MINUTES
UNIVERSITY OF HAWAII BOARD OF REGENTS’
MEETING OF
September 21-22, 2006

I. CALL TO ORDER

Chairperson Kitty Lagareta called the meeting to order at 10:35 a.m. on Thursday, September 21, 2006, at the Kaua‘i Community College, Student Lounge Campus Center Building, 3-1901 Kaumualii Highway, Lihu‘e, Kaua‘i, Hawai‘i 96766.

Regents in attendance: Chairperson Kitty Lagareta; Vice Chair Ronald K. Migita; Andres Albano, Jr.; Byron W. Bender, Ph.D.; Michael A. Dahilig; Ramón S. de la Peña, Ph.D.; Marlene M. Hapai, Ph.D.; and Allan R. Landon.

Others in attendance: President David McClain, Ph.D.; Vice President for Academic Planning and Policy, Linda Johnsrud, Ph.D.; Vice President for Administration, Sam Callejo; Vice President for Budget and Finance/Chief Financial Officer, Howard Todo; Interim Vice President for Community Colleges, John Morton, Ph.D.; Vice President for Legal Affairs and University General Counsel, Darolyn Lendio, Esq.; Secretary of the Board and Executive Officer, David Iha; Interim Secretary of the Board and Executive Officer Designee, Presley Pang, Esq.; and others whose appearance is noted.

II. APPROVAL OF MINUTES OF THE JULY 21-22, 2006 MEETING

Regent de la Peña moved, and Regent Landon seconded, that the circulated minutes of the Board of Regents meeting for July 20-21, 2006 be approved. Regent Dahilig requested that the minutes be revised to reflect that he left the meeting after public commentary was received by the Board. Upon call for a vote on the motion, the minutes, as amended, were unanimously approved.

III. PUBLIC COMMENT PERIOD

1. Dr. James Tiles, Chair of the Mānoa Faculty Senate, presented a resolution it passed expressing concern over the financial situation of the John A. Burns School of Medicine (JABSOM) and requesting that a financial plan for JABSOM be developed. Dr. Tiles said that he was aware that Dean Shomaker made a presentation to the Board on the finances of JABSOM in May of 2005 and again in May
of 2006. Dr. Tiles stated that the Senate was still alarmed and feared that JABSOM’s financial situation would negatively impact the rest of the campus.

2. **Dr. Mary Tiles**, President of the University of Hawai‘i Professional Assembly (UHPA), requested that the Board include in the Board’s biennium budget a proposal to establish salary minima for faculty, by rank, at an estimated cost of $4 million. The minima would be approximately $45,000 for instructors, $55,000 for assistant professors, $60,000 for associate professors, and $65,000 for full professors, with corresponding adjustments for specialists and researchers.

Dr. Tiles compared faculty salaries to those of the Department of Education’s K-12 teachers. She explained that the rate of inflation had outpaced the seven percent cumulative increase provided for in the first three years of the faculty’s contract. Even with more substantial raises for the faculty due in 2007-2008, some faculty now earning $40,000 will not yet be earning $50,000 a year. Dr. Tiles confirmed that she was asking that the proposal be included in the Board’s biennium budget submission to the legislature. President McClain noted, and Dr. Tiles confirmed, that this request was considered last year when an internally financed plan costing between $200,000 to $1 million - $2 million was proposed. Dr. Tiles explained that the estimated costs of the current proposal are approximately $4 million because higher faculty ranks are included. Regent Hapai asked about the salaries of current hires to which Dr. Tiles explained that recent hires are being paid well above the proposed minima. Faculty with low salaries were hired four or more years ago and received only across-the-board negotiated increases. President McClain said that the future scheduled negotiated increases of 9 percent and 11 percent would raise salaries of faculty hired at $40,000 to $50,000. He also noted that the faculty’s contract provides for a special adjustment salary process that could be used to adjust faculty salaries, although the process is predicated on units having available funds. Last year, when the chancellors considered raising the minima with a focus on the lower ranks, they concluded that it would be difficult to raise the minima using internal resources.

Chair Lagareta asked how Dr. Tiles’ proposal might be accommodated, to which President McClain explained that the Regents could include a provision for the requested funds in the Board’s biennium budget. He also noted that other opportunities exist to bring UHPA’s proposal to the attention of both the Governor and the legislature. Regent Landon asked, and Dr. Tiles confirmed, that if faculty were raised to the minima, they would also receive scheduled increases of nine and eleven percent. President McClain explained Hawai‘i has one the highest inflation rates in the nation and inflation increased the pressure on salaries. In addition, the Mānoa campus has had to fund the increased cost of electricity, reducing the funds available for salary adjustments. Regent Landon asked how faculty members are currently hired, to which President McClain explained that new faculty are hired at market rates. Dr. Tiles further explained that future across-the-board percentage increases will exacerbate differentials between the highest paid and the lowest paid faculty. Regent Landon concurred that the solution to the problem lay in exactly that component of the problem.
to the problem lay in exactly that component of the problem. President McClain suggested that while everyone agrees salary minima are issues, he asked for the Regents’ preference to either include a biennium budget request or rely on the internal special salary adjustment mechanism. He will ask the chancellors to review the proposal. Regent Landon stated, and Chair Lagareta concurred, that it is difficult to decide among possible options without good data. President McClain stated that he will work with UHPA to determine costs. Chair Lagareta requested, and Vice Chair Migita concurred, that the President assess the situation and submit recommendations after considering all the ramifications.

Chair Lagareta asked Dr. Mary Tiles about the recently published information regarding the UniDev, LLC, situation and Mr. John Radcliffe’s lobbying responsibilities for UHPA. The regents received calls about possible conflicts. Dr. Tiles stated that Mr. Radcliffe disputes the details in the published information about a contract. UHPA would expect that Mr. Radcliffe disclose conflict information to them and that, if a conflict were disclosed, UHPA would ask Mr. Radcliffe not to engage in such activities.

Regent Landon asked how faculty minima salaries would be set. Dr. Tiles explained that there are two considerations: the cost to move faculty to a new minima and salary comparisons with Department of Education (DOE) salaries and national comparative data. Regent de la Peña and Dr. Tiles confirmed that faculty salaries are negotiated and that the contract allows for in-house adjustments. President McClain stated, and Dr. Tiles confirmed, that salary minima were items for negotiations in the last collective bargaining session, but the proposal did not make it into the agreement. In the current collective bargaining agreement, there are no salary scales, no floors, and no maxima. Because special salary adjustments can be made if there are funds, those units which have large research grants might be better able to afford the adjustments. President McClain stated that he would submit to Chair Lagareta for distribution to the Board a report on how much money had been spent on special salary adjustments in the last three or four years.

