Thursday, September 5, 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 Eugene Bal; Committee Vice Chair Wayne Higaki; Regent Simeon Acoba; Regent Randy Moore; and Regent Alapaki Nahale-a.

Others in attendance: Board Chair Ben Kudo; Regent Kelli Acopan; Regent Michael McEnerney; Regent Ernest Wilson; (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; Interim Vice President for Community Colleges Erika Lacro; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Academic Planning and Policy Donald Straney; Vice President for Research and Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer Garret Yoshimi; Vice President for Budget and Finance/Chief Financial Officer Kalbert Young; University of Hawai‘i at Hilo Chancellor Bonnie Irwin; University of Hawai‘i – 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. APPROVAL OF MINUTES

Regent Moore moved to approve the minutes of the April 4, 2019, and May 2, 2019, meetings, seconded by Regent Higaki, and the motion carried unanimously.

III. 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.

IV. AGENDA ITEMS

A. Fiscal Year (FY) 2018-2019 Fourth Quarter UBS Legacy Endowment Fund Investment Performance Report
Kyle Yoneshige and Lori Hamano from UBS provided a report on the investment performance of the Legacy Endowment Fund for the 4th quarter of the fiscal year ending June 30, 2019. The financial performance is about on par with the fund's benchmarks.

Discussion occurred regarding benchmarks and a suggestion was made that future reports explain the reasons behind the overall return being above or below the benchmark.

The committee engaged in discussion on the rate of return compared to withdrawals and considerations for long-term growth.

B. FY 2018-2019 Legacy Endowment Distribution

VP Young provided an overview of the Legacy Endowment distribution for FY 2018-2019 and noted that the Legacy Endowment was separate from the UH Foundation. He explained that although much of the increase to the fund is attributable to investments, some is due to the amounts authorized for distribution being higher than the actual amount distributed. Reasons for not distributing the entire amount can vary but an example is that there may not be enough qualified scholarship candidates.

Regent Acoba asked if there were statistics for the 2019 payouts. VP Young replied that the figures were not available for the current presentation.

Regent Acoba questioned why the 2018 payout was about $500,000 less than in 2017, if the board could get a description of discrepancies, if it was administration’s policy to distribute the maximum amount, and whether athletic scholarships could be increased. VP Young stated that there are caps on some fund payments which are set by the board. Regent Acoba asked for additional detail to be provided in a future meeting.

C. Recommend Board Approval of FY 2019-2020 Operating Budget

VP Young provided a presentation on the FY 2019-2020 operating budget. Expenditures are predicted to increase by 6.3% compared to the FY 2019 actual expenditures. There was an overall net operating loss of $41 million, mostly attributable to planned one-time expenses. However, fund balances still exceed the 16% target. VP Young pointed out that reserve figures may appear large, but many of those funds are already allocated in the next fiscal budget and some are from early tuition payments.

Discussion occurred regarding the City and County of Honolulu's (City) sewer fee for UHWO. VP Young stated that the City’s view is that they had never correctly billed the University for the sewer fees and that negotiations with the City were currently taking place regarding the outstanding bill. Vice Chancellor Kevin Ishida stated that they had not been billed since construction, but the bill received in April 2019 from the City for $35 million was based on development of 500 acres and 20,000 students, both of which are too high. $3.75 million is the estimate of past charges owed. Also included in the negotiations is the credit for water not being used, such as not watering the lawn.

Regent Higaki questioned the need for air handler replacements in the IT building. VP Yoshimi explained that they are concerned with the failure rate of the units in the IT building.
building. Based on preventative maintenance and repair costs, they are trying to figure out whether replacement makes sense financially.

Regent Acoba asked if the reserves benchmarks of 5 percent and 16 percent were set by the board. VP Young replied in the affirmative. Regent Acoba asked how many months the reserves would last if no other funds received. VP Young answered two months.

Regent Wilson noted that the reserve for Mānoa is 5 percent and wondered if there were any individual units that were far below 5 percent. Sandy French, Director of UHM Finance and Accounting, said that there were a handful of units with an overall deficit but they had been working hard to turn that around.

Regent Nahale-a made a motion to recommend board approval of the FY 2019-2020 operating budget, Regent Moore seconded, and the motion carried unanimously.

D. Recommend Board Approval of the Operating Budget for the Office of the Board of Regents and Office of Internal Audit for FY 2019-2020

Board Secretary Oishi presented the proposed operating budget for the Office of the Board of Regents and Director Glenn Shizumura presented the proposed Office of Internal Audit operating budget for FY 2019-2020, both with minimal changes from the previous year.

Regent Nahale-a asked if there was any savings from the reduction in regents for the travel budget. Board Secretary Oishi replied that there may be a small savings, but noted that the number of neighbor island regents has not changed.

Regent Acoba questioned the Office of Internal Audit’s increase in budget despite actual expenses decreasing. Director Shizumura attributed the increases to collective bargaining and decreases to a modified, lower-cost contract to maintain the whistle blower hotline.

Regent Moore moved to approve the FY 2019-2020 operating budgets for the Office of the Board of Regents and Office of Internal Audit, Regent Higaki seconded, and the motion carried unanimously.


VP Young provided the FY 2018-2019 4th quarter financial report. Revenues were $2.96 million (0.3%) lower than projections, general fund revenues were higher than projected by $7.6 million (1.5%), and expenditures were $64.5 million (5.9%) lower than projections. As a result, despite the lower than anticipated revenues, expenditures were significantly lower than originally projected resulting in an overall operating gain.

F. Regents Policy (RP) 8.204, University Budget (Operating and Capital Improvements)
VP Young presented a proposed change to RP 8.204, University Budget (Operating and Capital Improvements). The proposed changes would help make the policy more relevant to administration, regents, and the field. The proposed amendments would require the budget to be presented in the context of a 6-year financial plan that supports systemwide strategies, priorities, and plans, and would eliminate the budget policy paper and budget instructions which were not a useful tool for administration. VP Young recommended an amendment to the draft policy that the 6-year operating and CIP plans should be accepted, rather than approved, by the board.

Regent Acoba questioned what the regents would still be receiving. VP Young stated that they would still get the operating budget, annual legislative request, and quarterly reports.

Regent Moore expressed concern that they are using a cash system that is subject to manipulation and asked if there was any hope of transitioning to an accrual basis of keeping the books. VP Young stated that they are working on a dynamic dashboard at the moment, but could not yet commit to a delivery date.

Regent McEnerney stated that he liked accrual statements and pondered whether the UHWO sewer issue would have been identified earlier with an accrual system.

Regent Bal questioned whether report would be only be provided semi-annually based on the language in the proposed policy revisions. VP Young that he anticipated that they would still be done quarterly.

Board Chair Kudo left at 2:11 p.m.

Regent Moore moved to recommend board approval of the changes to RP. 8.204 with an amendment to reflect that the 6-year operating budget and CIP plans would be accepted, rather than approved, by the board. Regent Nahale-a seconded the motion, and with unanimous approval the motion carried.

V. ADJOURNMENT

There being no further business, Regent Acoba moved to adjourn the meeting, Regent Higaki seconded the motion, and with unanimous approval, the meeting was adjourned at 2:13 p.m.

Respectfully Submitted,

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents