

MINUTES

BOARD OF REGENTS' MEETING

November 21, 2013

I. CALL TO ORDER

Chair John C. Holzman called the meeting to order at 9:15 a.m. on Thursday, November 21, 2013, at the University of Hawai'i - Maui College Campus, Laulima Room 105, 310 Kaahumanu Avenue, Kahului, Maui 96732.

Quorum (12): Chair John C. Holzman; Vice Chair, James H.Q. Lee; Vice Chair, Saedene K. Ota; Jeffrey Acido; Gene Bal; Carl A. Carlson; John Dean; Ben Kudo; Barry Mizuno; Randy Moore; Tom Shigemoto; and Jan Sullivan.

Excused (1): Chuck Gee.

Attended later: Coralie Chun Matayoshi

Others in Attendance: Interim President, David Lassner, PhD; Executive Vice President for Academic Affairs/Provost, Linda Johnsrud, PhD; Vice President for Community Colleges, John Morton, PhD; Vice President for Legal Affairs and University General Counsel, Darolyn H. Lendio, Esq.; Vice President for Budget and Finance/Chief Financial Officer, Howard Todo; Vice President for Research, Vassilis Symros, PhD; Interim Vice President for Information Technology and Chief Information Officer, Steven Smith, PhD; Associate Vice President for External Affairs and University Relations, Lynne Waters; UH Mānoa Chancellor, Thomas Apple, PhD; UH Hilo Chancellor, Donald Straney, PhD; UH Maui Chancellor, Clyde Sakamoto, EdD; Executive Administrator and Secretary of the Board of Regents, Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OCTOBER 17, 2013 MEETING

Chair Holzman noted for Regent Matayoshi amendments to page 10 -11, to indicate that she was "reluctant to agree to an encumbrance of \$28 million for 30 years" and "believed a \$14 million per year in debt service obligation would be more manageable." Chair Holzman also noted a typographical error on page 10, the word "faired", and on page 11, Chair Holzman clarified "that this idea is important to let the people know that the Board is considering a moratorium because it will add credibility to our program to address the backlog of deferred maintenance." Regent Moore added that on page 14, regarding the executive session, the emeritus title appears twice. Regent Dean moved to approve the minutes as amended, and Vice Chair Ota seconded the motion, that was then approved by unanimous vote.

III. PUBLIC COMMENT PERIOD

Secretary Quinn announced that there was one person who signed up to present oral testimony:

1. Mr. John Shawstack submitted written testimony in opposition to strict 5, 3, and 1-year lease term limits for faculty housing. Mr. Shawstack was also present at the meeting and provided oral testimony, and read from pages 2 and 3 of his written testimony.

IV. REPORT OF THE PRESIDENT

Interim President Lassner began his report with the status of negotiations with HART for an MOA and rights of entry to proceed with activities related to building the rail system that impact the campuses. He is working carefully in synchronization with the affected campuses and ensuring that costs associated with negotiations are reimbursed.

He reported on his visit to Washington D.C. to attend the National Association of System Heads of higher education systems and APLU conferences. Sequestration was the lead concern, although impacts are being offset by other federal programs for the time being. He also visited Hawaii's congressional delegation on the urgency of settling the budget issues. He also attended a reception in honor of Senator Inouye's receipt of the Medal of Honor at which he gave remarks.

He reported on the Pacific Disaster Center in Kihei, one of Senator Inouye's programs that started out as an earmark project and is now a program of record in the executive budget. The Center actively works with national and international agencies in providing information and resources for pre-landfall and assessment of impacts and recovery efforts. They have received national and international attention.

He conducted a kickoff of a Task Force for Veteran Services in which all campuses are involved. This task force was formed to recognize the service veterans provide the state, and that higher education is the pathway to use their expertise.

He then yielded time to EVPAA Johnsrud to report on the outcome of the Cost Forum conference. She reported that there were 140 attendees who shared diverse thoughts and ideas. Panels were interesting and forthright about their opinions. They did a good job in raising awareness of costs and new perspectives. Themes raised during the breakout sessions were diverse, ranging from course offerings, pre-requisites, and scheduling, to the importance of higher education and preparing students for the workforce and business practices. The next step is to share the information with the Vice Presidents and Chancellors to consider as they develop their priorities, as well as to share with the Council of Faculty Chairs to discuss the priorities they see.

Regent Gee praised EVPAA Johnsrud's work on presenting the Forum. He noted that the break out session questions were more free flowing than expected and if elevated could have led to the next level and crafting policy. EVPAA Johnsrud responded that this is the first of many conversations for future series of meetings for recommendations. Regent Sullivan added that this is a complicated issue, and she would like more specific progress with continued dialogue.

Regent Moore thanked EVPAA Johnsrud, and commented that he thought the issues were well-framed, and was disappointed only about the lack of legislator participation. He said that lack of participation likely impacted the focus of the afternoon on issues of UH and not the larger issues. He agreed that work should continue and thanked her for raising awareness.

Regent Gee added that there is a need to understand the "new normal" and that there is less resources. He said we have to do a better job in educating what the new normal is. EVPAA Johnsrud agreed that while planning for the worse is important, we also need to promote the value of education.

Regent Carlson added that the University has done a good job to meet its goals. He noted that there are challenges but the University has the ability to meet them. He also thanked EVPAA Johnsrud for providing the conference, and agreed that this is the beginning of a conversation and that UH can meet the challenge.

Chair Holzman agreed that the conference was a good first step and further suggested that in light of the 7% tuition increase, there would be an opportunity to refocus and publicly gain higher level attention on larger strategic issues in early 2014.

Having no further comments, President Lassner then announced Maui College Professor Nancy Johnson as the recipient of the 2013 Willard Wilson Award for Distinguished Service. The Board of Regents created the award in honor of Mr. Wilson, who set a standard of distinguished service for the University during a 40-year career as Secretary of the Board. Johnson was present to accept the award.

Following the presentation of the award, there were further questions about the President's Report. Regarding the Daniel K. Inouye Institute, Regent Gee asked how the Center would be funded. President Lassner replied that both private funding and federal funds are being sought. There is no present plan for financing construction, which will be woven with the programs intended for the Center. Having the conceptual diagram is a critical aid for fundraising.

Regent Gee also asked about the status of the veteran student assistance discussion and encouraged that the student affairs committee be involved in the discussion. President Lassner agreed. He added that Senator Hirono told him that she is very interested in this issue and noted that under the Yellow Ribbon Program, the federal government will match additional consideration provided by the Universities. This opportunity is under review.

Having no further questions on the President's Report, Chair Holzman presented a resolution honoring EVPAA Linda Johnsrud. He acknowledged one more testifier in the audience, former Regent the Honorable Artemio Baxa, who then testified to pay respects to EVPAA Johnsrud upon hearing of her upcoming departure.

V. REPORT OF THE UNIVERSITY OF HAWAI'I FOUNDATION

University of Hawai'i Foundation (UHF) President Donna Vuchinich provided a report on the status of the UHF, and extended her thanks for EVPAA Johnsrud's service, her work on providing the conference, and her serious efforts for transparency and service to the University and community. UHF President Vuchinich acknowledged Janet Bullard for her work on engaging alumni in Las Vegas, Oregon State, and at the Navy game. She reported that there were visits to Hong Kong and China, and that there is planning in process for visits to the Philippines and Vietnam. They continue to engage with donor societies to build pride and affinity to the campuses and programs. She highlighted the work of UH Alumni Hal Ping, the PRC Vice Minister of Education. Most recently, he was sworn in as the 37th President of UNESCO, its first leader from China. Distinguished Alumni awards have been received and she will come back with a recommendation. The efforts are on track for the year. Sequestration may have an impact, but she is confident with the level of donor support.

IV. REPORT ON GIFTS, GRANTS, AND CONTRACTS

VP Syrmos reported on the status of extramural funds that for the month of September totaled \$62 million down from \$89 million last year. The first quarter last year totaled \$178 million, and presently is at \$166 million, impacted by sequestration that represents a 6 – 7% decrease. He reported that he is working on improving the reporting to the Board with the Task Force on Research and Innovation by including three charts that show monthly reports on research awards and revenue from indirect cost, in comparison to the previous fiscal year. There is also a correlation "goal to awards" graph. He stated they are also preparing an annual expenditure of awards starting with Fiscal Year 2013 that is still pending. Comments are pending and expected to be submitted at the January board meeting. These graphs are intended to explain the funding blend in comparison to the previous fiscal year to understand the research enterprise and how wide it is.

Regent Lee asked what is the IDC reimbursement rate. VP Syrmos reported that it is 13% based on expenditures. There is a 40% indirect cost that is not reflected for only research grants, where there is blending the IDC is 26%. There is a direct charge for equipment that is not covered. The effective rate is 13%.

Report of the Host Campus

President Lassner requested to allow the host college time to speak. Chancellor Sakamoto presented updates since the last visit from extramural funds to the veterans

center and other issues. Maui had some serious challenges. He provided a PowerPoint presentation. He reported that Maui's goal is to provide authentic learning environments in the context of the current environment. He said Senator Inouye was a tremendous supporter, and as a result, for example, a third of the employees at the Pacific Disaster Center are Maui College graduates. He reported that Maui College recently opened a veteran's center to respond to veteran's needs. Since the beginning in the 1960s, the college has come a long way. Currently underway is a carport with a photovoltaic roof that will provide 556,000 kilowatts, with charging stations that will reduce \$122,000 in energy costs per year. They are refurbishing the automotive and auto body facility, and repurposing the former student housing building into a hotel laboratory, supported by the industry who have adopted rooms. There is a berm that will be beautified, and the construction of the DKI Allied Health Center will be starting within the next 60 days, that will allow the oral health care center to move on campus. The Center supports dental hygiene and assistance programs. The program handled 6,600 appointments, providing education in an authentic classroom and servicing those in need. The food innovation project Maui Farm Bureau led with \$1.2 million renovation, now has more interest from the industry to build a larger facility. Regarding the Molokai site, he thanked the Regents for supporting the purchase of 3.2 acres, and helping in the completion of the LRDP to present to prospects for higher education contribution. The College is in discussion with OHA to allow them to own Palauwea, and working on right of entry for the Hawaiian studies program.

He reported that the Maui College follows the performance measures that address all 2-year colleges and have adopted them. The outcomes include fall enrollment that rose and then dipped slightly. The campus faced rising energy costs resulting from expanding enrollment, thereby increasing power consumption. This caused a shortfall of approximately \$1 million, but the shortfall has not impacted targets in financial aid and performance measures. 60% of the students are Pell recipients; transfers and Native Hawaiian student enrollments have more than doubled. The college is now looking to create a return on investment in the students. Presently, grants that were \$9.8 million in 2010 increased to \$20 million this year. Total amounts awarded since 1996 is approaching \$147 million. The challenges are a \$1.1 million power deficit, equalizing access to education, addressing enrollment growth challenges, and meeting performance metrics. The College has addressed the shortfall by reducing marketing budgets, combining programs, reallocating positions, reducing student help, freezing positions, using RTRF funds to pay payroll, and utilizing volunteer help for projects on campus, like the retaining wall. In terms of per student headcount by county allocation, Maui continues to be at the lowest level on a per capita basis, and on a tuition and general fund support. He thanked the Board for their support of a comprehensive picture that includes the smaller communities like Maui and Moloka'i.

Regent Gee commended the chancellor for efforts to meet the challenges of doing more with fewer resources. He asked about the status of the 4-year baccalaureate degree programs. Chancellor Sakamoto reported that the engineering and technology

program has found some traction. Progress is being made to improve student readiness for the programs in academics, providing incentive achievement grants, and expanding efforts in internships and other programs.

Regent Gee then asked about the status of the sustainable science management program. Chancellor Sakamoto responded that there is a great deal of community and technology interest in sustainability and managing sustainability, and that it will take a few years to build the programs to support the interest.

Regent Gee asked for clarification of the scope of the food innovation spectrum. Chancellor Sakamoto responded that the spectrum spans from farm to table, to markets to offices, all grounded in food safety. He sees food innovation interest from Kaua'i to the island of Hawai'i, as well as a focus of the WASC.

Regent Kudo thanked Chancellor Sakamoto for the report. He asked whether the community colleges or 4-year programs perform some kind of stress test to balance resources and output. He explained that institutions have a carrying capacity and once exceeded starts to stress both human resources and physical plant. The chancellor responded that there is a continuing analysis to balance the stresses of larger student interest and opportunity, especially in technological and scientific development, for an economical future.

Vice Chair Ota asked in light of struggles of retention and graduation rate, and a third of the work force being replaced, is there data that shows actual placement. Chancellor Sakamoto responded that the College reallocated resources and began a Career Link program to identify where each student goes, whether they graduate, transfer, or are employed.

Regent Shigemoto asked whether there is a need for faculty housing. Chancellor Sakamoto responded that some applicants have turned down offers because of the high cost of living on Maui in relation to compensation.

Having no further questions, the Board took a 10 minute break.

VII. COMMITTEE REPORTS

a. Report from the Committee on Budget and Finance

Regent Sullivan reported on three items that the Budget and Finance Committee would be recommending to the full board and invited a broader discussion. The Committee will be recommending changes to Board Policy Chapter 8 on maintaining operating reserves. She explained that reserves were not needed in the past because it was primarily general funds that required all monies to be spent within a certain period. She also stated that not only is it good practice, but also in anticipation of using revenue bonds, the University must maintain prudent financial practices. She noted that the community colleges have reserves tied with accreditation that is not required for

other campuses. The committee will be recommending two months of operating reserves, require quarterly reports, and that the development of the biennium budget will take into account such operating reserves.

The second item being recommended to the Board by the committee is changes to investment policy that came through the Investment Task Group and recommended to the Committee with the assistance of the UBS investment advisors. The most substantial change is adding a new category of non-traditional investments and adding structured notes as a permitted investment. Regent Sullivan invited discussion when the item comes up in the Agenda.

She reported that the final item is a report on the status of the six conditions to the supplement budget that was discussed at the committee level. She explained that there will be a continuing dialogue on minimizing impact on tuition, such as by tempering the amount or speed of implementation of bond issuances. The verification of a bond issuance policy is in consultation with bond counsel. The conditions regarding a holistic plan for construction projects, and establishing metrics that can be polished on a regular basis is ongoing. She understood that administration will present a plan in January. The simplified revenue and expense reports are being worked on, and she asked for an estimated date of completion. President Lassner answered that draft templates can be shared in January. Chair Holzman added that the conditions regarding the plans for the implementation of the deferred maintenance have a direct relationship to the moratorium concept.

b. Report from the Committee on Community Colleges

Vice Chair Ota then reported that the Committee on Community Colleges would take place the next day. The Agenda included a review of the strategic plan, financial plan, and Maui College Long Range Development Plan.

c. Report from the Committee on Independent Audit

Vice Chair Lee reported on the Independent Audit Committee. The Charter was amended to conform to Act 87, including the provision to allow the Independent Audit Committee to vote by consent that will be referred to OGC to ask the AG for an opinion. Regarding the implementation of a whistleblower program, a request for proposals for third party management of the program has been made. Finally, the Committee amended the audit program adding the construction of the T.C. Ching Complex and Campus Center addition due to reports of the projects being overdue and over budget. The next meeting is December 18 to follow up with audit reports of OFM and UH Mānoa Athletics.

d. Report from the Committee on Intercollegiate Athletics

Regent Kudo reported that the ICA meeting is set for November 26, at which time there will be a presentation of the UHWO athletics vision and an update on the financial strategic plan for UH Mānoa Athletics, and personnel matters.

e. Report from the Committee on Personnel Affairs

Regent Matayoshi reported that the Committee met on November 6 to discuss recommendations to amend BORP 9-9 that outlines the purpose of providing faculty housing. Due to the shortage and long waitlist the Committee decided that the primary purpose of faculty housing should be for recruitment and not retention. Administration will consult with various stakeholders and develop a recommendation for the Board as well as develop executive policies to guide implementation. An appraisal is being done to determine if there are any tax implications for the rents charged, and an executive management salary study should be completed by the end of the year, and it is anticipated that an interim report will be provided to be reviewed by the Committee. Chair Holzman also noted that there was public testimony on the housing policy and that Committee Chair Matayoshi received a copy.

f. Report from the Committee on Planning and Facilities

Regent Mizuno reported that the Committee met on November 7 and had a productive three hour meeting. A number of items are on Agenda. He summarized the action item on a moratorium of major new building construction while the deferred maintenance and facilities renewal issues are being addressed. He reported that there was a general consensus that the focus should be on deferred maintenance and that the policy would be modified and presented today. The Committee also discussed an amendment to Section 10 on the policy on land. Due to the complexity, the Committee decided to forward only the preamble of Section 10 that underscores the Board policy on land transactions. He reported that also recommended for approval are the delegation to president to negotiate an MOA for the relocation of a marine center; certain projects and contracts; the final phase of Coconut island; the Puako Center lease, and delegation to the President to execute the lease agreement for Mauna Kea Lease upon approval by the Board of Land and Natural Resources.

g. Report from the Committee on Presidential Selection

Regent Carlson reported that at an earlier Committee on Presidential Selection meeting the Board delegated to the Committee the authority to select a search firm because the proposals would be received after the board meeting. The applications were received, reviewed, and discussed. The Committee agreed that it was important to also have an opportunity to meet and interview the firms. The process has begun, and the Committee will discuss procurement in executive session later today.

h. Report from the Committee on Student Affairs

Regent Acido reported on the work of the Student Affairs Committee. The issues taken up by the Committee regarded system-wide student health services, sustainability policy, and financial assistance for the low income population in light of UH becoming a tuition-driven university. Chair Holzman asked if there was a plan to follow up regarding sustainability. Regent Acido reported there will be a meeting in January.

VIII. ITEMS FOR BOARD DISCUSSION

1. Moratorium on major new building construction while deferred maintenance and facilities renewal issues are being addressed

Regent Kudo presented for adoption a moratorium on new building construction that had been revised as an outcome of the committee meeting. Regent Kudo then provided a PowerPoint presentation. He asked the Board for adoption according to the slide presentation and explained that the objective is to redirect the priorities to reduce the deferred maintenance balance that was exacerbated by CIP priorities focused on new building projects.

Following the presentation, Regent Dean thanked Regent Kudo for the work and agreed that this was an important and critical initiative for the Board to move the University forward. He agreed to look at addressing deferred maintenance and slow things down a bit to do so. He gave his full support.

Regent Gee characterized the moratorium as one of the smartest policies. He recalled a moratorium on all building in Waikiki until there was a good master plan that resulted in greater benefit to Waikiki even though businesses were not happy. This plan will allow the University to address the deferred maintenance. Regent Kudo clarified that only projects funded in whole or in part by the University are affected. Privately funded projects are not affected. Regent Gee gave the example of the Daniel K. Inouye Center that if wholly funded by private funds it would go forward.

Regent Lee said the word 'moratorium' is a strong word but it does reflect a serious problem. The exceptions are carved out correctly. He agreed it is a Mānoa's problem, and hoped that Mānoa understood the message that this deferred maintenance needs to be fixed for the students, faculty, and research. He reminded the Board that one of the initiatives is to build the research base to \$500 million. If the problem is not fixed then we will not attract the research. Moreover, indirect costs of up to 40% will not be realized. He is in complete support and would hope for a faster timetable that would likely require reorganizing, changing how we look at construction and how we oversee construction.

Regent Kudo recalls there was a parity discussion because 80% of the deferred maintenance was at Mānoa, and the community colleges and other colleges have very small balances. There is an early release program built in but he cautioned that

administration would have to fully cooperate in the spirit of slowing down expenditures on new buildings, and not front load new construction with those units that have no balances. He explained that we are one family and need to give Mānoa the best chance possible to reduce deferred maintenance to a manageable level.

Regent Matayoshi agreed and hoped to still make the effort to see if the legislature would help fund this effort. She stated that she is concerned that \$28M of annual debt service is a lot to bear, and anticipates that tuition will be impacted adversely because of that debt.

Regent Gee stated he liked the study of reuse and repurposing of buildings. There should be an ongoing study of efficient use of space as it appears there are vacant classrooms during the evenings and summers. The provisions should be reflected or at least take into consideration in each campus master plan as they also have timetables.

Regent Moore agreed with Regent Dean and was supportive of the moratorium. He added a concern about having the appropriate accounting to prevent double counting on projects that incorporate both deferred maintenance and renovation, and also to know when the projects are counted as completed to reduce the project count. There should be careful monitoring and sorting out of the costs among the different projects.

Regent Holzman explained that this proposal presents the sense of the board for administration to prepare a plan, and that also touches on the implementation.

Regent Kudo stated that this is in the form of a resolution identifying the Board's intent to the administration on things they should be doing.

Regent Holzman added that the Board would want administration to come back to the Board with a plan in January. President Lassner stated that they would have something to share in January for review. The administration is aware of the aggressive timeline. He added that the notice to proceed is the trigger. Furthermore, administration has a tracking system to ensure accurate accounting of the projects.

Regent Sullivan added her support, noting that she had initially had a hesitation about a moratorium. She noted that she believed this policy is important and stated a consistent position on Board priorities. The Budget and Finance Committee tried to do the same and this is a strong complement to what is being advocated. She suggested amendments to the resolution to include language that states that a release of a campus would require Board approval to ensure a level of accountability and flexibility, rather than create bureaucratic guidelines. Regarding exemptions, there may be other projects that come up later that may need interpretation or action, and therefore should come before the Board.

Regent Kudo agreed to the suggestions and stated that that the suggestions echo the discussion in committee to be careful and get our campuses in shape and improve the existing buildings.

Having no further comments, Regent Kudo made a motion to adopt, by way of resolution, the slides presented that outline the moratorium policy, and, in addition, incorporate the issues that Regent Gee noted regarding incorporating the moratorium in the campuses' master plans, and Regent Sullivan's suggestion to allow the requests for releases and other projects that may need guidance to come before the Board for approval, and to ensure accountability and careful monitoring, as suggested by Regent Moore. Regent Moore seconded the motion. The motion carried by unanimous vote.

President Lassner added that the Governor announced release of funds that were appropriated last year, including \$78 million in general obligation bonds for capital renewal, deferred maintenance, and health and safety repairs, which represents enough funding for one year.

IX. ITEMS FOR BOARD ACTION – PART A

Board of Regents

2. Approval of Revisions to Board of Regents' Policy, Chapter 10 related to land and physical facilities.

President Lassner presented that the initiative was to focus on the first section of the chapter to lay out at a policy level of how to think about land and real property including mission, sustainability, price, reasonableness and consistency with LRDP and environmental sustainability. The policy lays out that all transactions go to the Board for approval unless they are minor or administrative. Administration will then come back to the Planning and Facilities Committee to review executive policies that implement this policy.

Regent Holzman added that the Board began looking at land and development of land, including UH West 'Oahu and a strategic approach to the lands the University owns. There were several drafts focusing on development. He agreed with Regent Sullivan's suggestion that the Board take more time on development to provide clear ideas to Administration.

Regent Gee asked if land is given in perpetuity and if it could be sold if the donor is deceased. VP Lendio responded that it depends on the donor agreement and intent.

Regent Gee makes a motion to approve, seconded by Regent Mizuno. The motion is carried by unanimous vote.

3. Approval of Revisions to Board of Regents' Policy, Chapter 8 related to financial reserves

VP Todo presented on the reserves policy for approval. He reported that while the University has a significant balance, there are non-general funds that cover three-fourths of the operational expenses. A good example is when the federal government shutdown and caused other units to have to cover the cost during that time. The obligations were met but also highlighted the need to consider a reserve. The policy requires at least two months of operating reserves.

Chair Holzman said the policy also calls for reporting and monitoring with an annual report, and therefore asked when quarterly reporting would begin. VP Todo estimates it would start February if the executive policy is in place by then.

Regent Sullivan suggested that the policy should be clearly articulated when discussing the biennium budget.

Chair Holzman noted that there are variations among campuses, and the first quarterly report would reveal those variations. VP Todo agrees that the executive policy is needed in order to know how to implement the policy. President Lassner responded that while the balances can be reported in January, the comparison to the policy will have to wait until the executive policy is in place which will identify the measures by campus. Chair Holzman clarified that the sense of the Board is to have an update on the policy as soon as possible. President Lassner suggested a standard quarterly report might be more useful.

Regent Gee said he was strongly in favor of having a reserve policy and asked about the risk of having reserves swept as the State had done with special funds. VP Todo responded that the policy establishes guidelines that state there is a need to keep a certain level of reserves.

Regent Bal stated that he is in favor of the initiative but noted the bond rating has a larger reserve period of 114 days. VP Todo answered that it is a function of the definition of reserves. Bond rating uses a complicated formula that is different from cash balance reserves being discussed today, and are used as only a part of the metrics for bond ratings.

Regent Moore asked if a line of credit was an option. VP Todo responded that such an option would likely require legislative approval.

Regent Matayoshi moved for approval, and Vice Chair Lee seconded the motion. The motion carried by unanimous vote.

4. Approval of Revisions to Board of Regents' Policy, Chapter 8 related to investments

VP Todo noted that they looked at a lot of college, university, and foundation information and every single one of them had some component of what we called non-traditional or alternative investment. The existing policy has not been amended in a

while, which led to the hiring of UBS and consequently updating our policy to allow UBS to be able to invest in these non-traditional investments as we move the investments over rather than doing it piece meal. The guidelines in the policies of other institutions range from a minimum of 5% to as much as 90%. UBS has requested latitude to investments up to 30% in non-traditional equity or fixed income like investments. The next step will be a full rewrite of the entire policy. Most other institutions have an investment policy statement, and the thought is we would like to come up with an investment policy statement that would be referenced in Board policy.

Regent Sullivan explained what was discussed in committee. She indicated she was not fully comfortable explaining what it fully meant for the University to go into this area and felt there were others on the Board with more expertise and it would be good to get their input.

VP Todo indicated that Ron Kikawa and Paul Yamashita of UBS were present and available for questions.

President Lassner clarified that this recommendation came from the Task Group to the Committee to the Board so theoretically this notion is from the investment task group.

Chair Holzman said regardless of where the notion came from, if the Board has doubts about it then we should be clear it about them.

Regent Carlson said the original goal was to structure the policy at a minimal basis rather than restructure the entire policy. This would provide an opportunity for UBS to be more nimble with their investments considering the market. It was the recommendation of UBS with review by VP Todo on what other universities and foundations have done and it made sense to consider agreeing to up to 30%. There was extensive discussion by the committee and UBS informed the committee on their views and provided definitions to help us better understand what these investments might be and how safe they are.

UBS then provided the Board with background on these types of investments similar to that provided earlier to the committee.

Regent Kudo noted that non-traditional investments include other types of investments and asked for examples of those. VP Todo said the other kinds of alternative investments they would go into are not what is being approved, it is being limited to structured notes.

Regent Kudo added that an amendment has been added to define what non-traditional investments are. VP Todo answered that was correct. Regent Kudo questioned whether the amendment is necessary if only one specific type of investment is being authorized. VP Todo said if it made the Board more comfortable they could change that. It was more of a general descriptor, with the key being what are the

permitted investments. Regent Kudo expressed his concern over including a broader category that might risk some other type of interpretation.

Regent Kudo also expressed concern that the policy they are governed by prudent man, which is a pretty conservative standard. He asked if investing in non-traditional investments like structured notes violates the prudent man rule. UBS responded with there are some non-traditional assets that seem more risky, they don't intend to do those, but again it is a broad category and their intent is to limit to a specific category. They cautioned it may be imprudent not to do this as other peer institutions are currently doing this. Regent Kudo recalled that in 2008 Harvard and Brandeis University invested in derivatives and ended up suffering huge losses. He continued that while it is helpful to know what others are doing, the Board has a fiduciary responsibility to make its own determination as to what is prudent and reasonable. The Board does not want to breach the rule because then the Board becomes liable for any kind of losses incurred. The Board may want to seek legal counsel as to whether investments like this would take the Board over the line in terms of its fiduciary duties under Board policies.

Regent Dean agreed with Regent Kudo. While it may be appropriate, it is not a good idea to do it just because others are. Regent Dean agreed that he prefers to spend more time, but is comfortable with the structured notes, and asked for clarification if it was on the fixed income or equity side. UBS responded they were looking at both. Regent Dean said he was more comfortable with fixed income. He suggested that since there is another board meeting in January, the Board could go forward on the structured note at less than 30% and let him drill down and spend some time with a recommendation in terms of level of participation.

Chair Holzman agreed and asked if Regent Moore could assist, along with Regent Dean's consultation.

Regent Gee appreciated the explanation and clarification by Regent Dean. He asked for clarification if this change in policy is approved for up to 30%, that it also did not necessarily mean that 30% of the endowment would be used for these non-traditional investments. He felt safe in assuming laddering would be the approach. UBS answered that for structured notes they don't normally do more than 10% of the portfolio; however, non-traditional investments include other investments besides structured notes and that those specific investments would need to be put into the guidelines.

Chair Holzman asked for a sense of where the Board was. He asked Regent Dean if he was proposing that we vote today to do structured equity fixed income notes up to 10%. Regent Dean answered that he wanted authorization to move forward and drill down on this, spend time, and report back in detail to the committee and the full board.

Chair Holzman asked if anyone had an issue with proceeding. Regent Kudo answered he is not comfortable on proceeding because he does not understand structured notes, fixed income or equities, so he doesn't know if it is going beyond the prudent business man rule. Regent Carlson proposed to defer until January and Regent Kudo agreed stating that a harder look is needed.

Regent Dean added that if Regent Kudo was uncomfortable then he would rather take a couple of months to do the due diligence, and find out if there is anything from a legal point of view. Deferring provides time to come back with a stronger recommendation.

