Notice of Meeting
UNIVERSITY OF HAWAI'I
BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE
Members: Regents Sullivan (Chair), Moore (Vice-Chair), Nahale-a, Tagorda, and Westerman

Date: Thursday, March 4, 2021
Time: 10:00 a.m.
Place: Virtual Meeting

In light of the evolving COVID-19 situation, protecting the health and welfare of the community is of utmost concern. As such, this will be a virtual meeting and written testimony and oral testimony will be accepted in lieu of in-person testimony. Meetings may be monitored remotely via the livestream pilot project. See the Board of Regents website for information on accessing the livestream: www.hawaii.edu/bor. Mahalo for your consideration.

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the February 4, 2021 Committee on Budget and Finance Meeting, and the February 4, 2021 Joint Meeting of the Committee on Intercollegiate Athletics and Committee on Budget and Finance

III. Public Comment Period for Agenda Items:
All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via the board’s website through the testimony link provided on the Meeting Agendas, Minutes and Materials page. Testimony may also be submitted via email at bor.testimony@hawaii.edu, U.S. mail, or facsimile at (808) 956-5156. All written testimony submitted are public documents. Therefore, any testimony that is submitted for use in the public meeting process is public information and will be posted on the board’s website.

Those wishing to provide oral testimony for the virtual meeting may register here. Given constraints with the online format of our meetings, individuals wishing to orally testify must register no later than 7:00 a.m. on the day of the meeting in order to be accommodated. It is highly recommended that written testimony be submitted in addition to registering to provide oral testimony. Oral testimony will be limited to three (3) minutes per testifier.

IV. Agenda Items
A. Use and Distribution of Legacy Endowment Funds
B. Recommend Board Approval of Amendments to Regents Policy (RP) 8.204, University Budget (Operating and Capital Improvements)

For disability accommodations, contact the Board Office at 956-8213 or bor@hawaii.edu. Advance notice requested five (5) days in advance of the meeting.
C. Recommend Board Approval of Amendments to RP 8.207, Investments
D. Status of Higher Education Emergency Relief Funds
V. Adjournment
I. CALL TO ORDER

Chair Jan Sullivan called the meeting to order at 10:30 a.m. on Thursday, February 4, 2021. The meeting was conducted virtually with regents participating from various locations.

Committee members in attendance: Chair Jan Sullivan; Vice-Chair Randy Moore; Regent Alapaki Nahale-a; and Regent Robert Westerman.

Committee members excused: Regent Michelle Tagorda.

Others in attendance: Board Chair Benjamin Kudo; Regent Simeon Acoba; Regent Kelli Acopan; Regent Eugene Bal; Regent Wayne Higaki; Regent Ernest Wilson (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH Mānoa (UHM) Provost Michael Bruno; UH Hilo (UHH) Chancellor Bonnie Irwin; UH West O'ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES

Vice-Chair Moore moved to approve the minutes of the November 4, 2020, meeting, seconded by Regent Westerman, and noting the excused absence of Regent Tagorda, the motion carried, with all members present voting in the affirmative.

III. PUBLIC COMMENT PERIOD

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

IV. AGENDA ITEMS
A. Fiscal Year (FY) 2020-2021 Second Quarter UBS Legacy Endowment Fund (Fund) Investment Performance Report

Kyle Yoneshige and Lori Hamano from UBS provided a report on the Fund for the second quarter of the fiscal year which began on July 1, 2020, reviewing both its asset allocation and investment performance. It was noted that the markets continue to experience some volatility because of the COVID-19 pandemic. Ms. Hamano stated that the Fund consisted of cash assets, fixed-income assets, and equity assets. Fund assets were allocated as follows: 1.80 percent cash, 26.55 percent fixed-income, and 71.65 percent equities. It was also noted that the current asset allocation figures included the transfer of an additional $7 million into equities since March 2020 which had been discussed during the committee meeting on August 6, 2020.

Mr. Yoneshige highlighted the overall portfolio performance as of December 31, 2020, noting that returns were up by 16.37 percent for the first two quarters of the fiscal year; 17.99 percent for the 2020 calendar year; 10.69 percent over the last five-year period; and 8.21 percent since UBS began managing the Fund to the end of the second quarter of this fiscal year. He stated that the Fund’s portfolio is performing in line with expectations over the long term and that UBS was extremely pleased with the portfolio’s performance for the 2020 calendar year, especially in light of the devastating economic impacts of the COVID-19 pandemic. It was noted that the primary drivers for this exceptional performance were the international growth, United States equities, and fixed-income portfolios which experienced returns well above their benchmarks.

Overall, the asset allocation and financial performance of the Fund is on par with, or exceeds, the established benchmarks. Internal compliance reviews conducted by UBS also confirmed that the Fund was compliant with its fossil fuel divestiture mandates and all investment policies. While there were no material changes or weaknesses in most aspects of the Fund’s management, UBS noted that there were slight modifications made to the ownership structure of some of the investment managers utilized by the Fund, as well as the retirement of a seasoned portfolio manager. UBS continues to closely monitor these situations to ensure that it does not affect the investment management of the Fund.

It was noted that, at the prior committee meeting, UBS was requested to analyze the Fund’s portfolio performance relative to the performance of similarly-sized endowment funds at other public institutions to gauge the success of the university’s investment strategy. Mr. Yoneshige reported that the Fund’s investment performance did very well relative to other foundations and legacy endowments of under $100 million. He stated that data from the 2019 calendar year, which is the most recent data available for comparison purposes, indicated that investment returns for private foundations averaged 17 percent and other community foundations averaged 18.5 percent. During the same time-period, the Fund had an average investment return of 19.97 percent. Analyses of investment performance from the 2014 through 2019 calendar years also showed that the Fund’s investment performance of 6.97 percent exceeded the investment performance of private and community foundations which averaged 5.8 and 6.4 percent respectively.

Mr. Yoneshige and Ms. Hamano briefed the committee on the financial outlook of the Fund and the direction UBS was considering given the current market situation. Despite the nation experiencing a 10 percent contraction of the gross domestic product, actions
taken by the Federal Reserve, as well as the unprecedented amount of infused liquidity of nearly $7.04 trillion from the federal government and speed at which the stimulus money was provided, allowed the markets to continue to stabilize and show growth.

UBS continues to advocate for keeping the Fund’s allocation in equities at its current level for a number of reasons including increased prices in the equity market, particularly over the last few months; the expectation that markets will remain volatile for the foreseeable future as a result of continued economic uncertainty; the high probability of the Federal Reserve continuing to take action to stimulate the economy; and the anticipated passage of federal legislation that will provide over $1 trillion in additional economic stimulus money. Additionally, bond yields and returns on cash accounts continue to decrease and it currently would not make economic sense to increase asset allocation in these areas. UBS will continue to monitor the financial markets and adjust its investment strategies as more information becomes available with the ultimate goal of maintaining long-term investment strategies.

Noting that international value stocks appear to have performed below 50 percent of their benchmarks, Regent Westerman asked if UBS considered this to be an issue with the international investment manager and if they have contemplated a change in investment managers. Mr. Yoneshige explained that, while the international value manager used by UBS has performed below the benchmarks used for all international equities, when compared to the benchmarks used only for international, value-oriented equities, they are outperforming expectations. He noted that UBS does not plan on changing the international value manager at this time but is closely monitoring the situation to ensure that expectations are met.

Regent Westerman asked whether the growth being experienced by the Fund is covering all of its current expenses and distribution requirements. Mr. Yoneshige responded in the affirmative.

Stating that the current equity allocation of the Fund is at 71 percent, Regent Westerman questioned whether UBS would contemplate significantly increasing this amount. Mr. Yoneshige replied that under current regent policies, UBS is limited to investing a maximum of 80 percent of the Fund in equities. Although UBS may consider acquiring more in equities under the right market conditions, it would probably not consider increasing equity allocations to more than 75 percent of the Fund.

Referencing the Fund’s fossil fuel divestiture mandates, Board Chair Kudo asked whether UBS has compared the performance of environmental social governance (ESG) funds to the non-fossil fuel investments of the Fund and considered investing in ESG funds. Mr. Yoneshige stated that investing in ESG funds has experienced significant increases over the last several years. Although UBS is not focusing on investing in ESG funds and has not performed an official comparative analysis of ESG fund performance relative to the performance of the Fund, he pointed out that the Fund would have outperformed most other ESG funds based upon 2020 investment data and figures.

Board Chair Kudo stated that some analysts believe that the financial markets are currently in a bubble which may burst soon and inquired as to whether UBS had any position or thoughts on the accuracy of this analysis. Ms. Hamano replied that UBS is
aware of reports stating that a bubble market in danger of experiencing large corrections currently exists but that it does not believe the markets to be at that point. She reiterated, however, that equities are currently priced very high, which is one reason UBS continues to advocate for maintaining the Fund’s equity allocation at current levels. Additionally, it was noted that the large gains being experienced by the markets are largely attributable to the continued infusion of federal stimulus money and that the expected influx of another $1.9 trillion in stimulus funding will be market-supportive for the near-term.

Vice-Chair Moore stated that the figure for the consolidated blended index 2 for the 2020 calendar year average was higher than any of the individual components and asked how this was possible. Mr. Yoneshige explained that the figures for the consolidated blended index were separated into two benchmarks. The consolidated blended index benchmark 2 reflects the recent change in regent policies regarding equity investments. In March of 2020, UBS increased the Fund’s equity asset allocation from 60 to 70 percent which coincidentally occurred at the market low and is the reason for the higher figures.

Referencing the analysis of the Fund’s portfolio performance relative to the performance of similarly-sized endowment funds at other public institutions conducted by UBS, Regent Acoba asked about the number of institutional endowment funds that were analyzed and whether they contained endowment funds of public educational institutions. Mr. Yoneshige replied that UBS used a survey conducted by the Council on Foundations Common Fund to perform its analysis of the various endowment funds and that a total of 265 respondents were included in the survey. While the survey only categorized the endowment funds as belonging to private foundations or community foundations, he noted that a total of 15 community foundations and 29 private foundations with endowment funds of $100 million or less were contained in the survey and were used by UBS to perform its comparative analysis.

Regent Acoba questioned what UBS was using as a benchmark for selling equities, whether equity investments had comparable safeguards applicable to individual stock investments to avoid excessive losses such as stops, and whether these types of investment decisions are made by UBS or individual fund managers. Mr. Yoneshige stated that the purchasing or selling of individual stocks is a function of each of the individual managers used by UBS. However, UBS makes the decisions regarding overall asset allocation and closely monitors the performance of individual managers to ensure that they are making sound financial decisions that are in the best interest of the Fund.

Regent Westerman asked about impacts to the Fund’s overall portfolio once economic stimulus money is no longer available. Mr. Yoneshige replied that UBS anticipates that the waning of stimulus money will not have a material impact on the Fund’s overall portfolio because it is extremely diversified.

Chair Sullivan stated that since the value of the Fund now stands at $90 million, both the administration and Regents should contemplate how the Fund could be utilized to better address the financial needs of the university in addition to providing scholarships, particularly given the current economic situation, and how efforts between the board, administration, and University of Hawai‘i Foundation can be better coordinated. VP Young stated that the administration agrees that discussions should occur on using the money in the Fund in a more strategic and coordinated manner. However, he noted that
while the administration typically makes 4.5 percent of the assets Fund’s assets available for scholarships each year, only a fraction of this allocation is drawn down, due in part to the lack of qualified applicants and that approximately 50 percent of the assets in the Fund are restricted by specific requirements placed on the use of the donated funds.

B. FY 2020-2021 Second Quarter Financial Report

VP Young provided the financial report for the second quarter of FY 2020-2021 stating that the Department of Budget and Finance (B&F) has been releasing general fund revenues allocated to the university on a quarterly basis and, as such, the allocation appears comparatively lower than previous fiscal years.

Revenue and expenditure reports were presented for each of the major units of the university. Overall, tuition and fee revenues are slightly lower than for the same time period last fiscal year but greater than the projections that were made at the beginning of this fiscal year. It was noted that revenue levels vary by campus with units such as UHM and UHWO witnessing increases in revenue while UHH and the community colleges have experienced a decrease in revenue. Additionally, while balances of uncollected tuition are expected to continue decreasing throughout the remainder of the academic year, the amount of billed tuition that remains uncollected continues to be higher than previous years, although it was noted that some of this may be attributable to tuition payment plans being made available to students. Revenues for the other special and revolving funds, which are mainly affiliated with and used for specific programs, auxiliary services, or business activities, including areas such as parking, housing, and athletics, also realized significant decreases due to a variety of factors such as the temporary closure of facilities, reduced on-campus presence, and the cancellation of events.

In the area of expenditures, all fund categories, with the exception of the general fund and the Research and Training Revolving Fund, experienced a significant decrease in expenditure amounts due to a variety of factors including the decline of an on-campus presence, the institution of a hiring freeze, travel restrictions, and other cash preservation strategies implemented by the administration during the last quarter of the prior fiscal year and which remain in place. The decrease in expenditures is helping to counter some of the revenue decline that is affecting the balances of these funds.

Regent Acoba asked whether the administration was anticipating a reversal of the decline in tuition and fee revenues for the community colleges over the next three to five years. VP Lacro responded that the decrease in enrollment experienced in 2020 as a result of the COVID-19 pandemic had a disproportionate effect on the tuition and fee revenues fund balances of the community colleges because that is their primary source of external income. However, she noted that enrollment figures for the community colleges are beginning to stabilize. The community colleges are also increasing their efforts and embarking on several initiatives, including a number that focus on high school juniors and seniors, to increase enrollment figures. Associate Vice President (AVP) Mike Unebasami also noted that the community colleges have been attempting to offset some of the decline in tuition revenues with cost-containment and revenue expenditure reduction efforts. VP Young added that, while enrollment at community colleges typically increases during difficult economic conditions, the dynamics of the current economic situation
appear to be impacting enrollment decisions and it is still unclear why community colleges across the nation are experiencing dramatic enrollment declines.

Regent Wilson asked what impact the COVID-19 pandemic had on expenses for the university and whether this was accounted for in the expenditure figures provided by the administration. VP Young stated that the university experienced both direct and indirect expenses related to the COVID-19 pandemic including costs related to the purchase of health and sanitation supplies and installation or upgrading of infrastructure necessary to accommodate online instruction. He noted that these COVID-19 related expenses were included in the net overall expenditures of the university reported earlier. However, he also noted that a sizeable portion, if not all, of the direct COVID-19 related expenses were paid for through the use of Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funds.

C. Review of Finances and Funding Strategies for Select Auxiliary and Enterprise Services

VP Young presented a report on the financial status and funding strategies for select auxiliary and enterprise services units of UHM including Student Housing; Mānoa Housing (also known as faculty housing); Mānoa Dining, which includes food services in student housing and at the Campus Center; Food Services, which covers food services in Paradise Palms, as well as the various food trucks operating on the UHM campus; the University Bookstore; and Commuter Services, which includes parking services, the Rainbow Shuttle, and car sharing programs. While these units are generally self-sufficient, the reduction in on-campus activities because of the COVID-19 pandemic have significantly curtailed their revenues. Although on-campus activity is expected to begin increasing in the fall of 2021 which should facilitate an increase in income for these units, revenues are not expected to increase to pre-COVID-19 levels until fall 2023 or later.

Regent Nahale-a left at 11:49 a.m.

Actual and projected operational revenues and expenditures from FY 2019 through FY 2023 for the select auxiliary and enterprise services units were reviewed with VP Young providing data highlights for each unit as well as some of the efforts undertaken to generate revenues, address revenue shortfalls, and reduce expenditures. He also reviewed the balances of each unit’s various reserve funds including operational reserves, mandatory reserves, emergency reserves, and repair and replacement reserves (R&R reserves). Although any considerable prolonging of current fiscal conditions could have significant impacts on overall reserve balances and will be fiscally challenging, it was noted that most of the units have sufficient reserve fund balances to withstand current economic conditions for the near-term. However, there is concern among some units that a protracted economic slump could have significant impacts to R&R reserves which will affect replacement plans for, and the repair and maintenance of, on-campus physical assets.

Regent Wilson inquired as to what percentage of the operating expenses for Student Housing were fixed costs as opposed to variable expenses that were dependent upon occupancy rates. Carolyn Aquino, Fiscal Administrator for Student Housing, replied that the majority of expenses for Student Housing are fixed costs and that on-campus facilities
remain open. Currently, the main variable costs being experienced by Student Housing are for some utilities and for additional cleaning and sanitation supplies as a result of COVID-19 health protocols.

Regent Higaki left at 11:59 a.m.

Lori Ideta, Interim Vice Chancellor for Students at UHM, provided additional information on the impacts COVID-19 has had on Student Housing at UHM, noting that a decision was made to keep residence halls open despite a campus shutdown. She also offered additional context to some of the data points about Student Housing included in VP Young’s presentation, spoke about efforts and initiatives undertaken to control expenditures and increase revenue, and provided some fiscal projections for the unit.

Regent Wilson asked for clarification regarding utility costs for Student Housing facilities. Ms. Aquino responded that while most of the facilities are currently metered to measure their electricity use and Student Housing is billed accordingly, some of the older facilities do not yet have electrical meters and facilities often are not separately metered for other utilities such as water, sewer, or gas. In those instances, Student Housing is billed for utility usage based upon a historical formula. She noted, however, that this can be problematic and result in situations where, for example, Student Housing is being billed for water usage for a facility despite the facility being closed for a year. VP Gouveia added that the installation of electric meters at all Student Housing facilities has been completed and that administration has identified metering for other utilities as an issue facing Student Housing but that the unit currently lacks sufficient funds to install meters for the other utilities.

Regent Acoba commended the university and Student Housing for their diligent efforts and exceptional work to keep residence halls open during the pandemic which was reassuring for both students and their families. He also asked if any of the CARES Act funds were used to offset expenses for Student Housing. Sandy French, Interim Vice Chancellor for Administration, Finance, and Operations at UHM, stated that Student Housing received CARES Funds for their health and safety efforts related to the COVID-19 pandemic such as for purchasing sanitation equipment and supplies, as well as to provide some housing refunds to students for Spring 2020.

Regent Acoba left at 12:14 p.m.

Chair Sullivan expressed her concern regarding the use of R&R reserves to address budget deficits because this would result in further degradation of facilities and negatively impact the ability of Student Housing to maintain facilities that are desirable to students. Ms. Ideta replied that, while Student Housing has long-term development plans, the focus has remained on essential repair and maintenance of facilities for the next few years given current economic conditions. Laurie Furutani, Interim Director for Student Housing, added that a plan was in place to address both the short-term and long-term infrastructure and facility needs of Student Housing but that the decrease in revenues caused by the COVID-19 pandemic required a shift in priorities. However, as occupancy rates increase, Student Housing anticipates moving forward with its long-range development plans.
Vice-Chair Moore asked about the estimated replacement costs for student housing facilities and what would be an appropriate level of Student Housing reserves given these costs. Ms. Ideta replied that Student Housing currently does not have estimated figures for the complete replacement of facilities under its jurisdiction but that it can start researching and reviewing the issue to help calculate and determine more specific budget reserve requirements.

Regent Wilson questioned whether the food trucks on campus provided income for the university in the form of rent or in fees calculated as a percentage of revenue generated by the food truck. Aedward Los Banos, AVP for Administration, replied in the affirmative noting that the average commission received from food trucks is 17 percent of their gross revenues.

Chair Sullivan requested clarification on revenue loss data for the University Bookstore in FY 2020 since it appeared that reserve balances were insufficient to address experienced revenue loss. VP Gouveia replied that while the University Bookstore’s reserve balance was able to address the revenue loss, various factors in reporting the fiscal data for the University Bookstore made displaying the data in a clear and concise manner difficult and is something that the administration is currently working to improve.

V. ADJOURNMENT

There being no further business, Vice-Chair Moore moved to adjourn, seconded by Regent Westerman, and with all members present voting in the affirmative, the meeting was adjourned at 12:30 p.m.

Respectfully Submitted,

Kendra Oishi
Executive Administrator and Secretary of the Board of Regents
I. CALL TO ORDER

Chair of the Committee on Intercollegiate Athletics Simeon Acoba called the joint meeting to order at 9:00 a.m. on Thursday, February 4, 2021. The joint meeting was conducted virtually with regents participating from various locations.

Committee on Intercollegiate Athletics members in attendance: Chair Simeon Acoba; Vice-Chair Robert Westerman; Regent Kelli Acopan; Regent Eugene Bal; and Regent Wayne Higaki.

Committee on Budget and Finance members in attendance: Chair Jan Sullivan; Vice-Chair Randy Moore; Regent Alapaki Nahale-a; Regent Michelle Tagorda; and Regent Robert Westerman.

Others in attendance: Board Chair Benjamin Kudo; Regent Ernest Wilson (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH-Mānoa (UHM) Provost Michael Bruno; UH-Hilo (UHH) Chancellor Bonnie Irwin; UH-West O‘ahu Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. PUBLIC COMMENT PERIOD

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

III. AGENDA ITEMS
A. Review of the Findings and Recommendations of the Athletics Blue Ribbon Committee

UHM Athletic Director (AD) David Matlin explained that an Athletics Blue Ribbon Committee, also known as the Strategic Visioning Committee (SVC), was formed in the fall of 2020 in light of the deficits and increasing economic challenges that the UHM Athletic Department (UHM Athletics) will undoubtedly encounter in the near future given the current fiscal conditions being experienced by intercollegiate athletics nationwide. Among other things, the SVC was tasked with providing strategic recommendations for the future of athletics at UHM; assessing actions that can be taken to bring revenues and expenses into alignment; discovering ways to address current and future challenges; finding possible opportunities for UHM Athletics to achieve sustainability; and formulating a plan to address these issues by the end of the calendar year.

The membership and organizational structure of the SVC, as well as the process used to gather information and develop recommendations for UHM Athletics, was reviewed by AD Matlin. He noted that the SVC created a focused workplan that took a more comprehensive approach to address the issues facing UHM Athletics; established committees and subcommittees to focus discussions on areas identified as needing evaluation and assessment; and used baseline data and information shared by UHM Athletics, along with information attained through various meetings, to formulate its plan and recommendations.

AD Matlin briefly reviewed the myriad of options, strategic suggestions, and recommendations made by the SVC stating that its work was guided by several overarching themes that included increasing the effectiveness and efficiency of UHM Athletics; greater integration of academics and athletics; increasing student and fan engagement and support; enhancing and improving partnerships with the community and relevant entities such as the Hawaii Tourism Authority (HTA); outsourcing certain UHM Athletics’ functions to take advantage of expertise in areas such as corporate sales, marketing, fundraising, and brand management; and expanding outreach and marketing efforts, particularly in the Asia-Pacific region, that will be beneficial to both athletics and academics. The SVC also stressed the importance of UHM Athletics maintaining its current Division I level status, as well as conference affiliations, as athletic programs are beneficial to university students and athletes, as well as the community and the State.

UHM Athletics continues to evaluate and analyze the feasibility and quantifiable impacts of the recommendations offered by the SVC taking into consideration a number of factors including the financial impacts to UHM Athletics; timeframe to the realization of benefits after implementation; and resource and approval requirements. Consideration of these factors will allow UHM Athletics to proceed with the recommendations and opportunities presented in an efficient and effective manner. Nevertheless, UHM Athletics is currently working on the implementation of selected recommendations that are presently feasible, developing plans for addressing other recommendations, and will continue to build on the efforts of the SVC.
Chair Acoba commended UHM Athletics on the exceptional job it has done on managing the impacts of the COVID-19 pandemic as well as the successes realized in advancing the athletic programs at the university. Of special note was the initiative and expertise of AD Matlin and the athletic department in obtaining an invitation for the football team to participate in a post-season bowl on the mainland with all the benefits that accrue and additionally winning the bowl game.

Noting that a recommendation made by the SVC was to establish online apparel opportunities, Chair Acoba stated that it was his understanding that a company already performed this function for UHM Athletics. AD Matlin responded that, at present, UHM Athletics has an agreement with a sports equipment company to provide equipment and apparel and works with the UHM bookstore to sell athletics-related items online. This recommendation proposes that agreements with third-party companies that specialize in online retailing of athletic wares be established to broaden sales of all UHM Athletics-branded merchandise thereby potentially expanding market share, increasing brand exposure, and generating additional revenue.

Regent Acopan stated that one of the overarching themes that guided the SVC was enhancing and improving community partnerships and asked about the extent to which this was already occurring with regard to UHM Athletics. AD Matlin replied that community support of an athletics program is essential to its sustainability and that UHM Athletics understands that it must be a good community partner. As such, UHM Athletics attempts to remain as engaged as possible and regularly searches for opportunities to assist the community. He highlighted a number of community-driven initiatives in which UHM Athletics actively participates in each year, including literacy programs, get-out-the-vote campaigns, and coaching clinics throughout the state.

Chair Sullivan expressed her concerns regarding an SVC recommendation regarding the increasing of student-athletic fees as a possible means of generating immediate revenue for UHM Athletics. She stated that, while this issue has been discussed in the past, UHM Athletics needs to remain cognizant of the financial difficulties presently facing students given the current economic downturn when considering this recommendation. She also stated that there must be a balance between the amount of the financial needs facing UHM Athletics that is borne by the students and the amount that is borne by the general community. AD Matlin acknowledged this dilemma and concurred with Chair Sullivan’s comments.

Referencing an SVC recommendation concerning reductions in compensation for administrative and coaching staff, Chair Acoba asked how these reductions would be accomplished. AD Matlin replied that it remained unclear how fiscal savings through reduced compensation for administrative and coaching staff would be accomplished. He noted that some personnel cost-savings had already been achieved through retirement, attrition, the implementation of a hiring freeze, and the application of a 9.23 percent salary reduction for executive and managerial employees. However, the salaries for coaches and other administrative personnel are governed by collective bargaining agreements and any compensation reduction with regard to these individuals
will require negotiation and consultation with appropriate collective bargaining unit representatives. In addition, any potential cost savings from a 9.23 percent reduction in salaries for all personnel belonging to collective bargaining units in the form of two-day-a-month furloughs will not be realized as this action will no longer be implemented as originally proposed by the State.

Chair Acoba commented that the idea of working more collaboratively with HTA in establishing initiatives that were beneficial to UHM Athletics appears promising and asked whether someone from UHM Athletics, aside from the AD, is assigned to work with HTA on this issue. AD Matlin stated that, to date, he has been the primary individual working with HTA on a number of promotional events that have taken place over the last few years but that it would be prudent to specifically assign an individual from UHM Athletics to take the lead and focus on this particular issue.

Regent Wilson opined that the expertise, knowledge, passion, and drive of faculty and students of various programs and fields of study at UHM, such as the School of Travel Industry Management and Shidler College of Business, are an often-untapped resource and that UHM Athletics should seek to involve individuals from these programs to assist with the development and implementation of some of the SVC’s recommendations. He noted that such a relationship would not only be beneficial for UHM Athletics but could also provide real-world experience for students in their chosen field of study. AD Matlin agreed with these sentiments and remarked that UHM Athletics has worked with various academic programs at UHM in the past, highlighting a proof-of-concept athletics’ master plan for 2050 project that was conducted by the School of Architecture and used to secure funding from the Legislature for proposed design work. He stated that UHM Athletics will continue to look for opportunities to work collaboratively with academic programs in the future.

Chair Acoba noted a recommendation to develop alternative retirement plans for certain personnel of UHM Athletics that was made by the SVC and asked what that concept entailed. AD Matlin replied that this concept involved the creation of a portable retirement plan that would help reduce some of the fringe-benefit costs for UHM Athletics that are associated with retirement while providing coaches, many of whom do not achieve a vested status with the State, with a transferrable retirement option. However, uncertainty remains on the details involved in creating this type of retirement plan which would require the enactment of legislation.

Mentioning the proposed recommendation to outsource certain functions of UHM Athletics, Chair Acoba questioned whether the primary purpose of this recommendation was to reduce expenses. AD Matlin stated that while this recommendation could potentially reduce expenses, he believed the main purpose of this recommendation was to gain expertise and increase resources that may not be readily available to the university in a more efficient and effective manner, as well as to develop revenue-enhancement opportunities.
B. Future Financial Projections and Strategies for University of Hawai‘i Athletics including Potential Stadium Facilities Upgrades

AD Matlin stated that UHM Athletics, like other institutions, is facing a dynamic and uncertain situation that is unprecedented in intercollegiate athletics. Despite UHM Athletics’ efforts to reduce costs and increase revenues, fiscal challenges continue to be an issue. UHM Athletics is currently projecting a net deficit of $5.5 million for fiscal year (FY) 2021 which was attributable to substantial reductions in generated revenue due to the impacts of COVID-19 being tempered with equally substantial reductions in operating expenses. He briefly reviewed some of the factors impacting the ability of UHM Athletics to generate significant revenues, as well as efforts undertaken to reduce expenses; reported on estimated revenue and expense forecasts for UHM Athletics through FY 2025, noting that the fiscal impacts related to COVID-19 are anticipated to continue through FY 2023; and provided examples of possible effects the implementation of several SVC recommendations would have on the future finances of UHM Athletics beginning in FY 2022.

While Aloha Stadium has been an effective facility for a number of decades and has had numerous positive impacts on the UH football program, its deteriorating condition and lack of amenities considered standard in modern football stadiums has resulted in the decision to demolish the current facility and begin construction of the New Aloha Stadium Entertainment District (NASED). Although UHM Athletics remains committed to working with the Stadium Authority in developing a partnership and returning to Aloha Stadium once the NASED is completed, current plans to demolish the existing stadium has required UHM Athletics to find a new venue that would potentially allow fan participation to host home games for the university’s football team for possibly the next three to four years.

AD Matlin summarized the wide range of factors considered in identifying and selecting a suitable location to host home games. Some of these factors included overall costs and potential for revenue generating opportunities, as well as the ability to address the health and safety needs of players, students, and fans; meet National Collegiate Athletic Association (NCAA) and Mountain West Conference (MWC) requirements or obtain waivers from these requirements; and accommodate anticipated fan attendance while providing facilities that were easily accessible for both students and fans. While a number of alternatives including the use of existing off-campus facilities and neighbor island venues were considered, the Clarence T.C. Ching Athletic Complex (Ching Athletic Complex) on the UHM campus was selected as the most feasible option. He noted that work has already begun on identifying and planning for improvements to the Ching Athletic Complex to accommodate home games and highlighted some of the required improvements such as the expansion of seating capacity; addition of supplemental restroom facilities; development of press boxes and media accommodations; and enhancement of food, beverage, and merchandising options to address fan expectations. However, it was underscored that if the unavailability of a stadium within the NASED extends beyond a few years, further improvements to the Ching Athletic Complex may be required.
Concerns expressed regarding the ability of the Ching Athletic Complex to accommodate anticipated attendance for football games and the cost estimates to make the necessary improvements, were addressed by AD Matlin who stated that crowds of up to 20,000 individuals have been accommodated in the past. He also outlined current estimates for facility improvements which equate to an overall amount of approximately $6 million.

AD Matlin outlined the next steps in the process for the utilization of the Ching Athletic Complex as the home field for university football including working with the Stadium Authority to determine if items such as scoreboards can be borrowed to help minimize costs; determining any additional NCAA or MWC requirements that may be impacted by playing football at the facility and developing plans to address these issues; and identifying external funding sources to assist in offsetting costs for necessary improvements. He also stated that UHM Athletics will continue dialogues with the Stadium Authority and others in establishing partnerships regarding NASED because a new, modern stadium complex is a game-changer for any college football program and could provide significant revenue generating activities that would not only be beneficial for UHM Athletics, but for the entire community.

Regent Higaki asked whether tailgating will be allowed at games held on the UHM campus and, if so, whether consideration has been given to any negative impacts this may have on the physical environment of the campus. AD Matlin responded that tailgating will not be possible, at least for this year, but that UHM Athletics is looking at alternatives where it can host a controlled tailgating experience on campus.

Noting that the country and state are in the midst of a pandemic, Regent Tagorda asked whether social distancing protocols are being taken into consideration when determining fan capacity for on-campus football games. AD Matlin replied that UHM Athletics has taken social distancing considerations into account with regard to holding sporting events on campus. While it is hopeful that continued vaccination efforts will allow for sporting events such as football games to be held in the fall with less-restrictive social distancing requirements, it remains uncertain whether or not this situation will occur. However, UHM Athletics is assuming that the ability to host on-campus football games with 10,000 fans in attendance will be allowed over the next three-year period.

Additional comments and discussion occurred regarding the possible long-term benefits an on-campus football stadium could provide in terms of increased student engagement that could translate into a larger fan base for the program, as well as revenue-enhancement possibilities through the rental of facilities for external events.

Chair Sullivan questioned what the timeframe was for completing the necessary improvements to host on-campus football games and whether this could be accomplished by the fall. AD Matlin responded that some of the requirements, such as turf replacement, need to be addressed as soon as possible, while others, such as the enhancement of merchandising options, can be accomplished through a phased-in approach. He stated that the improvements are currently being prioritized and opined
that immediate requirements could be addressed by the fall, although it will be challenging.

Chair Sullivan asked if reports that the Stadium Authority offered to allow the university football team to play its upcoming season at Aloha Stadium without fans with a concomitant reduction in fees for use of the Stadium were accurate. AD Matlin acknowledged that the Stadium Authority offered to allow the university football team to play at Aloha Stadium without fans in attendance but that a reduction in fees was not a provision of the offer. However, UHM Athletics did not believe acceptance of the offer would be in the best interest of the university since a venue to host football games would need to be acquired in the near future because of the anticipated demolition of Aloha Stadium and it felt that beginning construction of the NASED as soon as feasible would be the most beneficial course of action for all parties involved.

Noting that UHM Athletics accounted for the cost of renting bleachers in its operating budget, Chair Sullivan asked whether it would make more economic sense to purchase the bleachers using capital improvement funds. AD Matlin replied that a decision on the bleachers has not been made and UHM Athletics is considering both the option of renting the bleachers or purchasing them. He agreed that the purchase and installation of permanent bleachers could be more economically feasible because it would allow capital improvement funds to be used and could be an asset that would increase the possibility of attracting revenue generating opportunities through future facility rentals for events such as high-school football games or graduations and concerts, but noted that construction permitting is one factor under consideration in weighing the options. Given the timeframe, Chair Sullivan suggested that the athletic department give serious consideration to purchasing the bleachers using capital improvement funds rather than renting the stands through the operational budget which is already significantly in the red.

Chair Sullivan questioned whether spending $6 million to accommodate an on-campus football facility would require an equivalent amount to be spent on women’s athletics in accordance with Title IX. AD Matlin responded that UHM Athletics has checked with Title IX compliance officials and there are no Title IX implications with regard to this issue. He noted that the litmus test for Title IX compliance with regard to facilities is not about the amount of money spent on facilities but rather if equivalent facilities exist for men’s and women’s athletics. However, it is an issue that needs to be continually monitored.

Referencing the figure of an estimated $4.2 million for necessary improvements to the Ching Athletic Complex cited in the CIP budget, Chair Acoba asked if these were one-time costs and whether these figures were reflected in UHM Athletics’ long-term fiscal projections presented earlier. AD Matlin responded that the CIP funding was a one-time cost that would most likely occur on the front-end. He also stated that, while the long-term financial projections presented earlier included the operating costs for hosting games at the Ching Athletic Complex, they did not include capital costs.
Chair Acoba questioned how UHM Athletics planned on addressing its long-term deficits. AD Matlin replied that it will take a multi-pronged approach and effort to address the long-term deficits. UHM Athletics will continue to look at implementing the recommendations of the SVC where appropriate, search for additional revenue generating opportunities, and work to control and limit expenditures including through adherence to actions already implemented and undertaken.

Chair Acoba requested clarification about a statement made that the complete prohibition of fans at Aloha Stadium for 2021 would not be a viable option for UHM Athletics. AD Matlin responded that the football program would realize significant impacts on numerous levels if UHM Athletics were to accept the previously mentioned offer to allow games to be played at Aloha Stadium sans fans for the 2021 season. He noted that the inability to have fans attend games at Aloha Stadium while other football programs across the country are anticipating fan attendance on some level for the 2021 season with COVID-19 precautions in place would create an uneven playing field and disproportionately impact the football program in terms of, among other things, lost revenues, decreased engagement with fans that would result in a dwindling fan base, and recruiting talented student-athletes.

Assuming the COVID-19 pandemic ends and the maximum amount of 10,000 fans accommodated by the Ching Athletic Complex attend each game, Vice-Chair Moore asked what the anticipated net revenue difference would be for UHM Athletics playing games on campus versus playing games at Aloha Stadium pre-pandemic. AD Matlin replied that UHM Athletics is anticipating it will realize an annual loss of $400,000 in net revenue by playing games at the Ching Athletic Complex versus playing at Aloha Stadium with pre-pandemic fan attendance.

Referencing a comment made that the Stadium Authority believes the NASED will be completed by 2024 or 2025, Board Chair Kudo questioned whether this was a realistic timetable given the long delays often experienced by State projects in the past. AD Matlin replied that the 2024 – 2025 or later completion date is what UHM Athletics is estimating the timetable will be for completion of the NASED based upon available information. However, the Stadium Authority still believes that completion of the NASED by 2023 is possible.

Vice-Chair Westerman asked whether UHM Athletics anticipated it would ever overcome the expected net revenue loss from playing games at the Ching Athletic Complex and whether it believed use of this venue for playing home games would be a long-term option. AD Matlin replied that playing games on-campus offers some revenue generating potential and could serve as a short-term opportunity to generate increased interest and engagement in the program, particularly among students. However, UHM Athletics will continue to have discussions with the Stadium Authority about an anticipated return to the NASED once it is completed.

IV. ADJOURNMENT
There being no further business, Vice-Chair Moore moved to adjourn, seconded by Vice-Chair Westerman, and with all members present voting in the affirmative, the meeting was adjourned by Chair Sullivan at 10:13 a.m.

Respectfully Submitted,

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents
FY 2021
Legacy Endowment Update

Budget and Finance Committee, Board of Regents
March 4, 2021
Legacy Endowment Funds Overview

• Legacy Endowment is separate and different from UH Foundation
• Corpus was received prior to the UH Foundation establishment in 1955
• Funds are currently managed by UBS Financial Services
• Investment asset allocation is based on Board Policy 8.207
• Portfolio valued at $78,552,322 million as of 6/30/2020
• The University President is authorized to approve an endowment distribution of up to 4.25% for restricted endowment payout
• The distribution percentage was 4.5% for the last five years
# Endowment Market Value

20-quarter rolling average of the market value of the endowment as of 6/30

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>4 Qtr Avg Mkt 6/30/2016</th>
<th>4 Qtr Avg Mkt 6/30/2017</th>
<th>4 Qtr Avg Mkt 6/30/2018</th>
<th>4 Qtr Avg Mkt 6/30/2019</th>
<th>4 Qtr Avg Mkt 6/30/2020</th>
<th>20 Qtr Average Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pool-UBS Financial Services</td>
<td>$62,895,044</td>
<td>$66,601,735</td>
<td>$71,734,499</td>
<td>$72,495,549</td>
<td>$75,125,063</td>
<td>$69,770,378</td>
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</tbody>
</table>

![Graph showing market value trend for 6/30/2016 to 6/30/2020]
# Endowment Funding Sources and Payouts

A comparative chart outlines distribution payouts based on the various allocation percentage rates.

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Authorized Payout %</th>
<th>20-Quarter Rolling Avg. of Market Value as of 6/30/2020</th>
<th>Purpose</th>
<th>2021 Comparative Payout by Percentage</th>
<th>2020 Authorized Payout</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restricted Funds Payout</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donors</td>
<td>Up to 4.25% of 20-Quarter Rolling Avg of Market Value</td>
<td>$33,363,326</td>
<td>Primarily for Scholarships</td>
<td>$1,417,580.00</td>
<td>$1,483,320.00</td>
</tr>
<tr>
<td><strong>Unrestricted Funds Payout</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from Manoa Stadium Stock funds</td>
<td>A maximum of 50% of potential payout</td>
<td>$36,407,052</td>
<td>Athletics- Manoa</td>
<td>$506,520.00</td>
<td>$531,560.00</td>
</tr>
<tr>
<td>Stock funds, Proceeds from the sales of the Kaimuki Observatory lot and Rental of University Property (per Regents Policy 8.212)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>A maximum of 15% of potential payout</td>
<td>Athletics- Hilo</td>
<td>$151,950.00</td>
<td>$150,160.00</td>
<td>$148,380.00</td>
<td>$148,590.00</td>
</tr>
<tr>
<td>A maximum of $50K</td>
<td>President's Projects</td>
<td>$50,000.00</td>
<td>$50,000.00</td>
<td>$50,000.00</td>
<td>$50,000.00</td>
</tr>
<tr>
<td>A maximum of $25K</td>
<td>Awards - Faculty &amp; Staff</td>
<td>$25,000.00</td>
<td>$25,000.00</td>
<td>$25,000.00</td>
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<tr>
<td>A maximum of $60K</td>
<td>Monitor Fees</td>
<td>$60,000.00</td>
<td>$60,000.00</td>
<td>$60,000.00</td>
<td>$60,000.00</td>
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<tr>
<td>A maximum of $486K</td>
<td>RAPS + Admin Exp</td>
<td>$486,000.00</td>
<td>$486,000.00</td>
<td>$486,000.00</td>
<td>$486,000.00</td>
</tr>
<tr>
<td>Up to 4.25% of 20-Quarter Rolling Avg of Market Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maui College Scholarships</td>
<td>$13,800.00</td>
<td>$13,640.00</td>
<td>$13,480.00</td>
<td>$13,310.00</td>
<td>$14,650.00</td>
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<tr>
<td><strong>Total Unrestricted</strong></td>
<td>$36,407,052</td>
<td>$1,293,270</td>
<td>$1,285,360</td>
<td>$1,277,460</td>
<td>$1,269,540</td>
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</table>
## UH Legacy Endowment Distribution Authorized vs. Actual

<table>
<thead>
<tr>
<th>($ in thousands)</th>
<th>FY 2019 Max Payout Authorized at 4.5%</th>
<th>FY 2019 Actual Payout</th>
<th>FY 2020 Max Payout Authorized at 4.5%</th>
<th>FY 2020 Actual Payout</th>
<th>FY 2021 Max Payout Authorized at 4.25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Designated Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Athletics – Mānoa</td>
<td>517.6</td>
<td>517.6</td>
<td>$ 531.5</td>
<td>$ 531.5</td>
<td>$ 506.5</td>
</tr>
<tr>
<td>Athletics – Hilo</td>
<td>155.3</td>
<td>155.3</td>
<td>159.5</td>
<td>159.5</td>
<td>151.9</td>
</tr>
<tr>
<td>Regents and Presidential Scholarship</td>
<td>486.0</td>
<td>454.0</td>
<td>486.0</td>
<td>457.8</td>
<td>486.0</td>
</tr>
<tr>
<td>Maui College Scholarships</td>
<td>14.5</td>
<td>14.5</td>
<td>14.6</td>
<td>14.7</td>
<td>13.8</td>
</tr>
<tr>
<td>President’s Projects</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
<td>0.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Awards – Faculty &amp; Staff</td>
<td>25.0</td>
<td>0</td>
<td>25.0</td>
<td>20.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Endowment Monitor Fees</td>
<td>60.0</td>
<td>0</td>
<td>60.0</td>
<td>0.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Donor Restricted Funds</td>
<td>1,444.4</td>
<td>976.6</td>
<td>1,483.3</td>
<td>1,113.8</td>
<td>1,417.6</td>
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<tr>
<td>Total</td>
<td>$2,752.8</td>
<td>2,168.0</td>
<td>$2,810.0</td>
<td>2,297.3</td>
<td>$2,710.8</td>
</tr>
<tr>
<td>% of Actual Spending over Authorized</td>
<td>78.76%</td>
<td></td>
<td></td>
<td>81.75%</td>
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</tbody>
</table>
## Payout Purposes and Actual Payouts

<table>
<thead>
<tr>
<th>($ in thousand)</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarships</td>
<td>1,486.5</td>
<td>1,724.0</td>
<td>Engineering &amp; Medicine scholarship - $293.1K; UH Manoa Athletics - $531.6K; UH Hilo Athletics - $159.5K; College of Natural Sciences $547.3K; Enrollment Management $56.4K</td>
</tr>
<tr>
<td>Regents and Presidential Scholarship</td>
<td>454</td>
<td>457.8</td>
<td>Stipends for 20 Regents scholars &amp; 10 Presidential scholars; one time travel grant of up to $2K per scholar.</td>
</tr>
<tr>
<td>Faculty &amp; Staff Awards</td>
<td>0</td>
<td>20.0</td>
<td>BOR Excellence in Teaching, in Research; BOR Willard Wilson Distinguished Service Award, and President's Award for Excellence in Building &amp; Grounds Maintenance.</td>
</tr>
<tr>
<td>President Projects</td>
<td>50</td>
<td>0</td>
<td>Funding projects throughout the University System at the President's discretion in amounts not to exceed $10K per project</td>
</tr>
<tr>
<td>Research</td>
<td>45.6</td>
<td>46.2</td>
<td>SOEST $41.1K; Lyon Arboretum $5.1K</td>
</tr>
<tr>
<td>Academic Support</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Faculty Support</td>
<td>81.9</td>
<td>13.3</td>
<td>School of Pacific &amp; Asian Studies - $4.2K; College of Engineering $9.1K</td>
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<tr>
<td>JABSOM</td>
<td>50</td>
<td>36.0</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,168.0</td>
<td>2,297.3</td>
<td></td>
</tr>
</tbody>
</table>
MEMORANDUM

TO: Benjamin Kudo  
Chair, Board of Regents  

Jan Sullivan  
Chair, Committee on Budget and Finance  

FROM: Kendra Oishi  
Executive Administrator and Secretary of the Board of Regents  

SUBJECT: Recommend Board Approval of Amendments to Regents Policy (RP) 8.204, University Budget (Operating and Capital Improvements)  

SPECIFIC ACTION REQUESTED:

It is requested that the Committee on Budget and Finance (B&F Committee) recommend that the Board of Regents (Board) approve the proposed changes to RP 8.204, University Budget (Operating and Capital Improvements).

BACKGROUND:

During its April 4, 2019, meeting, the B&F Committee held discussion on RP 8.204 and whether the language in the policy is appropriate and being followed. Discussion included a suggestion that provisions for a 6-year rolling operating budget, similar to the provisions for the capital improvement budget, be added to the policy. It was also noted that the budget policy paper and process has not been an effective tool. Administration was requested to review and address the following topics:

- Dashboard of metrics
- Financial management best practices
- Comprehensiveness of the budget
- Budget policy paper
- Ease of reporting
- Rolling six-year plans
A subsequent discussion was held during the May 2, 2019, B&F Committee meeting where Administration reviewed the history and context of RP 8.204, an assessment of the policy, and areas for policy enhancements.

Administration submitted proposed revisions for consideration by the B&F Committee at its September 5, 2019, meeting to address the topics that were discussed during the aforementioned meetings. The B&F Committee recommended board approval of the proposed changes to RP 8.204, with one minor additional amendment. At the September 26, 2019, Board meeting, it was requested that RP 8.204 be removed from the consent agenda and that additional time be provided to review the proposed changes, and the Board did not take action on the item.

The proposed revisions presented in the attached are substantively the same as presented during the September 26, 2019, Board meeting with some formatting and minor technical changes. Highlights of the proposed revisions include:

- Requiring the annual operating and capital improvement project (CIP) expenditure plan to be presented in the context of a 6-year rolling plan;
- Specifying that operating and CIP budgets advance Board-approved systemwide strategies, priorities, and plans;
- Adjusting the policy-specified reporting periods to allow for flexibility;
- Specifying that the CIP reports identify projects with estimated expenditures exceeding $5 million in construction and $1 million in design costs, which reflects current practice;
- Removing provisions relating to the preparation of a budget policy paper; and
- Specifying that budget requests be realistic about the State’s ability to invest in public higher education and shall emphasize strategic goals, plans, directions, and priorities approved and/or provided by the Board.

**ACTION RECOMMENDED:**

The B&F Committee is requested to recommend board approval of the aforementioned revisions to RP 8.204.

**Attachments:**
- RP 8.204 original
- RP 8.204 redline
- RP 8.204 clean
Board of Regents Policy, RP 8.204
University Budget (Operating and Capital Improvements)

Regents Policy Chapter 8, Business and Finance
Regents Policy RP 8.204, University Budget (Operating and Capital Improvements)
Effective Date: Feb. 25, 2016
Review Date: August 2018

I. Purpose:
To set forth policy on the university's fiscal management, budget process, and legislative budget proposal and preparation process.

II. Definitions:
No policy specific or unique definitions apply.

III. Policy:
A. The board recognizes its fiduciary obligation to ensure that the university is managing its resources in a fiscally responsible manner. Leading practices encourage boards to establish policies and practices to ensure that institutional priorities and budget expenditures are aligned and to ensure that resources are strategically invested in the university’s mission, vision, and plans.

B. The administration shall support the board to ensure that it can properly fulfill its fiduciary responsibilities. To this end, the president and administration shall:

1. Provide the necessary information to keep the board informed on key fiscal indicators, including through a dashboard with relevant metrics that allow high level tracking of progress against key financial performance indicators;

2. Institute best practices in financial management in concert with the board;

3. Establish uniform reports that shall be utilized for financial management and reporting across the university; and

4. Establish operational and management processes and policies to ensure uniformity in budget building and financial reporting across the university.

C. Budgets are one component of a comprehensive system of planning, programming and financing the programs of the university. The system shall consist of:

1. The articulation of overall articulation of overall university and campus missions; the development, coordination and review of long-range goals, objectives and
directions to achieve these missions; and the development of programs and plans to implement these goals, objectives and directions;

2. An integrated, orderly system for the continuous review and evaluation of programs and needs that results in the establishment, modification and termination of programs as appropriate. This review shall include the regular appraisal and reporting of program performance across both qualitative and quantitative dimensions. It shall also include the evaluation of alternatives to existing, policies, plans, practices and procedures that offer more efficient and effective use of university resources to achieve the institution's highest priority goals and objectives;

3. The preparation and implementation of a comprehensive budget organized to focus available resources required to undertake programs and program changes necessary to implement the long-range goals and objectives of the university. The development of the university's budget shall include consideration of non-general funds and operating reserves; and

4. This comprehensive system shall be characterized as much as possible by openness and collaboration among students, faculty, administrators and policymakers.

D. The board shall, at a minimum, conduct the following:

1. Annual review and approval of budgets.
   a. The board shall approve an annual operating budget for all campuses, the system and the board office. The operating budget shall account for all sources of funds, as well as all major categories of expenditures.
   b. The board shall approve an annual capital improvement project budget for the university. The capital improvement budget shall account for all major projects that will be in the planning, design or construction stages. The budget shall be presented in the context of a rolling 6-year capital improvement plan and budget, which shall be approved and updated by the board on an as-needed basis.
   c. The operating and capital improvement budgets shall be transmitted to the board for review and approval following each legislative session and shall incorporate the most recent legislative appropriations and actions.

2. Quarterly reviews.

The administration shall provide reports to the board on a quarterly basis. The reports shall include:

   a. A financial report that is based upon the board approved operating budget and that shows budget to actual performance, along with explanations for
significant deviations from the approved budget. The financial report shall provide initial balances, revenues, expenditures and any updates to projected year-end balances based on activity in the previous quarter. It shall also include an explanation of significant trends or events that are reflected. The report shall show board-established reserve targets for the major units, along with actual reserves for the quarterly period.

b. A capital improvement report that is based upon the board approved capital improvement plan and that shows progress against the board approved CIP budget. The report shall also indicate projects that are significantly deviating from the approved budget or schedule and give an explanation for the deviation.

c. A financial dashboard report to indicate progress and status against agreed-upon metrics.