IV. REPORT OF EXECUTIVE OFFICER (Information Only)

Kaua‘i Community College Chancellor Peggy Cha welcomed the Board and invited the Regents to an evening reception and a tour of the campus.

President McClain gave Board Secretary Iha a copy of his address at the convocation held on O‘ahu and asked that it be included in the minutes. President McClain’s Convocation remarks are attached.

President McClain reported that he attended the 100th birthday of Anna Sloggett on Kaua‘i noting that the event was attended by 800 community members and raised $100,000 for elementary and early childhood education scholarships. He also attended
the Kaua'i Chamber of Commerce meeting as Chancellor Cha’s guest where he met supporters of the College. President McClain highlighted the collaborative efforts of Kaua'i Community College with the National Tropical Botanical Garden, which serves 200 University students per year, offers a variety of courses and special trips, engages 35 to 40 Department of Education teachers a year and Mānoa faculty in a variety of activities, and houses the Lloyd McCanlis Marks Botanical Collection. This Collection consists of several hundred books including some that are 100 to 400 years old. President McClain shared copies of Lloyd McCanlis Marks Botanical Library catalogue and a description of the collaborative efforts with Kaua'i Community College.

V. UNIVERSITY OF HAWAI‘I FOUNDATION REPORT

President McClain distributed copies of the Foundation's report and made a presentation, explaining that Foundation staff members had to attend another commitment.

President McClain announced that on September 14th, the centennial mark was introduced at the women’s volleyball game, and that the artwork of Leeward Community College student Dawn Groves was selected by Hawaiian Telecom to appear on the cover of this year’s telephone books.

President McClain introduced Chancellor Konan who reported that while the Mānoa campus is taking the lead in centennial celebration planning, sister campuses are also developing centennial celebrations. Wendy Pearson will serve as Mānoa’s centennial celebration’s manager to organize volunteers from across campuses. She is also coordinating the events for the Alumni Association, the Foundation and others. Chancellor Konan distributed a summary listing of some events as well as a sample portfolio with the centennial mark. She explained that UH-Mānoa alumnus Kurt Osaki designed the mark which focuses on unity, celebration, balance, harmony and values of our unique island community. Chancellor Konan announced that the mark will be officially announced at the homecoming football game with centennial merchandise becoming available around that time. She described the following planned centennial events: a kick-off back-to-school event with special classes ranging from Japanese tea ceremony to “Termites and You”; opening the campus to the community; participating in the UH Day at the State Capitol; hosting a Valentine’s Day of volunteering; organizing a commemoration of Charter Day on March 25th and archival displays at Hamilton Library; special mementos at commencements to centennial year graduates; sponsoring a centennial distinguished lecture series; and planning a world-class reunion. Regent Hapai added that not only was the College of Agriculture and Mechanical Arts established in 1907, but the Board of Regents was also established in 1907.
VI. AGENDA ITEMS

Approval of Supplemental Resolution Authorizing the Issuance and Sale of Refunding Revenue Bonds

Vice President Howard Todo introduced the proposal to save the State and the University in excess of $3 million in present value interest costs by issuing new bonds to advance refund a portion of the outstanding $150 million bonds issued in 2002 to finance the construction of the Kaka'ako Medical Center. Recent changes in the nation's economy, particularly low interest rates in the bond market, prompted the proposed refinancing. Vice President Todo introduced Frank Lauterbur, who leads the UBS underwriting team, and Sam Hellman, University bond counsel from Hawkins Delafield & Wood, for further explanation.

Mr. Lauterbur presented his report on the University Bonds, Refunding Series 2006A, noting that the decline in interest rates creates an opportunity for the University to refinance some of the bonds issued in 2002. Mr. Lauterbur also described several factors that influence interest rates. He explained that in 2002 the University borrowed at interest rates as high as 5.5 percent, but given the market conditions today, it is possible to borrow or refinance those bonds at rates that are substantially lower, thereby generating savings.

The actual amount of bonds that will be refinanced will depend on market conditions at the time of pricing and sale. Refinancing will be limited to those bonds that generate savings. At this time, Mr. Lauterbur estimated that approximately $80.5 million would most likely be refunded, but there is the possibility of refunding additional amounts of the 2002 bonds if the interest rates improved further. A provision in the 2002 borrowing allows the University to refinance the bonds without any prepayment penalty. The bond proceeds will fund an escrow that will pay the debt service on the bonds being refunded through their call date. The escrow funds will be invested in highly secured government obligations. Payments on the 2006 refunding bonds will begin on January 15, 2007. The key objective is that total debt service payments after the refinancing will be lower than current payments.

A University refunding of approximately $80.5 million is expected to create a present discounted value savings of about $3.4 million, or about a savings of 4.3 percent. An industry benchmark is to refinance bonds if the refinancing generates 3 percent savings, so the University is well in excess of that 3 percent level.

Mr. Lauterbur reported that he was receiving the bond ratings and municipal bond insurance bids, and he recommended that the University purchase a municipal bond insurance policy to confer AAA ratings on these bonds. He reported that the bond rating agencies have come back with very good news for the University. Moody's Investors Service has upgraded the University's rating from an A1 to AA3. Mr.
Lauterbur conjectured that the upgrade reflects confidence in the University’s new management and in the Board. Standard & Poor's rating agency has confirmed their currently outstanding A+ rating, and Fitch Investor Service has confirmed their A+ rating, but put a positive outlook on that rating as a vote of confidence in the University. These current ratings, because they are improved from prior ratings, will help lower the cost of purchasing the bond insurance policy and will also help attract additional investors to the bond issue. Mr. Lauterbur suggested that it will be necessary to move very quickly, once the Board authorizes the refunding, to post the preliminary official statement. He anticipates pricing and selling these refinancing bonds next week in New York.

Chair Lagareta asked for questions.