Regent Sullivan thanked Regent Dean and Regent Moore for their willingness to help and expressed her support for delaying action until we are comfortable and can do it right and thinks it would be the prudent thing to do at this point.

Chair Holzman said the matter would be deferred so Regent Dean and Regent Moore could consult with legal counsel regarding the prudent man rule.

VP Todo indicated he just checked with UBS and one of the reasons this was being brought this forward now is they are trying to transfer assets from old manager to them and they confirmed that they can transfer the assets under the old policy.

Regent Gee suggested that VP Lendio work with Regent Dean and Regent Moore on the matter because there are legal implications on this and Chair Holzman concurred.

5. Approval of Revisions to Board of Regents' By-Laws, Article VII related to hiring legal counsel.

Chair Holzman noted at the last meeting the Board approved having the Office of General Counsel report directly to the President not to the Board; indicated on the organizational chart with a dotted line to the Board, and a straight line to the President. At that time, Regent Kudo had pointed out that in the case of a conflict under the existing policy there could be an assumption that the Office of General Counsel would be responsible for hiring an attorney for the Board. This provision makes it clear that the Board itself would be responsible for that, but working from a comprehensive pre-existing list. Having no further questions or comments, Regent Sullivan moved to approve, Regent Carlson seconded, and the motion was unanimously approved.

University of Hawai'i System

6. Update on legislative provisos and statutory requirements

Chair Holzman said that due to time constraints, item 7 would be taken up after Executive Session and in anticipation that the Executive Session will require more time as there are subjects that need to be discussed thoroughly.

University of Hawai'i at Mānoa

8. Approval of Consultant Services for the Hawai'i Institute of Marine Biology, Coconut Island Utility Rehabilitation/Replacement Phase III (Design).

Chancellor Apple provided a brief background on this project which will provide upgraded sewer, water, electrical infrastructure to Coconut Island from Kāneohe. It is a 3 phase design project and the third phase is going to take us over a total cost of over \$500,000, which is why it is coming to the Board for approval. The total for the 3 phases will be about \$750,000.

Regent Mizuno made a motion to approve, Regent Carlson seconded, and the motion was unanimously approved.

9. Approval of Delegation to President to enter into a Memorandum of Agreement relating to relocation of UH Marine Center (Snug Harbor).

Chancellor Straney indicated SOEST is moving their facilities, which have small and large vessel capabilities, from Pier 45 to Pier 35. The project is in cooperation with the Department of Transportation and they are in conversations with them about various aspects of it and in order to make this successful they need both Pier 35 and some rights to the land at METC and they hope to get a three way Memorandum of Understanding. This is on a fast track in term of state priorities because if we can't get this done promptly it holds up the reconfiguration of Pier 45 for some of the big shipping companies. The proposal is to delegate authority to the President to sign this Memorandum of Agreement should it come before January Board meeting.

Regent Dean moved to approve, Regent Lee seconded the motion, and the motion was unanimously approved.

10. Authorization of a Public Hearing on the Proposed Amendments to Chapter 20-12, HAR, Parking and Operation of Motor Vehicles, University of Hawai'i at Mānoa.

Deborah Hubler, Director of Campus Services for UH Mānoa, said basically they were asking for permission to go to public hearing to authorize on the proposed amendments to Chapter 20-12, HAR. The purpose is not to raise parking rates at this time, it is just permission to go to public hearing. They still have to go to the Governor to get permission for the public hearing, have the public hearing, make the revisions to HAR, and come back and get the HAR approved by the Board. She clarified that the President has the authority to approve the rates, but the HAR themselves have the rates in them and any change to HAR requires Board approval.

Chair Holzman clarified that this is only authorization to go to public hearing.

Regent Kudo asked if they expected any controversy or major opposition and hoped they would take steps to try and deal with that.

Director Hubler answered they plan to do a lot of outreach and have talked to a number of constituencies (ASUH and GSO, Faculty Senate, etc.). They have a plan to make sure everyone is aware of the increases and has the ability to provide feedback.

Regent Moore asked if it was legally necessary to put the rate in the rule. President Lassner and Director Hubler responded they would need legislation to remove the rates. President Lassner indicated he would check with VP Lendio, but the statute on Mānoa parking was very specific.

Regent Moore moved to approve, Regent Kudo seconded the motion, and the motion carried by unanimous vote.

University of Hawai'i at Hilo

11. Authorization to enter into General Lease No. S5993 with the Department of Land and Natural Resources for Land at Puakō, Lalamilo, South Kohala, Hawai'i for the benefit of the University of Hawai'i at Hilo.

Chancellor Straney said this project has been 23 years in the making, when the Board authorized establishment of Marine Education Center at Puakō. The lease has been worked on since then, and has finally been approved by the Land Board and is before the Board for approval. The intention is to build a facility there using private funds.

Regent Carlson added this was discussed at length in committee and the committee felt we should go forward with this. Regent Carlson then made a motion to approve, Regent Mizuno seconded, and the motion was unanimously approved.

University of Hawai'i at Mānoa

6. Approval of Capital Improvements Program and Repairs and Maintenance Project Contracts for Fiscal Year 2013-2014

VP Todo said this was a standard type of approval that they ask for from the Board for contracts for R&M or CIP type projects. Planning & Facilities Committee, reviewed the requests, all funds have been appropriated, and these projects will be procured in accordance with all procurement rules and law. Administration requests permission to move forward with these contracts.

Regent Lee asked a question regarding the contract for professional services at HCC for the engineering building. He noted that services are required due to a lack of construction management staff support in the Office of Capital Improvements (OCI). He questioned why contracting for 28 months of full time work than hiring more personnel at a lower rate. VP Todo answered that for a large project such as this, OCI doesn't typically have that kind of expertise within their groups, nor does OCI at the System level have that kind of construction management expertise. Normally those services are contracted out.

Regent Shigemoto said that his concern was if it is contracted to an architectural firm, they pass it on to mechanical engineers. He noted that hiring directly with the mechanical or electrical consultant is more prudent. President Lassner indicated that answer would be provided at a later date as that contract was not before the Board for approval today.