3. Annual reports.

The administration shall provide reports to the board on an annual basis that includes balance sheets, income statements, and records of cash flow.

Policy and Governing Principles for the Biennial and Supplemental Budget Proposals to the Legislature

A. Each year, the president, upon approval by the board, shall submit to the governor and the legislature, the university’s proposed biennial or supplemental budget, as applicable, which shall be designated the “Board of Regents’ Budget.” This budget proposal shall comply with applicable statutes and directives from the governor and legislature.

1. The major activities of the legislative budget preparation process shall consist of the following:

   a. Preparation of budget policy paper

      (1) Using input from key stakeholders at the state and the university, as well as a review of university and campus planning goals and plans, the president shall direct the preparation of a budget policy paper and approve its submittal for review and approval by the board. The paper shall set forth the environmental context for budget building, as well as general program, policy and management objectives, and institutional priorities to guide the preparation of the budget request.

   b. Preparation and issuance of budget instructions

      (1) Upon board approval of the budget policy paper, the president shall issue formal instructions and directions for the preparation of the legislative budget request. The instructions and directions shall include,
as a minimum, the budget objectives included in the board approved budget policy paper.

c. Administrative and executive approval of budgets

   (1) The president shall review and approve for submittal to the board, the operational and capital improvement budget requests for the major units of the university based on the submittals from senior executives for their respective units, the budget policy paper including the environmental context for the state and higher education.

d. To the extent possible, the budget information that is provided to the board accompanying the budget proposal shall include context for the request that would affect or complement the legislative budget request. Upon board approval, the proposed budget shall be referred to as the “Board of Regents’ Budget” and shall be transmitted to the governor and the legislature in accordance with applicable statute.

IV. Delegation of Authority:

There is no policy specific delegation of authority.

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

A. http://www.hawaii.edu/offices/bor/

Approved as to Form:

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents
I. **Purpose:**

To set forth policy on the university’s fiscal management, budget process, and legislative budget proposal and preparation process.

II. **Definitions:**

No policy specific or unique definitions apply.

III. **Policy:**

A. The board recognizes its fiduciary obligation to ensure that the university is managing its resources in a fiscally responsible manner. Leading practices encourage boards to establish policies and practices to ensure that institutional priorities and budget expenditures are aligned and to ensure that resources are strategically invested in the university’s mission, vision, and plans.

B. The administration shall support the board to ensure that it can properly fulfill its fiduciary responsibilities. To this end, the president and administration shall:

1. Provide the necessary information to keep the board informed on key fiscal indicators, including through a dashboard with relevant metrics that allow high level tracking of progress against key financial performance indicators;

2. Institute best practices in financial management in concert with the board; and

3. Establish uniform reports that shall be utilized for financial management and reporting across the university; and

4. Establish operational and management processes and policies to ensure uniformity in budget building and financial reporting across the university.

C. Budgets are one component of a comprehensive system of planning, programming and financing the programs of the university. The system shall consist of:

1. The articulation of overall university and campus missions; the development, coordination and review of long-range goals, objectives and
directions to achieve these missions; and the development of programs and plans to implement these goals, objectives and directions;

2. An integrated, orderly system for the continuous review and evaluation of programs and needs that results in the establishment, modification and termination of programs as appropriate. This review shall include the regular appraisal and reporting of program performance across both qualitative and quantitative dimensions. It shall also include the evaluation of alternatives to existing, policies, plans, practices and procedures that offer more efficient and effective use of university resources to achieve the institution’s highest priority goals and objectives;

3. The preparation and implementation of a comprehensive budget organized to focus available resources required to undertake programs and program changes necessary to implement the long-range goals and objectives of the university. The development of the university’s budget shall include consideration of non-general funds and operating reserves; and

4. This comprehensive system shall be characterized as much as possible by openness and collaboration among students, faculty, administrators and policymakers.

D. The board shall, at a minimum, conduct the following:

1. Annual review and approval of operating and capital budgets, and expenditure plans, and acceptance of 6-year rolling plans.

   a. The board shall approve an annual operating budget request for the upcoming fiscal year(s) which is intended to be the university’s annual request to the Legislature (see Section D below). The board shall also approve an annual operating budget expenditure plan for all campuses, the system, and the board office. The operating budget expenditure plan shall account for all sources of funds, as well as all major categories of expenditures.

   The annual operating expenditure plan shall incorporate the most recent legislative appropriations and actions and be presented in the context of a rolling 6-year financial plan. For each year, the 6-year financial plan shall provide initial balances, projected revenues, projected expenditures, and projected closing balances. The annual operating budget request, the annual operating expenditure plan, and the 6-year financial plan shall advance the board-approved strategies, priorities, and plans across the University of Hawai’i System.

   b. The board shall approve an annual capital improvement project budget for the university, request for the upcoming fiscal year(s) which is intended to be the university’s annual request to the Legislature (see Section D below). The
capital improvement budget shall account for all major projects that will be in the planning, design, or construction stages.

The budget board shall also approve an annual capital improvement project expenditure plan that incorporates the latest legislative appropriations and actions, which shall be presented in the context of a rolling 6-year capital improvement plan and budget, which shall be approved and updated by the board on an as-needed basis. For each year, the 6-year capital improvement plan shall also provide expected beginning and ending levels of estimated deferred maintenance backlog by major unit. The annual capital improvement project budget and 6-year plan shall advance the board-approved strategies, priorities, and plans across the University of Hawai‘i System.

c. The operating and capital improvement budgets shall be transmitted to the board for review and approval following each legislative session and shall incorporate the most recent legislative appropriations and actions.

2. Quarterly reviews—Review and oversight.

The administration shall provide reports to the board at least semi-annually, or on a quarterly, as directed, basis. The reports shall include:

a. A financial report that is based upon the board-approved operating budget expenditure plan and that shows budget-to-actual performance, along with explanations for significant deviations from the approved budget expenditure plan. The financial report shall provide initial balances, revenues, expenditures and any updates to projected year-end balances based on year-to-date activity in the previous quarter. It shall also include an explanation of significant trends or events that are reflected. The report shall show board-established reserve targets for the major units, along with actual reserves for the quarterly period.

b. A capital improvement report that is based upon the board-approved capital improvement plan and that shows progress against the board-approved CIP budget. The report shall also indicate projects that are significantly deviating from the approved budget or schedule and give an explanation for the deviation. It shows the status of all major CIP projects which have estimated expenditures exceeding $5 million in construction and $1 million in design.

c. A financial dashboard may be made available to provide more real-time visibility into financial performance between reports to the board. The report shall indicate progress and status against agreed-upon metrics.

3. Annual reports.
The administration shall provide reports to the board on an annual basis that includes balance sheets, income statements, and records of cash flow.

D. Policy and Governing Principles for the Biennial and Supplemental Budget Proposals/Requests to the Legislature.

Each year, the administration president, upon approval by the board, shall develop submit to the governor and the legislature, the university’s proposed biennial or supplemental budget, as applicable, operating and capital budget requests, including any requests for new state support for consideration and approval by the board. The following policy and principles shall apply to the budget requests: which shall be designated the “Board of Regents’ Budget.” This budget proposal shall comply with applicable statutes and directives from the governor and legislature.

1. The major activities of the legislative budget preparation process shall consist of the following:

a. Preparation of budget policy paper

(1) Using input from key stakeholders at the state and the university, as well as a review of university and campus planning goals and plans, the president shall direct the preparation of a budget policy paper and approve its submittal for review and approval by the board. The paper shall set forth the environmental context for budget building, as well as general program, policy and management objectives, and institutional priorities to guide the preparation of the budget request.

b. Preparation and issuance of budget instructions

(1) Upon board approval of the budget policy paper, the president shall issue formal instructions and directions for the preparation of the legislative budget request. The instructions and directions shall include, as a minimum, the budget objectives included in the board approved budget policy paper.

c. Administrative and executive approval of budgets

(1) The president shall review and approve for submittal to the board, the operational and capital improvement budget requests for the major units of the university based on the submittals from senior executives for their respective units, the budget policy paper including the environmental context for the state and higher education.

1. Proposed budget requests for legislative support shall be realistic about the ability of the State to invest in public higher education in any given year and shall emphasize strategic goals, plans, directions, and priorities approved and/or provided by the board.
d-2. To the extent possible, the budget information that is provided to the board accompanying the proposed budget requests shall include context for the requests that explains, affects, and complements the legislative budget requests, would affect or complement the legislative budget request.

3. Upon board approval, the proposed budget requests shall be referred to as the “Board of Regents' Budget” and shall be transmitted to the governor and the legislature in accordance with applicable statutes and directives.

IV. Delegation of Authority:

There is no policy specific delegation of authority.

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

A. http://www.hawaii.edu/offices/bor/

Approved as to Form:

Cynthia Quinn Kendra Oishi
Executive Administrator and Secretary of the Board of Regents
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1. Provide the necessary information to keep the board informed on key fiscal indicators, including through a dashboard with relevant metrics that allow high level tracking of progress against key financial performance indicators;

2. Institute best practices in financial management in concert with the board; and

3. Establish operational and management processes and policies to ensure uniformity in budget building and financial reporting across the university.

C. Budgets are one component of a comprehensive system of planning, programming and financing the programs of the university. The system shall consist of:

1. Annual review and approval of operating and capital budgets, and expenditure plans, and acceptance of 6-year rolling plans.
a. The board shall approve an annual operating budget request for the upcoming fiscal year(s) which is intended to be the university’s annual request to the Legislature (see Section D below). The board shall also approve an annual operating expenditure plan for all campuses, the system, and the board office. The operating expenditure plan shall account for all sources of funds, as well as all major categories of expenditures.

The annual operating expenditure plan shall incorporate the most recent legislative appropriations and actions and be presented in the context of a rolling 6-year financial plan. For each year, the 6-year financial plan shall provide initial balances, projected revenues, projected expenditures, and projected closing balances. The annual operating budget request, the annual operating expenditure plan, and the 6-year financial plan shall advance the board-approved strategies, priorities, and plans across the University of Hawai‘i System.

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The board shall also approve an annual capital improvement project expenditure plan that incorporates the latest legislative appropriations and actions, which shall be presented in the context of a rolling 6-year capital improvement plan. For each year, the 6-year capital improvement plan shall also provide expected beginning and ending levels of estimated deferred maintenance backlog by major unit. The annual capital improvement project budget and 6-year plan shall advance the board-approved strategies, priorities, and plans across the University of Hawai‘i System.

2. Review and oversight.

The administration shall provide reports to the board at least semi-annually, or on an as-directed basis. The reports shall include:

a. A financial report that is based upon the board-approved operating expenditure plan and that shows budget-to-actual performance, along with explanations for significant deviations from the approved expenditure plan. The financial report shall provide initial balances, revenues, expenditures and any updates to projected year-end balances based on year-to-date activity. It shall also include an explanation of significant trends or events. The report shall show board-established reserve targets for the major units, along with actual reserves.
b. A capital improvement report that shows the status of all major CIP projects which have estimated expenditures exceeding $5 million in construction and $1 million in design.

c. A financial dashboard may be made available to provide more real-time visibility into financial performance between reports to the board.

3. Annual reports.

The administration shall provide reports to the board on an annual basis that includes balance sheets, income statements, and records of cash flow.

D. Policy and Governing Principles for the Biennial and Supplemental Budget Requests to the Legislature.

Each year, the administration shall develop proposed biennial or supplemental, as applicable, operating and capital budget requests, including any requests for new state support for consideration and approval by the board. The following policy and principles shall apply to the budget requests:

1. Proposed budget requests for legislative support shall be realistic about the ability of the State to invest in public higher education in any given year and shall emphasize strategic goals, plans, directions, and priorities approved and/or provided by the board.

2. The budget information that is provided to the board accompanying the proposed budget requests shall include context for the requests that explains, affects, and complements the legislative budget requests.

3. Upon board approval, the proposed budget requests shall be referred to as the “Board of Regents’ Budget” and shall be transmitted to the governor and the legislature in accordance with applicable statutes and directives.

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V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

A. http://www.hawaii.edu/offices/bor/

Approved as to Form:
Kendra Oishi
Executive Administrator and
Secretary of the Board of Regents
February 27, 2021

MEMORANDUM

TO: Benjamin Kudo  
    Chair, Board of Regents

                Jan Sullivan  
        Chair, Committee on Budget and Finance

FROM: Kendra Oishi  
    Executive Administrator and Secretary of the Board of Regents

SUBJECT: Recommend Board Approval of Amendments to Regents Policy  
        (RP) 8.207, Investments

SPECIFIC ACTION REQUESTED:

It is requested that the Committee on Budget and Finance (B&F Committee)  
recommend that the Board of Regents (Board) approve the proposed changes to RP  
8.207, Investments.