President McClain asked Mr. Lauterbur to explain the interest rate for the various maturities, noting that the bonds proposed for refinancing are 5.5 percent, but every other year there are maturities that are at 4.4 percent and 4.5 percent. Mr. Lauterber explained that in the 2002 issue the University was able to bifurcate the maturities but still maintain the effective yield to the University. Having different coupon rates make the bonds attractive to different types of investors, such as retail investors or institutional investors. As a result of bifurcations, the University was able to sell some bonds very attractively in 2002.

Regent Landon asked about bonds due July 7, 2007. Mr. Lauterber explained that this maturity is actually not callable and there are no specific savings associated with it. But because the University is looking to realize some of the savings in the current year to offset the reduction in tobacco settlement receipts, this brings some of the savings on the refinancing transaction up into that year. The University will still have positive savings throughout every year of the refinancing, but this structure brings the savings forward to the first two years by essentially refinancing some of the principal coming due.

Vice President Todo directed the Board's attention to page 3 of the action memo and asked Mr. Lauterber to explain the tobacco settlement agreement and the reductions in the tobacco settlement money. Mr. Lauterber explained that under the Master Settlement Agreement that most states have signed, the settling tobacco companies are allowed to withhold payments that are due to the states on the grounds that the state attorneys general are not adequately enforcing regulations required by the Master Settlement Agreement. As required by the Master Settlement Agreement, this dispute is to be arbitrated. The arbitration date has not been determined. In the interim, Hawai'i is not receiving as much under the Master Settlement Agreement as had been originally projected. It is likely that the University will receive the disputed monies at some point in the future if the State of Hawai'i prevails in arbitration. There is a fair amount of optimism that the states will prevail, but it is uncertain when that will occur. After 2008, the payments due under the Master Settlement Agreement increase significantly due to a provision called the strategic contribution payment. Mr. Lauterbur
strongly believed that the shortfall experienced by the University will occur only for the next two years. He was hopeful that at some future time, the University will receive the withheld payments, but timing is uncertain.

Vice President Todo stated that the refunding bonds are structured to take into account these two years of lower tobacco settlement funds. Mr. Lauterbur responded that despite taking a large amount of those savings in the first two years, the University will still realize savings in every year thereafter through maturity.

Vice President Todo stated that the University General Counsel recommended additional wording to the recommendation in the action memo that is before the Board which currently read: "It is recommended that the Board of Regents approve the supplemental resolution authorizing the issuance and sale of one or more series of university refunding bonds." The added language would be: "in substantial form as presented with the possibility of changes, such as typographical changes, that may be required to finalize the documents." The rest of the action memo stays the same except the last paragraph would be amended to read: "Further, it is recommended that the Board of Regents approve a delegation of authority to the chairperson of the Board of Regents or the vice chairperson in the chair's absence" instead of the current wording "in her absence." With these proposed amendments to the requests set forth in the action memorandum, Vice President Todo recommended that the Board approve the requests as amended.

Chair Lagareta asked for a motion. Regent Migita moved for approval of the requests set forth in the action memorandum as amended. Regent de la Peña seconded the motion.

Regent Landon commended Mr. Lauterbur on the nice presentation and asked how the underwriting team was selected. Vice President Todo explained that a process was followed which involved looking at and evaluating different potential underwriters. He noted that the University had worked with UBS before and was very comfortable with them. UBS worked on the original JABSOM bond offering, as did bond counsel Hawkins Delafield & Wood.

Regent Landon stated, and Vice President Todo confirmed, that the University would be issuing new bonds, raising new money, and that money will be used first to pay off the old bonds over the remaining non-callable period. In Regent Landon's terminology, there will be two sets of outstanding bonds, one of which is effectively defeased by the cash from the other.

Regent Hapai noted the "Purpose," section of the action memorandum states "the approval being requested would permit the university to issue additional refundings without further action by the board." She asked whether this additional authority meant that during this entire 2032 period that there would be no need for further board action. Vice President Todo explained that this flexibility is being requested now because there
may be further improvements in the market, which may make it economically feasible to refinance those bonds which currently might not produce a savings. Regent Hapai asked if these changes would come to the Board in another form on a regular basis, so the Board would have some idea what's happening. Vice President Todo stated that he would report as those changes happened. Regent Landon asked if the Board was giving the authorization now to take advantage of the circumstances if they arise, to which Vice President Todo agreed. Regent Landon stated that authorization was only up to the amount of the original funding, so another $60 million might be refunded under the authority in the event that savings can be achieved. Vice President Todo agreed. He added that when pricing of the bonds occurs in New York next week, there may be the possibility of refunding additional bonds.

Chair Lagareta called for a vote on the requested approvals presented in the action memo, with amendments as noted above. The Supplemental Resolution and other requests for Board authorization or approvals as set forth more specifically in the action memorandum, as modified during the presentation, were approved unanimously.

University of Hawai'i Endowment Fund – Investment Monitor Report by Smith Barney

Vice President Todo presented the investment monitor report regarding the University's Endowment Fund by the investment monitor, Smith Barney. Vice President Todo explained that all the monies that are currently donated or gifted to the University, including endowment funds, are handled by the UH Foundation. Previously, those monies came directly to the University and were administered by the University. This issue concerns approximately $60 million of endowment funds handled by the University. These funds are placed in different portfolios managed by different fund managers, who are monitored by the overall investment monitor, Smith Barney.

Ted Young and Peter Bachus from Smith Barney presented their report. Mr. Bachus stated that they look over the investment policies of the various money managers. They have had preliminary discussions with members of the administration and anticipate making recommendations to the Board at its next meeting.

Regent Landon declared that a company that he represents is among the investment portfolios being advised. He noted that while no action is being proposed, he requested an opinion whether he should recuse himself. Mr. Bachus stated that no confidential information would be presented, the presentation is for information only, and no plans of action will be presented for Regent approval. Regent Landon stated that while it was his choice to stay or recuse himself, he thought it best to recuse himself and left the meeting room while this matter was being presented.

Mr. Bachus reviewed a copy of a previously distributed report by providing an update, noting that interest rates and energy costs seemed to have been resolved. The current issue in the investment market is whether the housing slowdown will cause
consumers to retreat on their spending and amount to something more. He reviewed performance of the sectors that each manager invested in or the statistics on the returns from the managers. President McClain suggested a formatting change in the report for clarity.

In response to a question from Regent Migita, Mr. Bachus said that he was not recommending any changes. He was watching some of these things, and he has reviewed the policies to see if any of the managers fell below Board policy guidelines, which they have not. He was not recommending any action.