Chair Holzman requested the minutes reflect Regent Shigemoto is looking for an answer to his question as to why an architectural firm as opposed to a mechanical engineering firm is being considered, and an answer will be forthcoming from Administration. The Chair then asked if there were any other questions.

Regent Gee made a motion to approve, Regent Matayoshi seconded, and the motion was unanimously approved.

Chair Holzman announced we would come back to the subject of the provisos (Item 7) after Executive Session.

X. EXECUTIVE SESSION

Upon motion by Regent Dean, seconded by Regent Lee, the Board unanimously approved convening in executive session, pursuant to HRS §92-5(a)(2)-(4), to discuss personnel matters, consult with attorneys on powers, immunities, and liabilities, consider negotiations concerning acquisition of public property, and discuss authority of persons conducting labor negotiations and conducting negotiations. The Board convened in executive session at 1:00 p.m. Following a motion to come out of executive session by Regent Matayoshi, seconded by Regent Gee, which was unanimously approved, executive session was adjourned at 4:05 p.m.

Chair Holzman said that the Regents discussed the following in Executive Session:

Discussion of Personnel Actions (Attachments B-1 and B-2)

Approval of Settlement Claim for Architectural Services for Pacific Health Research Laboratory

Search Firm for Presidential Selection

XI. PERSONNEL ACTIONS

[Attachments B-1 (For approval), B-2 (Information only)]

Chair Holzman asked for a motion on the next agenda item on personnel actions on Attachments B-1 and B-2. Regent Matayoshi so moved. Regent Gee seconded the motion. The motion carried upon unanimous vote.

XII. ANNOUNCEMENTS

President Lassner provided an update on agenda Item IX.7 regarding legislative provisos and indicated there were about six or seven provisos and reporting requirements which they went through right after the legislative session. Most involve a pretty straightforward gathering of HR and financial data, which are not in general that problematic. He also noted that as Regent Lee had pointed out earlier, there is a new reporting requirement buried as item W of a section relating to independent audit, which basically requires a cover letter on top of the external audit report. One proviso of interest is the commentary on executive compensation, which the forthcoming study is intended to address. He thought the two provisos the Board might be interested in the substantive thinking Administration had been doing separate from reporting were: (1) asking the President to develop plan to reallocate funds from Mānoa based on certain criteria, which he will ask EVPAA Johnsrud to discuss; and (2) the inventory of people involved in relations, public relations, and communications, which he will ask AVP Waters to discuss.

EVPAA Johnsrud noted that provisos 130 and 131 both require reports, with one being chair verification of salaries, but the reports are not due until January 2015. President Lassner indicated the new requirement went into effect July 1, but it said after the fiscal year the report is required. The data is being gathered, but the first report is a year away. She noted that proviso 132 requires the University to propose a 7 year plan to reallocate general funds internally among UH campuses and there have been several conversations regarding how to handle this. EVPAA Johnsrud provided a summary of the proviso and said it stipulates that the plan must be based on funding need and not the ability to generate non-state revenues or the amount of past general fund appropriations. The proviso specifically mentions decreasing Mānoa's proportion and increasing the proportions of other campuses based on expected enrollment growth, operating expenditure growth rates or a combination of the two.

She indicated that they tried to come at this based on some principles as well as some facts and assumptions. She reminded everyone there was a long standing social contract for relatively low tuition and high state subsidy and we are no longer in that position; however, the State still has a high need for more educated citizens and we have to increase undergraduate degree production, particularly among those underserved groups such as low income and poorly prepared students, all of which take more resources to serve than other groups. She indicated that West O'ahu plays a critical role in our ability to serve the State need and when they revisited the Second Decade Project that looked at the regions of the State where more post secondary training and education was needed the west side of O'ahu continued to stand out so we really need to find a way to support West O'ahu.

EVPAA Johnsrud added that maintaining tuition differentials across 10 campuses helps maintain access and affordability, especially at open access or less selective campuses; the idea being that you can charge more at a research-intensive institution

and you want to keep tuition low at open door institutions. In terms of the 10 campuses, Mānoa as the research-intensive flagship has the greatest potential to increase tuition and they believe that any reallocation of state funds should be based on performance measures and she discussed some different performance measures that could be used such as enrollment, graduation numbers, and transfer numbers.

President Lassner noted that the proviso requires a plan and this is a plan that was developed separately from the supplemental budget. The Legislature does appropriate directly to these major units, so while we have the authority to move money between them it isn't something we normally do lightly given that the appropriations are done at the legislative level. Nationwide, legislators, governors, and higher education statewide offices are driving things towards performance funding and if our Legislature wants to move in the direction of reallocation, hopefully this plan, which is based on performance funding can provide some guidance.

Regent Lee asked who determines the allocation amounts. EVPAA Johnsrud responded that the allocation is the state appropriation, what was actually appropriated to that campus in that year. EVPAA Johnsrud added that the Legislature did reallocate \$7M from Mānoa last year.

EVPAA Johnsrud indicated this effort deserves more discussion and they have tried to do it incrementally over time, however, there are policy questions that need to be dealt with.

Regent Matayoshi indicated that it was better to come up with our own plan of how we want to reallocate money to show to the Legislature rather than have them reallocate the money themselves.

President Lassner said they are getting mixed messages from the Executive branch and the Legislature regarding whether or not to raise tuition.

Regent Gee noted this was probably the most uncomfortable decision that may have to be made in the not too distant future and his concern about the impact on Mānoa and what we hope to do with various initiatives including innovation, and trying to build a Class A research institution. He asked if this plan has campus input. EVPAA Johnsrud responded it was shared with the 4 year chancellors earlier and the plan had been altered as a result.

Regent Gee added that it raises the central questions that came up he and Chair Holzman met with the Mānoa Faculty Executive Senate Committee: what is the place of Mānoa within the 10 campus system? What is its role? What does it really stand for? What kind of leadership is it supposed to demonstrate in terms of the setting of standards? There are so many kinds of questions that remain unanswered and he expressed concern about what will happen if you begin to weaken academic standards and weaken the image of the flagship by internal reallocation.

EVPAAs Johnsrud added that without support to raise tuition as part of the reallocation is challenging. Regent Gee added that many of our professional programs would command a higher tuition because they have a strong national and international image.