BACKGROUND:

RP 8.207 was substantially revised in March 2020 in response to recommendations  
from the Board’s permitted interaction group on investments, which was dissolved in  
October 2019, and related discussions. Parallel to the in-depth review that took place  
specific to investments, Administration has continued to consider alternative forms of  
revenue-generation through strategic partnerships and property development. The  
purpose of the proposed revisions to RP 8.207 is to allow for flexibility to diversify the  
University’s investment portfolio in the future with strategic investments in real estate.

The proposed revisions are summarized as follows:

(1) Explicitly charges the B&F Committee and Vice President for Budget and  
    Finance/Chief Financial Officer with the responsibility of reviewing matters  
    related to the direct investment of legacy endowment funds in real estate and  
    making recommendations to the Board as appropriate;

(2) Removes alternative investments from the asset allocation table, and  
    specifies that the asset allocation table is for assets directed by the  
    investment advisor;
(3) Specifies that the Board may authorize the investment of up to 10% of the legacy endowment corpus directly in real estate;

(4) Provides guidelines for direct investments in real estate, including that control of the property is strategic to the University, as determined by the Board, and that the property is projected to earn a rate of return not lower than the current rate on 10-year U.S. Treasury securities; and

(5) Making other technical and clarifying amendments.

ACTION RECOMMENDED:

The B&F Committee is requested to recommend Board approval of the aforementioned revisions to RP 8.207.

Attachments:
RP 8.207 original
RP 8.207 redline
RP 8.207 clean
I. Purpose

To set forth an investment policy.

II. Definitions:

As used in this policy:

1. “ASUH Stadium Stock Fund” refers to the Associated Students of the University of Hawai‘i (ASUH) at Mānoa Stadium Stock Fund established by the board with $839,258.77 of proceeds received from the sale of 1,481 shares of Honolulu Stadium, Ltd. held in the name of ASUH.

2. “Committee” refers to the Board of Regents’ Committee on Budget and Finance.

3. “Legacy endowment” refers to the endowment established prior to the University of Hawai‘i Foundation.

4. “The Funds” refers to the legacy endowment and ASUH Stadium Stock Fund collectively, unless otherwise identified.

5. “VP/CFO” means the Vice President of Budget and Finance/Chief Financial Officer of the University of Hawai‘i.

III. Policy:

A. General

1. The investment of monies, including the purchases and sales of bonds, stocks, and other securities and properties for the Funds, shall be made in alignment with this investment policy. The president or president’s designee is
authorized to take any action and to execute and deliver on behalf of the board such documents and certificates as may be necessary or desirable in connection with the acceptance, sale or transfer of investment securities issued to the university.

2. This policy sets forth procedures and guidelines for the day-to-day administration of the Funds.

3. Proceeds from future real estate sales or future real estate lease income may be added to the legacy endowment upon approval by the board. Contributions from donors shall not be added to the legacy endowment in order to avoid compromising University of Hawai‘i Foundation fundraising efforts.

4. This policy also sets forth objectives and guidelines that provide distinct guidance for short term investments of temporary surplus funds of the university.

B. Investment Management

1. The board has the basic responsibility of preserving institutional resources, including the Funds in perpetuity. The board oversees the policies and processes concerning investments and asset management and is subject to certain legal duties including acting prudently and in the interest of the participants and beneficiaries, and the duty to correct or report improprieties of other fiduciaries.

2. The Committee is charged with the responsibility of reviewing matters related to the Funds. The Committee shall:

   a. Recommend to the board for approval the engagement of investment advisors; provided that the recommendation for the engagement of the advisor for the ASUH stadium stock fund will consider any recommendation by the ASUH board;

   b. Establish and periodically review the policies and guidelines concerning the management of the Funds set forth herein; and

   c. On a quarterly basis for the legacy endowment and semi-annually for the ASUH Stadium Stock Fund, monitor the investment results and confirm that the investment advisors’ decisions and outcomes are in accordance with this policy.
3. The VP/CFO in consultation with the president is charged with the responsibility to:

   a. Recommend to the board the approval of the selection of investment advisors to the board for the legacy fund;

   b. Manage and implement the contracts with the investment advisors;

   c. Review investment results monthly; and

   d. Review conformance of investments with this investment policy on a quarterly basis or immediately upon notification by an investment advisor of any non-conformance with the investment policy.

4. The VP/CFO, or designee, shall also:

   a. Serve as the administrative liaison to the Committee and provide staffing to the Committee on matters concerning the Funds; and

   b. On an annual basis, provide a broad category report on the expenditure of the annual distribution from the endowment fund for the most recent five years.

5. The investment advisors will serve as both advisors and monitors and assist the board in achieving optimal long-term returns consistent with the Fund’s acceptable level of risk. The investment advisors shall be selected through a formal competitive process coordinated by the VP/CFO in consultation with the Committee. The responsibilities of the investment advisors shall include:

   a. Determining the asset allocation within the parameters of the investment policy;

   b. Selecting individual portfolio managers, mutual funds, and/or exchange-traded funds within the allowable categories as defined in the investment policy;

   c. Implementing asset allocation shifts;

   d. Reporting investment results monthly to the VP/CFO, or designee;

   e. Reporting conformance of investments with the investment policy quarterly or sooner upon discovery of any non-conformance with the investment policy to the VP/CFO, or designee, for both of the Funds, and ASUH board or its investment committee for ASUH Stadium Stock Funds;
f. Disclosing total expenses annually;

g. Reporting investment results and conformance of investments with the investment policy for the legacy endowment quarterly to the Committee and, for the ASUH Stadium Stock Fund, to the ASUH board or its investment committee quarterly and to the Committee semi-annually; and

h. Providing other services as specified by the VP/CFO, board, and/or Committee.

6. The specific responsibilities of ASUH in the investment process include:

a. Reporting annually to the board the amounts distributed by the ASUH;

b. Recommending to the board the selection of an investment advisor; and

c. Reviewing investment results and conformance of investments with the investment policy quarterly.

C. Investment Goals and Guidelines

1. The board shall adopt investment goals and comprehensive guidelines to ensure the preservation of capital and adequate growth and income. The long-range investment objective of the university is to achieve the highest risk-adjusted total return, maintain the purchasing power of the corpus over five- and ten-year periods to meet spending needs of 4.25% while preserving the real value of the endowment principal.

a. Funds investment goals and guidelines:

(1) Goals:

(a) The investment goal of the Funds are: (i) to seek the highest risk-adjusted total return within reasonable levels of annual volatility to ensure the long-term growth of the Funds; and (ii) to generate an annual distribution of up to 4.25% of a rolling 20-quarter average value of the Funds, with the value determined at the end of each calendar quarter and the actual distribution to be determined by the university administration for the legacy

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1 Resulting from income from dividends, interest and option writing, and from realized and unrealized appreciation in securities and other investments.
endowment and by the ASUH board for the ASUH Stadium Stock Fund.

(b) The university for the legacy endowment and ASUH for the ASUH Stadium Stock Fund shall provide the investment advisors with their respective schedules of payouts to be made during the year. The payouts will be scheduled as close to the actual expenditures as practicable to maximize the amounts retained and invested with the Funds.

(c) In the event that the amount available for distribution from either of the Funds in any year decreases by more than 5% from the previous year, due to diminution of the value of the corpus, the board may for extenuating circumstances authorize a distribution greater than the amount set forth in this policy, up to 95% of the distribution authorized in the immediate preceding year.

(2) Guidelines

(a) The “prudent investor rule” shall be followed in the investment of the Funds.

(3) Asset-allocation

(a) A balanced portfolio should be maintained within the risk profile outlined in the asset allocation model below:

<table>
<thead>
<tr>
<th></th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed stocks</td>
<td>80%</td>
<td>40%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>60%</td>
<td>15%</td>
</tr>
<tr>
<td>Russell midcap (bottom 800 of largest 1000)</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>Russell 2000 (smallest 2000 in the Russell 3000)</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>40%</td>
<td>*</td>
</tr>
<tr>
<td>MSCI emerging markets</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>US Treasuries, agencies, and US corporate bonds rating Baa or higher</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>High-yield US corporate bonds</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Municipal bonds rated Baa or higher</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Alternative investments (only if the)</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>Minimum</td>
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<tr>
<td>--------------------------------------</td>
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<tr>
<td>specific non-marketable investments</td>
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<tr>
<td>are authorized in advance by the</td>
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<tr>
<td>board)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*In the aggregate, the minimum for these four asset classes is 15%*

(b) While the foregoing establishes minimum and maximum allocation for different asset classes, an investment manager is not precluded from establishing lower invested levels while raising cash during adverse market conditions if such action is prudent and protects the principal of the Funds.

(c) The Committee will review the Fund’s asset allocation annually as set forth in the table above.

   i. Preservation of principal

   The investment managers shall make reasonable efforts to preserve the principal of funds provided them, but preservation of the principal shall not be imposed on each individual investment.

   ii. Liquidity

   The board will be responsible for providing the investment advisors with as much advance notice as possible or practical in the event that changes in income payout or principal withdrawals are required.

   iii. Diversification

   To avoid the risk of concentration of assets, individual bond positions, other than obligations of the U.S. government, should not comprise more than 5% of the total fixed income portion of the portfolio. Individual equities should comprise no more than 4% of the total market value of the stock portfolio. In addition, investments in any one stock are not to exceed 1% of the corporation’s outstanding common stock.

   The investment advisors will not be required to invest in equity securities representing a cross section of the economy. The investment advisors may choose the degree of concentration
in any industry that is within four percentage points of the percentage that such industry is represented in the MSCI All Cap World Index at market value and a maximum limit of 4% in any one company.

iv. Permitted investments

The use of the following investment vehicles is permitted:

- Savings accounts
- Commercial paper with A-1 or P-1 rating
- Certificate of deposit
- Floating rate securities
- High yield bonds
- Municipal bonds
- Money market funds/common trust cash equivalent funds
- U.S. government, its agencies, or its instrumentalities
- Securities guaranteed by or collateralized by securities guaranteed by the U.S. government, its agencies, or its instrumentalities
- Debt securities and convertible securities of U.S. corporations and supranational organizations
- Preferred stocks
- Common stocks
- Publicly-trade foreign securities
- Mutual funds, exchange traded funds and common trust or commingled funds, including such funds that use leverage
- American depository receipts/shares
- Global depository receipts/shares
- The selling of covered call options
- The buying of protected put options
- Real estate investment trusts
- Forward foreign exchange contracts, and bond/currency options and futures used for the defensive hedging of foreign currency exposure
- Publicly traded limited partnerships

All investment vehicles selected for the portfolio must have a readily ascertainable market value.

v. Permitted investments with prior board approval:
• Limited partnerships not publicly traded
• Hedge funds
• Private equity

vi. Prohibited investments/transactions

• Direct investments in entities which, including predecessors, have a record of less than three years of continuous operation
• Commodities
• Lettered stock and private placements
• Selling "naked" puts and/or calls
• Derivative securities not covered under permitted investments
• Adjustable rate issues with coupons which move inversely to an index
• Securities issued by the managers, their parents or subsidiaries
• Assets of the Funds in their own interest or for their own account
• Transactions involving fund assets on behalf of a party whose interests are adverse to the interests of the Fund or their beneficiaries
• Transactions involving third party compensation for their own account from any party in connection with a transaction involving the Funds’ assets
• Any securities of the top 200 fossil fuel companies

vii. Investment markets for equities

The investment advisor is authorized to invest in equity securities listed on the New York Stock Exchange, principal regional exchanges, and over-the-counter securities for which there is a strong market providing ready saleability of the specific security. All securities shall be held by a custodian registered and licensed by appropriate bodies such as the Securities and Exchange Commission and the Federal

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2 As identified in an annually updated listing of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. This list is produced and maintained by Fossil Free Indexes, LLC and can be accessed at [https://gofossilfree.org/top-200/](https://gofossilfree.org/top-200/). Because of the small size of its corpus, the prohibition against investment in the securities of companies with fossil fuel reserves shall not apply to the ASUH stadium stock fund.
Reserve Board. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.

The investment advisor is also authorized to invest in equity securities traded on foreign exchanges for which there are readily ascertainable market prices and ample trading liquidity.

2. Custody of securities:

All securities shall be held by a custodian registered and licensed by appropriate bodies such as the Securities and Exchange Commission and the Federal Reserve Board. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.

3. Name:

All securities held by the university shall be registered in the name, "University of Hawai‘i."

D. Monitoring and Evaluation

1. Performance measurement

a. Investment performance and management of the Fund and the separately managed portfolios will be measured net of fees on a time-weighted basis (which eliminates the influence of cash flows that are beyond the control of the investment manager) and evaluated using benchmark data as a tool to assess the performance of the investment advisors. The benchmarks are not a floor for expected returns.

(1) Quantitative benchmark standards to evaluate the performance of the Funds as a whole, and specific asset classes

(a) A benchmark constructed from this allocation model, reviewed quarterly and annually, over five years:

<table>
<thead>
<tr>
<th>Benchmark Description</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>S&amp;P 500 stock index</td>
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<tr>
<td>Russell midcap index (bottom 800 of the largest 1000)</td>
<td>5%</td>
</tr>
<tr>
<td>Russell 2000 index (smallest 2000 in the Russell 3000)</td>
<td>5%</td>
</tr>
<tr>
<td>MSCI EAFE-NR index (net of foreign withholding taxes)</td>
<td>15%</td>
</tr>
</tbody>
</table>
MSCI emerging markets index & 5%
Bloomberg Barclay’s US aggregate bond index & 30%
Total & 100%

(b) The total of 4.5% plus the rate of inflation, reviewed annually and measured over ten and twenty years.