Chair Lagareta and President McClain thanked Mr. Bachus for his report.

The Board recessed between 11:57 a.m. and 12:10 p.m. before continuing with the public meeting. Regent Landon returned to the meeting room.

Establishment of the North Hawai‘i Education and Research Center and Reorganization of the College of Continuing Education and Community Service, University of Hawai‘i at Hilo

Chancellor Tseng requested that the Board approve the establishment of the North Hawai‘i Education and Research Center under the College of Continuing Education and Community Service at University of Hawai‘i at Hilo. Chancellor Tseng explained that the North Shore Hawai‘i Education and Research Center will provide education and community services for the North Hawai‘i region. She reviewed the history of the Center, noted that it began in 2001, and was subsequently supported by legislative initiatives in 2002, 2004, 2005, and 2006 that provided funding for construction and operation. Chancellor Tseng identified the Center’s five missions: (1) serve as distance learning center for UH-Hilo programs, (2) provide higher education outreach service to the North Hawai‘i region, (3) provide lifelong learning opportunities for the North Hawai‘i region, (4) serve as base station for field research and (5) serve as a community center. She explained that the Center will provide higher education opportunities to 13,000 to 19,000 underserved residents of North Hawai‘i. She noted that a business plan had been developed, that the Osher Foundation has provided $100,000 for the last two years, and UH-Hilo was considering applying for $1 million from the Osher Institute.

Chair Lagareta asked, and Chancellor Tseng confirmed, that the Center is open, the costs are covered, and that the Board is being requested to approve formally the Center’s name. Chancellor Tseng introduced Interim Director, Farrah Gomez, who described the North Hawai‘i Education and Research Center, its relationship to the community, and programs designed to providing training, transition into higher education, and lifelong learning opportunities. According to Director Gomez, the Center offers credit courses and non-credit courses and serves as a community facility. She wants to focus on the high school students coming to the Center from the various feeder high schools in the area. These high school students enroll in running start programs
and will eventually have an easier transition to higher education. She also makes a commitment to serve seniors in the community and impact the quality of their lives by offering programs such as computer basics. She is also focused on working families.

Chair Lagareta commended Ms. Gomez on her compelling presentation and asked about efforts to market the Center’s programs. Interim Director Gomez explained that the Center had published newspaper advertisements and initiated extensive outreach activities.

Regent Hapai moved to approve the establishment of the North Hawai‘i Education Research Center under the administration of the College of Continuing Education and Community Service at the University of Hawai‘i at Hilo. Regent de la Peña seconded the motion. The motion was unanimously approved.

Amend Leeward Community College Mission Statements to Comply with Accrediting Commission for Community and Junior Colleges (ACCJC) Accreditation Standards

President McClain introduced Michael Pecsok, Dean of Academic Services for Leeward Community College. Mr. Pecsok requested approval of a revision to the Leeward Community College mission statement to comply with ACCJC accreditation standards. He explained that by adding the following ten words to the College’s mission statement: "The college is committed to the achievement of the student learning" the College’s revised mission statement would be linked to the accreditation standards making more explicit the College values and is committed to improving student learning.

Regent Landon moved that the proposed revisions to Leeward Community College mission statement be approved. Regent Albano seconded the motion. In response to President McClain’s question as to why only Leeward Community College’s mission statement was the only one being revised, Vice President Morton stated that the other six Colleges’ mission statements already have similar words in their mission statements. Upon call for the vote, the motion was unanimously approved.

Change the Associate in Applied Science (A.A.S.) Degree to Associate of Science (A.S.) Degree, Electronic Technology Program, Kaua‘i Community College

Chancellor Cha presented Kaua‘i Community College’s request for authorization to offer an Associate of Science degree in Electronics and to terminate the current Associate in Applied Science (A.A.S.) degree in Electronics upon the graduation of any current majors in the A.A.S. program. She explained that the proposed change would allow the program to move from the non-transfer level A.A.S. degree to the transfer level Associate in Science (A.S.) degree. Chancellor Cha explained that to meet the demands of the industry, a career ladder is necessary for students who wish to move to baccalaureate level training from the technician level training which is embodied in the associate degree. Two changes to the curriculum are anticipated: the addition of a
transfer level Math 103 to replace non-transfer level Math 27; addition of Intro 193B, a required internship course. There are no fiscal or anticipated additional costs for this change. Vice President Todo explained the development of a standard template to report program financials.

Regent Albano moved to approve the request. Regent de la Peña seconded the motion. In response to Regent Hapai’s question regarding the transferability of Math 103, Chancellor Cha explained that the credits would transfer, but that students seeking to graduate from UH-Mānoa or UH-Hilo would have to complete higher level math courses to satisfy math requirements and would be counseled accordingly on math and other academic requirements.

In response to an observation by Regent Landon that the financial analysis appears to show a downward trend in the hours but a significant increase in the costs, Chancellor Cha explained that students will often front-load their introductory courses, then stop taking introductory courses, and take instead general education courses to complete the degree—thus, they are still majors but they are taking general education courses. In response to a question from President McClain regarding $116 million in “other revenue” Chancellor Cha explained that figure reflects in-kind contributions by Boeing of equipment worth approximately $110,000.

There were further discussions among Regent Landon, Vice President Todo and President McClain regarding the proper interpretation and understanding of the term “costs” as used in the financial template and how the costs are allocated between campus and system, between direct and indirect, and between total and marginal or incremental. There were further discussions between Regent Hapai and Chancellor Cha regarding UH-Mānoa’s and UH-Hilo’s recognition of Math 103 for transfer purposes. Regent Albano offered that if a person wants to remain at the technician level, algebra is much more valuable than differential calculus which is required for an engineering degree. Upon call for a vote on the motion to approve the Kaua’i Community College requests, the motion was unanimously approved.