Regent Sullivan noted that the actual Session Law requirement was not that specific, so perhaps considering submitting this plan in a qualitative description instead of quantitative format would be more useful and responsive. This could be an opportunity for the University to propose how it wants to implement performance based funding and place certain parameters on reallocating funds.

President Lassner added that Senator Ige may be seeking clarification and justification for appropriations and that the University provide the guidance.,

Regent Sullivan indicated that she was concerned if this would be perceived as if the University is agreeing to the cutting of more General Funds.

Chair Holzman agreed with Regent Sullivan that a qualitative description might be clearer, with the principle facts and assumptions spelled out more clearly and showing what the results of the possible reallocation plan would be versus just implying it. More should be done to show the consequences across the system in terms of presenting a notional idea and what the impact of that idea would be. He also felt performance funding should be integrated into the plan and expanded to advance the University's point of view. The University should spell out what everything means and make it clear that this is what the Legislature has requested and here is our notional idea and specify why the University is building in performance funding as well as explain the consequences of reallocation.

Chancellor Apple reminded everyone that Mānoa's 6 year graduation rate is 58%, which is significantly higher than any other campus. He gets concerned when he hears performance based and moving money away from Mānoa because the language should be changed to reflect that Mānoa is beating the national average.

Regent Carlson didn't like the idea of automatically having tuition as the only default and the language should be rephrased to show other options.

EVPAAs Johnsrud indicated for this particular proviso the plan is due this year; with reports to the Legislature normally being due December 20 so they can be ready for the January session.

Chair Holzman suggested to consider getting input from Senator Ige.

AVP Waters reported that the communication proviso asks for specific information on the number of positions where 50% or more of their work is in public media or government relations at both the system and all campuses, and asks for the change in the number of positions since 2000 and a determination on the part of the Board if a

reduction of any kind is needed. She noted that the UH System offices and each campus are separate entities when it comes to most functions, which means system level communications staff report to the president and communication staff at each campus reports to the chancellor. Historically communications was centralized at the System level. Ten years ago those functions started migrating to 4 year campuses; UH Mānoa and UH Hilo began developing their own communications staff. The community colleges and UH Maui have developed some extent to do their own communications, they have part time staff who do very simple press releases like events and hirings, but they rely heavily on UH System staff for media inquiries and major events.

AVP Waters added that the System offices are responsible for media inquiries and marketing and paid messaging, which is not being done at this time. The 4 years handle their own media responsibility and paid messaging, which is mostly student recruitment. Finally, UH Mānoa and UH Hilo and larger units have developed their own internal capacity to do their own communications (e.g., College of Pharmacy, Imiloa Astronomy, SOEST, TIMS, Shidler and Law School). She said there is no branding or imaging marketing done at the System level and may be an area of consideration for leadership. She proceeded to explain the data contained in the report. For the time being they are reporting that the data has been assembled, the Board will be analyzing it within the context of the University's Strategic Communications Plan, which needs to be updated, and they anticipate it being discussed at the University's operational level, possibly with the recommendations of the ATG being implemented, and informal surveys have shown diverse numbers. She feels University of Hawai'i has been very frugal because it does not devote significant financial resources to branding or marketing that other large organizations do.

Regent Gee said we need to add in fundraising, relations building, and identifying donors into the responsibilities of each unit's communications staff. Chair Holzman suggested saying something like "of which, primary responsibility is fundraising." AVP Waters indicated she will highlight that in the report.

Regent Kudo asked what AVP Waters felt was the intent of the Legislature, and she responded that it might be the result of the prior investigative hearings. The provisos were crafted before May, before the change in UH leadership, and were aimed at addressing some past practices such as hiring external firms that is no longer being done. Regent Kudo suggested the report provide a more definitive answer on certain things and provide justification on how money is being spent in certain areas and why. Defend the decision if reduction is not necessary and explain the negative impact a reduction would have. It is best to avoid being vague.

Regent Sullivan suggested the newly formed Board of Regents' Legislative Task Force with Regents Kudo, Ota, Shigemoto, Lee, and Mizuno could help to oversee and review this report before it goes out.

Regent Dean suggested that benchmarking information from similar institutions be included in the report. AVP Waters indicated she would add that information in.

Chair Holzman asked how many of the Mānoa positions were concerned with athletics. AVP Waters and Chancellor Apple were not sure, but thought it was about two. Chair Holzman added that Mānoa has the largest number of position so it is important to clarify the true scope of the work being done as they might be linked to other programs such as outreach.

Regent Lee asked if the position count included support staff. AVP Waters said that support staff such as graphic artists, web code writers, and secretaries, are not included because they are not positions that would write news releases and respond to media calls. She tried to interpret this to as true to what she felt the intent of the questions was because she wouldn't call those people public relations or media relations people per se. Chair Holzman expressed concern that web coders who specifically were used to support public relations outreach were not included in the count.

Regent Matayoshi also expressed concern about the scope and relevancy of the positions included in the count.

Regent Kudo suggested it may be better to err on the side of caution and providing an explanation in a footnote would be better than not including it and risk having it appear as if we are trying to hide information.

Regent Gee asked for clarification as to the scope and breadth of the the word communications in the position title. He warned that virtually everyone is involved in communications with external constituencies.

Regent Gee noted the tremendous increase in our fundraising does not happen without people doing the work and communicating with external constituencies where the money comes from. He suggested we go back to UH Foundation and ask for the numbers in 5 year increments, going back 25 years, and show the link between communications and fundraising.

Chair Holzman announced that the next meeting is scheduled for January 23, 2014 at Kaua'i Community College.

Chair Holzman also announced that a Board retreat is tentatively being planned for February with the general theme of partnership within the Board of Regents and among the Board and the Administration. Talks are underway with Chris Pating of Kamehameha Schools to help facilitate the retreat.

XIII. ADJOURNMENT

Having no further business, upon motion by Regent Lee and seconded by Regent Matayoshi, and unanimous vote, the meeting adjourned at 5:20 p.m.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Cynthia Quinn".

Cynthia Quinn

Executive Administrator and

Secretary of the Board of Regents