(c) Performance of college endowments of a similar size, reviewed annually and measured over five and ten years.

(2) Qualitative standards

(a) The investment advisor’s adherence to the investment policies and guidelines of the Funds.

(b) The investment advisor’s consistency in the application of its own investment philosophy.

(c) The investment advisors shall be relied on and expected to provide advice whenever appropriate on the composition, performance, and governance, e.g., policies, of the Funds.

2. The evaluation and monitoring of the Funds will be accomplished as follows:

a. Quarterly review as related to the legacy endowment funds and semi-annual review of the ASUH Stadium Stock Funds by the Committee with the investment advisors to review the following:

(1) Rate of return of the Funds on a rolling basis and compared to the last review period, one, three, and five fiscal years, and its component parts.

(2) Current asset allocation with rationale.

(3) Investment outlook for the near-, intermediate-, and long-term future, and how that outlook affects the advisor’s actions.

(4) Current level of risk, with rationale, and explanation of how it is measured.

(5) Explanation of deviation of performance from benchmarks.

(6) Compliance of the investment advisors with the investment policy. While the board recognizes that performance for an interval as short
as one year or less is not a fair basis for evaluation of the performance of the investment advisors, it reserves the right to change the investment advisors.

3. The Committee may recommend to the board the termination of any advisor. The board may terminate any advisor at any time if it determines in its sole discretion that the advisor is no longer appropriate for the Funds. The following are illustrative examples only and do not limit the board’s sole discretion to determine that termination is appropriate.

a. Termination may be appropriate if an investment advisor’s performance is not comparing favorably to the benchmarks as defined in this policy.

b. Upon hiring of the investment advisor, a list of key personnel will be provided by the advisor to the VP/CFO and the board. The list will be ordered according to authority. The advisor is responsible for updating the list on an as needed basis. If two of the three top personnel listed have departed from the firm, the advisor may be terminated.

c. An investment advisor must immediately notify the VP/CFO, or designee, of any pending litigation. Based on the gravity of the suit and the possible impact on the investment process, the advisor may be terminated.

d. An investment advisor may be terminated should it fail to adhere to stated investment philosophy and style, or when that style is no longer compatible with the Funds’ investment approach.

E. Investment Responsibility

1. Statement. The primary fiduciary responsibility of the board in managing the Funds is to attain an adequate financial return on those resources, taking into account the amount of risk appropriate for university investment policy. However, when the board determines that corporate policies or practices cause substantial social injury, the board, as a responsible and ethical investor, shall give independent weight to this factor in its investment policies and in voting proxies on corporate securities.

2. Policy guidelines. Normally, the board shall not vote on any shareholder resolution involving social issues unless it concludes that a company’s activities cause substantial social injury and such activities are the subject of a shareholder proposal which would eliminate or materially reduce the substantial social injury. The board will vote on the proposal, provided such action is not inconsistent with the board’s fiduciary obligations. In cases where the proposed remedy is deemed unreasonable, the board may abstain.
Where the board concludes that a company’s activities or policies cause substantial social injury, and the board concludes that: (a) a desired change in the company’s activities would have a direct and material effect in alleviating such injury; (b) the board has exhausted its practicable shareholder rights in seeking to modify the company’s activities to eliminate or reduce the substantial social injury thereby caused; (c) the company has been afforded the maximum reasonable opportunity to alter its activities; and (d) no alleviation of the substantial social injury by the company is likely within a reasonable time, the board will consider the alternative of not continuing to exercise its shareholder rights under the previous paragraph, and may instead, when such an action is consistent with its fiduciary obligations, direct its investment managers to sell the securities in question within a reasonable period of time and in a prudent manner. Failure to meet the above guidelines presumes that no new investments will be made in such companies provided such action is consistent with the fiduciary duties of the board.

If the board concludes that a specific board action otherwise indicated under these guidelines is likely to impair the capacity of the university to carry out its educational mission and/or meet its financial obligations, then the board need not take such action.

F. Short-term Investments

1. This section of the policy is applicable to the investment of temporary surplus funds of the university (not to funds within the university legacy endowment or the ASUH Stadium Stock Fund).

2. It is the policy of the board to invest its funds in excess of immediate requirements in investments permitted under Section 36-21, Hawai‘i Revised Statutes, relating to short-term investment of state moneys.

a. The objectives of the university’s short-term investment policy are:

(1) Safety—To safeguard university funds by minimizing risk through collateralization, diversification and by depositing funds into federally-insured banks and savings and loan associations.

(2) Liquidity—To insure the availability of funds to meet university payments by the timely forecasting of cash requirements and the selection of securities that can be promptly converted into cash with a minimum risk of loss in principal.
(3) Yield—To maximize interest earnings on university investments by investing idle funds to the maximum extent possible.

b. The guidelines for short-term investments are:

(1) For banks and savings and loan associations without collateral agreements with the university and insured by the Federal Deposit Insurance Corporation “FDIC” of the Federal Savings and Loan Insurance Corporation “FSLIC”, the maximum amount of the investment is not to exceed the maximum insurance coverage provided by the FDIC or FSLIC.

(2) For banks and savings and loan associations with collateral agreements with the university and insured by the FDIC and FSLIC, the amount invested will be on the basis of the highest interest rate available for such maturity at the time the investment is placed.

c. Other investments shall observe the objectives of safety, liquidity, and yield. Prudent risk control shall be of paramount importance in investment decisions with emphasis placed on the probable safety of capital rather than the probable income to be derived.

d. Investments with local depositories are to be made at bank branches which service university checking accounts or the main office of banks and savings and loan associations or at branches designated by the main office.

e. Collateralization of short-term investments is required under this policy for all deposits exceeding the maximum amount of federal deposit insurance.

f. The president or his/her designees are authorized to manage the university’s short-term investment program. The Committee will review the performance of the short-term investment program at least annually.

IV. Delegation of Authority:

The board delegates to the president certain authority as specified above. Authority delegated to the president may at the president’s discretion be further delegated unless the board specifically limits the delegation of authority to the president. See RP 2.202(G).

V. Contact Information:
Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

None

Approved as to Form:

/S/ Kendra Oishi 3/19/2020
Executive Administrator and Date
Secretary of the Board of Regents
I. Purpose

To set forth an investment policy.

II. Definitions:

As used in this policy:

1. “ASUH Stadium Stock Fund” refers to the Associated Students of the University of Hawai‘i (ASUH) at Mānoa Stadium Stock Fund established by the board with $839,258.77 of proceeds received from the sale of 1,481 shares of Honolulu Stadium, Ltd. held in the name of ASUH.

2. “Committee” refers to the Board of Regents’ Committee on Budget and Finance.

3. “Legacy endowment” refers to the endowment established prior to the University of Hawai‘i Foundation.

4. “The Funds” refers to the legacy endowment and ASUH Stadium Stock Fund collectively, unless otherwise identified.

5. “VP/CFO” means the Vice President of Budget and Finance/Chief Financial Officer of the University of Hawai‘i.

III. Policy:

A. General

1. The investment of monies, including the purchases and sales of bonds, stocks, and other securities and properties for the Funds, shall be made in alignment with this investment policy. The president or president’s designee
is authorized to take any action and to execute and deliver on behalf of the board such documents and certificates as may be necessary or desirable in connection with the acceptance, sale or transfer of investment securities issued to the university.

2. This policy sets forth procedures and guidelines for the day-to-day administration of the Funds.

3. Proceeds from future real estate sales or future real estate lease income may be added to the legacy endowment upon approval by the board. Contributions from donors shall not be added to the legacy endowment in order to avoid compromising University of Hawai‘i Foundation fundraising efforts.

4. This policy also sets forth objectives and guidelines that provide distinct guidance for short term investments of temporary surplus funds of the university.

B. Investment Management

1. The board has the basic responsibility of preserving institutional resources, including the Funds in perpetuity. The board oversees the policies and processes concerning investments and asset management and is subject to certain legal duties including acting prudently and in the interest of the participants and beneficiaries, and the duty to correct or report improprieties of other fiduciaries.

2. The Committee is charged with the responsibility of reviewing matters related to the Funds. The Committee shall:

   a. Recommend to the board for approval the engagement of investment advisors; provided that the recommendation for the engagement of the advisor for the ASUH stadium stock fund will consider any recommendation by the ASUH board;

   b. **Recommend to the board for approval the direct investment of legacy endowment funds in real estate;**

   bc. Establish and periodically review the policies and guidelines concerning the management of the Funds set forth herein; and

   cd. On a quarterly basis for the legacy endowment and semi-annually for the ASUH Stadium Stock Fund, monitor the investment results and confirm
that the investment advisors’ decisions and outcomes are in accordance with this policy.

3. The VP/CFO in consultation with the president is charged with the responsibility to:

   a. Recommend to the board the approval of the selection of investment advisors to the board for the legacy fund;

   b. **Recommend to the board the approval of direct investment of legacy endowment funds in real estate;**

   bc. Manage and implement the contracts with the investment advisors;

   ed. Review investment results monthly; and

   de. Review conformance of investments with this investment policy on a quarterly basis or immediately upon notification by an investment advisor of any non-conformance with the investment policy.

4. The VP/CFO, or designee, shall also:

   a. Serve as the administrative liaison to the Committee and provide staffing to the Committee on matters concerning the Funds; and

   b. On an annual basis, provide a broad category report on the expenditure of the annual distribution from the endowment fund for the most recent five years.

5. The investment advisors will serve as both advisors and monitors and assist the board in achieving optimal long-term returns consistent with the Fund’s acceptable level of risk. The investment advisors shall be selected through a formal competitive process coordinated by the VP/CFO in consultation with the Committee. The responsibilities of the investment advisors shall include:

   a. Determining the asset allocation within the parameters of the investment policy;

   b. Selecting individual portfolio managers, mutual funds, and/or exchange-traded funds within the allowable categories as defined in the investment policy;

   c. Implementing asset allocation shifts;
d. Reporting investment results monthly to the VP/CFO, or designee;

e. Reporting conformance of investments with the investment policy quarterly or sooner upon discovery of any non-conformance with the investment policy to the VP/CFO, or designee, for both of the Funds, and ASUH board or its investment committee for ASUH Stadium Stock Funds;

f. Disclosing total expenses annually;

g. Reporting investment results and conformance of investments with the investment policy for the legacy endowment quarterly to the Committee and, for the ASUH Stadium Stock Fund, to the ASUH board or its investment committee quarterly and to the Committee semi-annually; and

h. Providing other services as specified by the VP/CFO, board, and/or Committee.

6. The specific responsibilities of ASUH in the investment process include:

   a. Reporting annually to the board the amounts distributed by the ASUH;

   b. Recommending to the board the selection of an investment advisor; and

   c. Reviewing investment results and conformance of investments with the investment policy quarterly.

C. Investment Goals and Guidelines for Investments Directed by Investment Advisors

   1. The board shall adopt this section of the policy sets forth the investment goals and comprehensive guidelines to ensure the preservation of capital and adequate growth and income. The long-range investment objective of the university is to achieve the highest risk-adjusted total return, maintain the purchasing power of the corpus over five- and ten-year periods to meet spending needs of 4.25% while preserving the real value of the endowment principal.

   a. Funds investment goals and guidelines:

      (1) Goals:
(a) The investment goal of the Funds are: (i) to seek the highest risk-adjusted total return\(^1\) within reasonable levels of annual volatility to ensure the long-term growth of the Funds; and (ii) to generate an annual distribution of up to 4.25% of a rolling 20-quarter average value of the Funds, with the value determined at the end of each calendar quarter and the actual distribution to be determined by the university administration for the legacy endowment and by the ASUH board for the ASUH Stadium Stock Fund.

(b) The university for the legacy endowment and ASUH for the ASUH Stadium Stock Fund shall provide the investment advisors with their respective schedules of payouts to be made during the year. The payouts will be scheduled as close to the actual expenditures as practicable to maximize the amounts retained and invested with the Funds.

(c) In the event that the amount available for distribution from either of the Funds in any year decreases by more than 5% from the previous year, due to diminution of the value of the corpus, the board may for extenuating circumstances authorize a distribution greater than the amount set forth in this policy, up to 95% of the distribution authorized in the immediate preceding year.

(2) Guidelines

(a) The “prudent investor rule” shall be followed in the investment of the Funds.