Authorize Administration to Proceed with a “Land Swap” at the University of Hawai’i Marine Expeditionary Center (UHMEC) at Snug Harbor

Gary Ostrander, Vice Chancellor for Research and Graduate Education, UH-Mānoa, explained Mānoa’s request for authorization to implement a land swap at the Marine Expeditionary Center at what is colloquially referred to as Snug Harbor. The University leases approximately fifteen acres at the Harbor under a long-term lease with the State. It uses the area as a staging area for several research ships, submersibles, and some smaller boats. The State wants to use a corner of the University’s property for commercial cargo purposes. The State offers in exchange about 3,900 square feet that the University can use as a staging area for its research vessels. While the proposal is neutral as far as land area exchanged, because the value exceeds $50,000, the transaction requires Board approval.
UH-Mānoa thus requested that the Board authorize the administration to enter into a sublease with the Department of Transportation Harbors for approximately 3,900 square feet in exchange for an adjacent revocable permit of a like area. The proposal was reviewed by the University of Hawai‘i’s Procurement Office. Regent Landon moved to approve the land swap. Regent Albano seconded the motion. The motion was unanimously approved.

The Board recessed for lunch at 12:41 p.m. and reconvened at 1:42 p.m.

UH-Mānoa Student Housing

President McClain formally introduced Vice Chancellor Francisco Hernandez, explaining that he recently joined the University of Hawai‘i from the University of California at Santa Cruz.

Vice Chancellor Hernandez presented a powerpoint presentation regarding “challenges” of student housing at UH-Mānoa.

Following the presentation, President McClain asked about the Hale Noelani dormitory cited in the presentation. Vice Chancellor Hernandez said that he agrees that the dormitory is unsafe and they are working on the issue including finding the funds.

President McClain explained that the action item is a request to proceed with design, development and construction for the Frear Hall Student Dormitory by continuing negotiations with American Campus Communities and Swinerton Builders for construction of an 814-bed new student dormitory at a guaranteed maximum price of $71 million. Vice Chancellor Hernandez stated that the Board’s task group on public/private partnership development issues, which includes Regent Albano and other Regents, has met to discuss this proposal.

President McClain asked General Counsel Lendio about the Request for Proposals (RFP) that had been issued for the project. General Counsel Lendio responded that the RFP was issued on December 10, 2004, during the period the University was exempt from the procurement code. She added the RFP was very generally worded to allow the University to keep its funding options open. She was very comfortable and very confident that this project was properly bid and procured. President McClain asked General Counsel Lendio whether even though six or seven months into the process, the State had authorized $25 million (General Obligation) bonds and 100 million (Revenue) bonds, it was necessary to rebid the process. General Counsel Lendio stated that she did not believe that it was necessary to rebid, and she will be providing the auditor with the relevant documentation to reaffirm that this was properly procured and awarded.
Regent Albano stated that he believes that the administration’s request for the guaranteed maximum price was well-justified based on everything discussed. He noted that even though the cost is much more than originally anticipated, in light of the current escalation of costs for facilities, he can agree to the $71 million maximum price. He was concerned that if a decision is not made to move forward with the project, prices will continue to accelerate at a rate of one to 1.5 percent per month. He further noted that the ratio of the rental area versus the gross area for dormitories is probably less efficient than apartments and condominiums, but cost per rentable square footage is within the range. The expected rental income is about $777 a month for a nine-month period, and that rent is in line with the private sector rule of thumb of an eight percent return over the costs ($87,493) per bed. Regent Albano noted that the Chancellor and the developers were satisfied that the students were given the opportunity to have input in the planning and to suggest allowances.

Regent Albano recommended accepting the total hard price not to exceed $71 million. Regent Albano moved to accept the proposal as submitted. The motion was seconded.

Chair Lagareta noted that while not every student will be happy, the process did allow for student input. Vice Chancellor Hernandez said that he thought students and many others had many opportunities to talk about the project’s placement, size, configurations of the rooms, color of the carpets and other items. He noted that the role of the students will continue especially as the decision is made as to what goes inside, such as furniture. In fact, the designs are based on students’ wishes. Vice Chancellor Hernandez explained that they are looking at different occupancy and bedroom configurations and those came about as a result of the students’ wishes.

Regent Dahilig said he thought that students were looking for participation and especially by students that were residing in the dormitories. He added that he thought that ASUH (Associated Students of the University of Hawai‘i) President Grant Teichman understood the design process and the technical and cost implication of design changes and had an opportunity to provide input. The primary concern is not really with the cost of the dormitory but the difference in costs among the several dormitories and the possibility of creating classes between the haves and the have-nots.

Vice Chancellor Hernandez said that he shared the concern and that large cost differentials would be difficult not just on the students but on financial aid. He further noted that it’s hard to justify rents in units that haven’t been fixed in years. He noted that the building of Frear must be coupled with the renovation and improvement in the other halls. He concluded that the analysis will take different rent and occupancy scenarios to figure out the best rent structure. But he is mindful of the possibility that he may end up with one type of hall for one group and another type for another. He didn’t believe a public university would be able to maintain significantly different rates unless in the context of providing different housing options for students.
President McClain asked Vice President Todo to clarify funding amounts and sources. Vice President Todo stated that $25 million was appropriated by the Legislature in the Capital Improvements Program (CIP) budget, as State general obligation bonds specifically appropriated for Frear Hall redevelopment. The Legislature also authorized the University to issue up to $100 million in revenue bonds which would be serviced by the University's revenues. The proceeds from the revenue bonds could be used for faculty housing or student housing on any campus and used for repairs as well as new construction. President McClain asked if the guaranteed maximum price was the final price or whether negotiations are still occurring. Vice President Callejo said that negotiations are on-going and that the guaranteed maximum is a "not to exceed figure" which includes a contingency amount.

Regent Hapai observed that the Frear Hall project and the UH-Hilo Geo project were for approximately the same numbers of beds for about the same price, so the incentive to move the project along before the costs escalate are present for both projects. Regent Albano pointed out that the Geo project was much more dense, noting that it would be two to a room, but he agreed that the total cost is about the same.

Upon call for a vote, the motion was unanimously approved.

**Capital Improvements Program and Repairs and Maintenance Project Contracts, FY 2006-2007**

Vice President Callejo presented for approval the proposed Capital Improvements Program and Repair and Maintenance (R&M) contracts for professional services, consultants and construction projects. He briefly reviewed the projects noted in the attachment 1 (professional services contracts) and attachment 2 (construction projects) to the action memorandum.

Regent Dahilig moved to approve the proposed Capital Improvements Program and Repair and Maintenance contracts for professional services, consultants and construction projects. Regent Albano seconded the motion.

Regent Albano asked Vice President Callejo to clarify what percentage of the construction budget is typically used for design and other consulting. Vice President Callejo replied that it varied according to the specific project but would generally range between 10 and 15 percent. Regent Migita asked about prioritization of R&M projects, to which Vice President Callejo responded that the University requested funds for these projects in its supplemental budget request, and funds were appropriated by the Legislature and released by the Governor. With the Board's approval, the campuses can commence selecting the consultants or bidding out the construction project. Regents Migita, Albano, and Chair Lagareta discussed the legislative funding process for the backlog of repair and maintenance projects and the Governor's release authority and obligation to balance the budget.
Upon call for a vote, the motion was unanimously approved.

Approval of University’s Budget for Fiscal Biennium 2007-2009

President McClain asked the Board to approve the University's budget for the fiscal biennium 2007–2009. He noted that the Board participated in an extensive budget workshop on August 24 and 25 regarding the biennium budget. The Board thanked Vice Presidents Johnsrud and Todo for their work on the budget proposal and for improving the University’s bond rating through their presentations. Vice President Todo stated that following the August 25th workshop, the budget was revised based on discussions, and the revised budget is being presented for Board approval. He stated that upon discussing the budget with the chancellors, more emphasis was given to student housing, and the means of funding for the campus center complex are now split between general obligation bonds and revenue bonds, rather than solely revenue bonds supported by student fees.

Vice President Callejo explained that under the West O'ahu category, the $34 million that had been included in an earlier version of the budget was deleted in the revised proposal, as the request represented the value of in-kind projects that Hawaiian Electric and the other developers would do. He explained that the campus center complex request, in addition to moving to split funding sources, includes an initial request for $1.5 million in revolving funds for planning and design. Vice President Callejo also indicated that at the request of the State Director for Budget and Finance, some first year CIP projects were moved to the second year to level the amounts requested.

Vice President Todo reviewed operating budget changes that included funding requests for: transfer and articulation which includes additional funds for faculty meetings among and between disciplines; the American Diploma Project/College Readiness project; the University of Hawaiʻi systemwide program relating to Hospitality and Tourism Institute; a science technology, engineering and mathematics initiative in collaboration with the Department of Business Economic Development and Tourism (DBEDT); International Education involving collaboration with the East-West Center as well as DBEDT and UH; UH-Hilo Imiloa program; and the three-month pay lag salary arising from the partial funding of positions from last year. Vice President Todo explained that with the new requests, the budget rose to $38.7 million in the first year and $58.1 million in the second year.

Vice President Todo reviewed the collective bargaining transfer between the system and the campuses explaining how the transfer of funds could be reported in different ways in the budget.

Regent Albano moved that the budget proposal be approved. Regent de la Peña seconded the motion. Upon call for a vote, the motion was unanimously approved.
At 2:45 p.m., Regent Landon excused himself for the balance of the meeting.

As part of the presentation on the biennium budget and for information purposes only, Vice President Johnsrud reported that at the last Board meeting, the Regents were provided data and projected data around four performance goals relating to increasing educational capital of the State of Hawai‘i. She explained that the first goal is to return by 2012 the number of residents enrolled in 1995, thus from about 38,000 this Fall to 43,000 by 2012. The transfer goal is set at five percent increase per year over the next six years. The next goal over the next six years is to increase the current retention rate to the level of the peer group – that is, from 79 percent to 85 percent for UH-Mānoa and from 62 percent to 68 percent for UH-Hilo. Rates of graduation as well as number of degrees and certificates were described with a six-year goal in the case of Mānoa and Hilo to reach the graduation rates of their peers and the community colleges to the rate of their peers three years after entry. To maintain the number of degrees and certificates, a goal of a three percent increase per year was established, which could be achieved if the enrollment, transfer, and retention goals are met.

President McClain explained that these goals are still being discussed. He also commented that the State Department of Budget and Finance said that it could not commit State general fund support beyond the biennium. Therefore, since there is no commitment to some minimum level of State support, the Board’s approval of proposed goals is not being sought at this time. The President stated that the administration will be publishing a forty-page list of all the indicators measuring the University’s performance.

**Financial Update (for information only)**

a. **Quarterly Financial Status Report (June 30, 2006)**

Vice President Todo presented the quarterly financial update on the University's finances for the quarter ending June 30. Vice President Todo reviewed the balance sheet, income statement, and consolidated funding report along with a set of analytical comments which explain some of the variances highlighted in the report. Vice President Todo noted that all the quarterly reports, including the June 30 report, use unaudited numbers. There are some year-end closing items that will not be reflected in the appropriate quarters until the audit is completed. Vice President Todo highlighted and explained changes reflected in the quarterly report, such as the $97 million addition in cash and investment balances, noting that the change was an increase due to the emergency funds for the Mānoa flood added to the cash. President McClain pointed out that the operating income is minus $400 million, but State appropriations are over $500 million and such appropriations are not counted in the operating income. Vice President Todo confirmed that under generally accepted accounting principles, State appropriations are not counted as operating revenues. He noted that the University has very little debt to equity; explained the drop in employee head count was due to the termination of temporary lecturers; explained that the $63 million increase in
compensation and benefits was due to additional pass-throughs arising from the changes in statutes regarding pension contributions and collective bargaining increases; and explained other extraordinary items that appeared because of the flood. Regarding CIP appropriations, Vice President Todo explained that $794,000 had been lapsed, but $430,000 of the lapsed funds were re-authorized by the legislature. The other lapsed funds were for small items or projects or due to a contract awarded less than appropriated funds.

b. Community Colleges Supplemental Financial Information

President McClain asked for an explanation of community college financial information which is new. Vice President Todo asked that the minutes reflect that the Board was presented supplemental community college financial information. This information on the community colleges supplements and provides more detail on the audited financial statements of the whole University which were previously submitted and accepted by the Board.

Associate Vice President for Community Colleges, Mike Unebasami, explained the history of supplemental schedules for the community colleges. He said that it became apparent to the task force that was developing formats and guidelines for financial statements that the University's audit in itself was not sufficient to meet the accreditation guidelines of the Accrediting Commission for Community and Junior Colleges (ACCJC). The University system audit is a financial audit of the system and does not display individual campuses or units. To comply with accreditation guidelines, discussions were held with PricewaterhouseCoopers. Several levels of audits for the community colleges were proposed as a part of the University's audit. It was recommended to the ACCJC that the University prepare a combined balance sheet supplemented by financial information specific to the community colleges. Associate Vice President Unebasami said that ACCJC agreed that the University could try this format for several years and then evaluate and determine whether this format is sufficient to address the ACCJC standards.

These schedules supplement the audited financials for the University of Hawai’i as of June 30, 2005. These community college schedules will again be done separately but in conjunction with the University’s A-133 financial audit for 2006.

Chair Lagareta asked Vice President Todo to address the announcement by the University’s auditor PricewaterhouseCoopers (PwC) that as of October 15, 2006, it will withdraw from Hawai’i and assign clients to the local partners. Vice President Todo explained that the local partners intend to continue providing services under the name “Accuity.” The local partners of PwC have reassigned Dennis Tshuhako as the partner on the University audit replacing James Hasselman. Once the transaction between the national firm and the local partners is finalized, the expectation is that PwC will send a formal letter announcing the transition and indicating it would like to assign the audit of the University of Hawai’i to the new firm, Accuity. Vice President Todo said
that the University is considering the options including consenting to PwC's and the local partner's request. He explained that he will soon present formal recommendations for the Board's consideration.

President McClain recalled that ACCJC wanted two years of audited data and asked if the one year that is in hand will satisfy ACCJC, noting that its representatives are scheduled to visit the University at the end of October. Associate Vice President Unebasami responded that this year will be the first of the two years and he thought that ACCJC will see the supplemental financial information for the community college as a first step. He added that if this new firm is continued to be used, the University will have a three-year commitment with them on this schedule, and it may suffice for ACCJC purposes.

Regent Hapai asked if it will be necessary to seek bids for auditing services. Vice President Todo said that the possibility of having to re-bid is part of the consideration. The General Counsel has been consulted, and the contract does have a clause that allows for assignment.

Chair Lagareta stated that although it has not been independently verified, the State has agreed to transfer all of the work that PwC was doing for the State to Accuity.

General Counsel Lendio stated that she and Vice President Todo discussed the various options and she thought it was more appropriate to discuss options in executive session because of possible legal ramifications. Vice President Todo described other major national accounting firms and said that he will make a recommendation at an executive session.

VII. GIFTS, GRANTS AND CONTRACTS

Vice President Gaines reported on gifts, grants and contracts. He delivered a powerpoint presentation noting that he never thought the $430 million barrier would be surpassed until the last week. Vice President Gaines asked that the Board accept with thanks the gifts and grants and ratify the actions of the administration in executing the contracts. Regent de la Peña so moved. Regent Albano seconded. There being no further questions or discussions, upon call for the vote, the motion was unanimously approved.

Upon unanimously approved motion, the Board recessed into executive session pursuant to HRS § 92-5(a)(2) at 3:32 p.m. to discuss the various personnel items (A,B,C,D,E, and H) that were posted for discussion at an executive session.

The Board reconvened in public session at 4:27 p.m.
VIII. APPOINTMENTS, CHANGES IN APPOINTMENTS, LEAVES OF ABSENCE, PROMOTION, TENURE, WAIVER OF MINIMUM QUALIFICATIONS, EMERITUS TITLES, SHORTENING OF PROBATIONARY PERIOD, SALARY ADJUSTMENTS, POSITION ACTIONS, CLASSIFICATION, PRICING

President McClain asked that the Board approve personnel actions as more specifically described on pages 75 through 82 of the agenda. Regent de la Peña moved for approval of the submitted request. Regent Albano seconded. Chair Lagareta called for a vote on the motion, which was unanimously approved.

Resignations and Retirements of Board of Regents’ Appointees and Civil Service Employees

The list of resignations and retirements of Board of Regents’ appointees and retirements of Civil Service employees is presented in Attachment #2 of the Board of Regents’ agenda dated September 21, 2006.

IX. ANNOUNCEMENT OF NEXT MEETING OF THE BOARD

Chair Lagareta announced that the next meeting of the Board of Regents will be on October 19-20, 2006 at the University of Hawai'i at Hilo with full two-day meetings at Hilo.

Chair Lagareta noted that one of the personnel actions just approved was to confer emeritus status to David Iha in his capacity as former Provost for Kaua'i Community College as well as Executive Administrator and Secretary to the Board of Regents.

The Board recessed the public session at 4:31 p.m., Thursday, September 21, 2006.

Friday, September 22, 2006

The Board reconvened in public session at 9:30 a.m., Friday, September 22, 2006.

At 9:31 a.m., upon unanimous motion, the Board moved to an executive session pursuant to HRS § 92-5(a)(2) to discuss items F and G of the executive session agenda.

At 12:25 p.m., the Board reconvened in public session.
X. ADJOURNMENT

The Board adjourned at 12:30 p.m., Friday, September 22, 2006.

Respectfully Submitted,

[Signature]

Presley Pang
Interim Executive Administrator
and Secretary of the Board of Regents
2006 Teaching, Research and Service Awards Convocation
Remarks by President David McClain

September 19, 2006, Orvis Auditorium, UH Manoa

Congratulations to the honorees for providing a superlative education for our students, for your pathbreaking, knowledge-frontier-expanding, mind-extending (some might say mind-blowing) scholarship and for your outstanding service to our university and our community!

On Sunday I was on Kaua‘i at a remarkable event—the 100th birthday of Anna Scott Penhallow Bishop Sloggett. Anna Sloggett was a teacher, a contemporary of the late Gladys Kamakakuokalani Brandt, our former regent for whom the UH Manoa Center for Hawaiian Studies is named. For nearly four decades, Anna taught third grade at public and private schools on Maui, O‘ahu and Kaua‘i.

On the occasion of Anna Sloggett’s 100th birthday, the Kaua‘i community raised more than $100,000 for elementary and early childhood education scholarships to be administered by the University of Hawai‘i Foundation. Some of these funds came from a golf tournament...in which Anna Sloggett played, as she does twice a week! And Anna concluded her birthday party by dancing a hula.

UH, of course, is just a few months away from beginning the celebration of our own 100th birthday, and I would argue that we’re almost as vigorous and as spry as Anna. And just as Anna Sloggett meant so much to the thousands of students she taught, so UH has meant everything to the million or so students who have studied on one of our 10 campuses during the last century.

Indeed, in the last 100 years, no other institution has meant more to the state of Hawai‘i than UH—transforming students’ lives, and providing our state with an educated citizenry and a well trained workforce, contributing to the diversification of our economy and, most importantly, being a driving force for social justice, both for those who have immigrated to these shores and for the descendants of the first people of these islands, Native Hawaiians.

Today we serve 80,000 students, some 50,000 pursuing credit work and another 30,000 involved in noncredit instruction; all told, one in every dozen adults in this state are on one of our 10 campuses every week.

I’ll venture that no other public university has as large an impact on its home state.

This is not to say that our university has achieved all this from a position of perfection. Like any institution—or any person for that matter, even Anna Sloggett—we are an imperfect creation. In order to continue to do our work on behalf of our students over the decades, we’ve had to steadily improve, and more than once to reinvent and transform ourselves.

Certainly today a number of external forces want us to improve the quality of our educational efforts, as well as our efficiency.

The Legislature continues to show a keen interest in many aspects of our operations, not unreasonable given the more-than-$500 million of taxpayer funds invested every year in UH.

At the national level, Secretary of Education Margaret Spellings will next Tuesday unveil the report of a commission calling for a number of reforms in the way universities do their business, with a goal of increasing our national competitiveness. The report addresses issues of access, affordability, quality and accountability and calls for universities to become more transparent, more efficient, more technologically akamai and more focused on student learning and to couple efforts in providing access to higher education with more vigorous attention to ensuring the success of those we admit.
In short, to use the Japanese word, there is a growing amount of gaiatsu (outside pressure), demanding that we once again improve, reinvent and transform ourselves.

Your university is more than up to the task.

We have in the past two years had some success in acquiring the resources necessary for improvement and for financing the hopes that the people of Hawai‘i have placed in us.

- General funds provided by Hawai‘i’s Legislature and the governor are up by about $50 million in the last two years, the first increases net of collective bargaining in many years and a meaningful and welcome addition to our $1.2 billion budget.
- Tuition funds are also on the rise, with the goal of achieving parity with our peer institutions by the academic year starting in fall 2011. In this, the first year of our new tuition schedule, our commitment to increase financial aid to maintain access seems to have had a positive affect; overall enrollment has remained constant across our 10 campuses.
- Research funding hit $430 million in the last fiscal year, up nearly 20 percent. Our continuing success on the research front in the face of flat federal funding and inadequate facilities and support is a testimony to the remarkable quality of our faculty’s scholarship, and frankly to their persistence.
- Donations to the UH Foundation, up about $35 million in the last fiscal year, have surged this fall, led by the generosity of alumnus Jay Shidler, who contributed $25 million to UH Manoa’s business school. The Shidler College of Business now has the resources to achieve the goal of expanding its top-25 ranking in international business to a top 25 overall public business school by 2013. The Shidler gift, the lead gift in our Centennial Campaign, increases the chances that we will meet and exceed our $250 million, 2009 goal; to date $145 million has been raised. Later this fall we’ll announce the details of a Centennial Scholarship program that will have the goal of attracting and retaining more of the brightest high school graduates in Hawai‘i to our campuses. We’ll finance this initiative ourselves, perhaps with matching support from donations to the University of Hawai‘i Foundation. We’re not planning to ask for additional state general funds support for this initiative.
- Finally, plans for the acquisition of public and private resources for new campuses and for housing for our students and our faculty have continued to move forward, with some initiatives progressing more rapidly than others. Still the overheated construction sector has driven up costs and added an element of uncertainty...but it’s nothing we can’t handle.

With these additional resources in hand, in the face of this gaiatsu for improvement, only one thing remains for us to be successful in responding to the challenge for improving our quality and our efficiency. Simply put, we must do more to internalize the desire to improve and to be excellent. We must develop "inside pressure" for improvement, in Japanese, naiatsu.

In this regard, those we honor today play a key role, for as we celebrate your achievements, we’re celebrating your commitments to improvement and to excellence, in teaching, research and service. You are examples to our entire university community of what the DNA of improvement and excellence looks like and acts like.

No doubt each and every one of you in this audience can recall a time, perhaps even more than one time, when you’ve identified a situation in which our university could have functioned more effectively, when someone on our faculty or staff could have demonstrated a more vigorous commitment to improvement and to excellence instead of "just saying ‘no.’” A time when, as the old Pogo cartoon put it, "I've seen the enemy, and the enemy is us."

Ultimately, achieving our potential in this regard is a matter of leadership within our university. And leadership is my kuleana—my responsibility.

Accordingly, now that I am your "permanent" president, I pledge to redouble my efforts, working with our chancellors, with our faculty and staff, with our students and with our regents to develop and internalize a sense of responsibility, an entrepreneurial mindset, a commitment to excellence among all our administration, faculty, staff and students.
This commitment is already reflected in the content of, and the inclusive and thorough stocktaking process by which we arrived at, our biennium budget request. In particular, that request includes a number of initiatives that address the need for your university to provide "access with success." Some of these initiatives involve continuing to reach out and partner with K–12 and early childhood education providers; the result will be better prepared students matriculating to our campuses.

This commitment is already reflected in our forthcoming legislation request, including our desire to be able to initiate and bring to market on our own debt obligations of the university, permitting us to respond more quickly to opportunities in the marketplace. We also are requesting the restoration of our original status, after the constitutional amendment on autonomy was passed, of operating independently of the state government procurement procedures.

And this commitment is reflected in our internal management decisions as well, including the ongoing discussion about the appropriate devolution of resources and responsibilities to our campuses, as we endeavor to strike the right balance between system and campus roles.

To obtain a broader perspective on this issue, in the past several months I’ve visited and studied nearly a dozen university systems on the mainland. And I’ve kept this issue front of mind in my meetings with our chancellors and vice presidents, as they can attest.

We’re all interested in coming to some closure on devolution, but we want to get it right. As that old song sung by the Supremes went,

You can’t hurry love, no, you just have to wait.  
Love don’t come easy, it’s a game of give and take.

Before too many more weeks pass, you should be seeing some of the fruits of these conversations.

The invitation to Anna Sloggett’s 100th birthday party contained this quote from the historian, journalist and novelist Henry Adams, written, appropriately, in 1907:

"A teacher affects eternity; she can never tell where her influence stops."

I think that’s true for all of us at this university, faculty and staff alike.

My congratulations and sincere appreciation to those we recognize today. Your examples are the best hope, the naiatsu, for this large multicampus university system as we create the DNA, the mindset for yet another transformation of ourselves, even as we continue to transform the lives of those we serve.

Mahalo nui loa!