(3) Asset-allocation

(a) A balanced portfolio should be maintained within the risk profile outlined in the asset allocation model below:

<table>
<thead>
<tr>
<th></th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed stocks</td>
<td>80%</td>
<td>40%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>60%</td>
<td>15%</td>
</tr>
<tr>
<td>Russell midcap (bottom 800 of largest 1000)</td>
<td>15%</td>
<td>*</td>
</tr>
</tbody>
</table>

\(^1\) Resulting from income from dividends, interest and option writing, and from realized and unrealized appreciation in securities and other investments.
<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 2000 (smallest 2000 in the Russell 3000)</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>40%</td>
<td>*</td>
</tr>
<tr>
<td>MSCI emerging markets</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>US Treasuries, agencies, and US corporate bonds rating Baa or higher</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>High-yield US corporate bonds</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Municipal bonds rated Baa or higher</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Alternative investments (only if the specific non-marketable investments are authorized in advance by the board)</td>
<td>40%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*In the aggregate, the minimum for these four asset classes is 15%*

(b) While the foregoing establishes minimum and maximum allocation for different asset classes, an investment manager is not precluded from establishing lower invested levels while raising cash during adverse market conditions if such action is prudent and protects the principal of the Funds.

(c) The Committee will review the Fund’s asset allocation annually as set forth in the table above.

i. Preservation of principal

The investment managers shall make reasonable efforts to preserve the principal of funds provided them, but preservation of the principal shall not be imposed on each individual investment.

ii. Liquidity

The board will be responsible for providing the investment advisors with as much advance notice as possible or practical in the event that changes in income payout or principal withdrawals are required.

iii. Diversification
To avoid the risk of concentration of assets, individual bond positions, other than obligations of the U.S. government, should not comprise more than 5% of the total fixed income portion of the portfolio. Individual equities should comprise no more than 4% of the total market value of the stock portfolio. In addition, investments in any one stock are not to exceed 1% of the corporation’s outstanding common stock.

The investment advisors will not be required to invest in equity securities representing a cross section of the economy. The investment advisors may choose the degree of concentration in any industry that is within four percentage points of the percentage that such industry is represented in the MSCI All Cap World Index at market value and a maximum limit of 4% in any one company.

iv. Permitted investments

The use of the following investment vehicles is permitted:

- Savings accounts
- Commercial paper with A-1 or P-1 rating
- Certificate of deposit
- Floating rate securities
- High yield bonds
- Municipal bonds
- Money market funds/common trust cash equivalent funds
- U.S. government, its agencies, or its instrumentalities
- Securities guaranteed by or collateralized by securities guaranteed by the U.S. government, its agencies, or its instrumentalities
- Debt securities and convertible securities of U.S. corporations and supranational organizations
- Preferred stocks
- Common stocks
- Publicly-trade foreign securities
- Mutual funds, exchange traded funds and common trust or commingled funds, including such funds that use leverage
- American depository receipts/shares
- Global depository receipts/shares
- The selling of covered call options
- The buying of protected put options
- Real estate investment trusts
- Forward foreign exchange contracts, and bond/currency options and futures used for the defensive hedging of foreign currency exposure
- Publicly traded limited partnerships

All investment vehicles selected for the portfolio must have a readily ascertainable market value.

v. Permitted investments with prior board approval:
   - Limited partnerships not publicly traded
   - Hedge funds
   - Private equity

vi. Prohibited investments/transactions

- Direct investments in entities which, including predecessors, have a record of less than three years of continuous operation
- Commodities
- Lettered stock and private placements
- Selling “naked” puts and/or calls
- Derivative securities not covered under permitted investments
- Adjustable rate issues with coupons which move inversely to an index
- Securities issued by the managers, their parents or subsidiaries
- Assets of the Funds in their own interest or for their own account
- Transactions involving fund assets on behalf of a party whose interests are adverse to the interests of the Fund or their beneficiaries
- Transactions involving third party compensation for their own account from any party in connection with a transaction involving the Funds’ assets
- Any securities of the top 200 fossil fuel companies

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2 As identified in an annually updated listing of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. This list is produced and maintained by Fossil Free Indexes, LLC and can be
vii. Investment markets for equities

The investment advisor is authorized to invest in equity securities listed on the New York Stock Exchange, principal regional exchanges, and over-the-counter securities for which there is a strong market providing ready saleability of the specific security. All securities shall be held by a custodian registered and licensed by appropriate bodies such as the Securities and Exchange Commission and the Federal Reserve Board. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.

The investment advisor is also authorized to invest in equity securities traded on foreign exchanges for which there are readily ascertainable market prices and ample trading liquidity.

2. Custody of securities:

All securities shall be held by a custodian registered and licensed by appropriate bodies such as the Securities and Exchange Commission and the Federal Reserve Board. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.

3. Name:

All securities held by the university shall be registered in the name, “University of Hawai‘i.”

D. Monitoring and Evaluation of Investments Directed by Investment Advisors

1. Performance measurement

a. Investment performance and management of the Fund and the separately managed portfolios will be measured net of fees on a time-weighted basis (which eliminates the influence of cash flows that are beyond the control of the investment manager) and evaluated using benchmark data as a tool to assess the performance of the investment advisors. The benchmarks are not a floor for expected returns.

accessed at https://gofossilfree.org/top-200/. Because of the small size of its corpus, the prohibition against investment in the securities of companies with fossil fuel reserves shall not apply to the ASUH stadium stock fund.
(1) Quantitative benchmark standards to evaluate the performance of the Funds as a whole, and specific asset classes

(a) A benchmark constructed from this allocation model, reviewed quarterly and annually, over five years:

<table>
<thead>
<tr>
<th>Index / Index Model</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 stock index</td>
<td>40%</td>
</tr>
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<td>Russell 2000 index (smallest 2000 in the Russell 3000)</td>
<td>5%</td>
</tr>
<tr>
<td>MSCI EAFE-NR index (net of foreign withholding taxes)</td>
<td>15%</td>
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</tr>
<tr>
<td>Bloomberg Barclay’s US aggregate bond index</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

(b) The total of 4.5% plus the rate of inflation, reviewed annually and measured over ten and twenty years.

(c) Performance of college endowments of a similar size, reviewed annually and measured over five and ten years.

(2) Qualitative standards

(a) The investment advisor’s adherence to the investment policies and guidelines of the Funds.

(b) The investment advisor’s consistency in the application of its own investment philosophy.

(c) The investment advisors shall be relied on and expected to provide advice whenever appropriate on the composition, performance, and governance, e.g., policies, of the Funds.

2. The evaluation and monitoring of the Funds will be accomplished as follows:

a. Quarterly review as related to the legacy endowment funds and semi-annual review of the ASUH Stadium Stock Funds by the Committee with the investment advisors to review the following:

(1) Rate of return of the Funds on a rolling basis and compared to the last review period, one, three, and five fiscal years, and its component parts.
(2) Current asset allocation with rationale.

(3) Investment outlook for the near-, intermediate-, and long-term future, and how that outlook affects the advisor's actions.

(4) Current level of risk, with rationale, and explanation of how it is measured.

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3. The Committee may recommend to the board the termination of any advisor. The board may terminate any advisor at any time if it determines in its sole discretion that the advisor is no longer appropriate for the Funds. The following are illustrative examples only and do not limit the board’s sole discretion to determine that termination is appropriate.

   a. Termination may be appropriate if an investment advisor's performance is not comparing favorably to the benchmarks as defined in this policy.

   b. Upon hiring of the investment advisor, a list of key personnel will be provided by the advisor to the VP/CFO and the board. The list will be ordered according to authority. The advisor is responsible for updating the list on an as needed basis. If two of the three top personnel listed have departed from the firm, the advisor may be terminated.

   c. An investment advisor must immediately notify the VP/CFO, or designee, of any pending litigation. Based on the gravity of the suit and the possible impact on the investment process, the advisor may be terminated.

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account the amount of risk appropriate for university investment policy. However, when the board determines that corporate policies or practices cause substantial social injury, the board, as a responsible and ethical investor, shall give independent weight to this factor in its investment policies and in voting proxies on corporate securities.

2. Policy guidelines. Normally, the board shall not vote on any shareholder resolution involving social issues unless it concludes that a company’s activities cause substantial social injury and such activities are the subject of a shareholder proposal which would eliminate or materially reduce the substantial social injury. The board will vote on the proposal, provided such action is not inconsistent with the board’s fiduciary obligations. In cases where the proposed remedy is deemed unreasonable, the board may abstain.

Where the board concludes that a company’s activities or policies cause substantial social injury, and the board concludes that: (a) a desired change in the company’s activities would have a direct and material effect in alleviating such injury; (b) the board has exhausted its practicable shareholder rights in seeking to modify the company’s activities to eliminate or reduce the substantial social injury thereby caused; (c) the company has been afforded the maximum reasonable opportunity to alter its activities; and (d) no alleviation of the substantial social injury by the company is likely within a reasonable time, the board will consider the alternative of not continuing to exercise its shareholder rights under the previous paragraph, and may instead, when such an action is consistent with its fiduciary obligations, direct its investment managers to sell the securities in question within a reasonable period of time and in a prudent manner. Failure to meet the above guidelines presumes that no new investments will be made in such companies provided such action is consistent with the fiduciary duties of the board.

If the board concludes that a specific board action otherwise indicated under these guidelines is likely to impair the capacity of the university to carry out its educational mission and/or meet its financial obligations, then the board need not take such action.

F. Direct Investments in Real Estate

1. This section of the policy is applicable to the direct investment of legacy endowment funds in real estate.

2. The board may authorize the investment of up to 10% of the legacy endowment corpus directly in real estate. This limit shall not be interpreted to require the sale of any fund-owned real estate in the event a decline in the market value of the fund or an increase in the market value
of the real estate causes the direct real estate component to exceed 10% of the market value of the fund.

3. The VP/CFO or designee is authorized to execute any documents necessary or desirable to accomplish the direct investment of legacy endowment funds in real estate approved by the board.

4. The guidelines for the direct investment in real estate are:
   a. Control of the property is strategic to the university, as determined by the board.
   b. The property is projected to earn a rate of return for the fund that is not lower than the current rate on 10-year U.S. Treasury securities.

F.G. Short-term Investments

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      (1) Safety—To safeguard university funds by minimizing risk through collateralization, diversification and by depositing funds into federally-insured banks and savings and loan associations.
      
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      (1) For banks and savings and loan associations without collateral agreements with the university and insured by the Federal Deposit
Insurance Corporation "FDIC" of the Federal Savings and Loan Insurance Corporation "FSLIC", the maximum amount of the investment is not to exceed the maximum insurance coverage provided by the FDIC or FSLIC.

(2) For banks and savings and loan associations with collateral agreements with the university and insured by the FDIC and FSLIC, the amount invested will be on the basis of the highest interest rate available for such maturity at the time the investment is placed.

c. Other investments shall observe the objectives of safety, liquidity, and yield. Prudent risk control shall be of paramount importance in investment decisions with emphasis placed on the probable safety of capital rather than the probable income to be derived.

d. Investments with local depositories are to be made at bank branches which service university checking accounts or the main office of banks and savings and loan associations or at branches designated by the main office.

e. Collateralization of short-term investments is required under this policy for all deposits exceeding the maximum amount of federal deposit insurance.

f. The president or his/her designees are authorized to manage the university’s short-term investment program. The Committee will review the performance of the short-term investment program at least annually.

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The board delegates to the president certain authority as specified above. Authority delegated to the president may at the president’s discretion be further delegated unless the board specifically limits the delegation of authority to the president. See RP 2.202(G).

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:
None

Approved as to Form:

______________________________  
Kendra Oishi  
Executive Administrator and  
Secretary of the Board of Regents  

Date
I. Purpose

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4. This policy also sets forth objectives and guidelines that provide distinct guidance for short term investments of temporary surplus funds of the university.

B. Investment Management

1. The board has the basic responsibility of preserving institutional resources, including the Funds in perpetuity. The board oversees the policies and processes concerning investments and asset management and is subject to certain legal duties including acting prudently and in the interest of the participants and beneficiaries, and the duty to correct or report improprieties of other fiduciaries.

2. The Committee is charged with the responsibility of reviewing matters related to the Funds. The Committee shall:

   a. Recommend to the board for approval the engagement of investment advisors; provided that the recommendation for the engagement of the advisor for the ASUH stadium stock fund will consider any recommendation by the ASUH board;

   b. Recommend to the board for approval the direct investment of legacy endowment funds in real estate;

   c. Establish and periodically review the policies and guidelines concerning the management of the Funds set forth herein; and

   d. On a quarterly basis for the legacy endowment and semi-annually for the ASUH Stadium Stock Fund, monitor the investment results and confirm that the investment advisors’ decisions and outcomes are in accordance with this policy.
3. The VP/CFO in consultation with the president is charged with the responsibility to:

   a. Recommend to the board the approval of the selection of investment advisors to the board for the legacy fund;

   b. Recommend to the board the approval of direct investment of legacy endowment funds in real estate;

   c. Manage and implement the contracts with the investment advisors;

   d. Review investment results monthly; and

   e. Review conformance of investments with this investment policy on a quarterly basis or immediately upon notification by an investment advisor of any non-conformance with the investment policy.

4. The VP/CFO, or designee, shall also:

   a. Serve as the administrative liaison to the Committee and provide staffing to the Committee on matters concerning the Funds; and

   b. On an annual basis, provide a broad category report on the expenditure of the annual distribution from the endowment fund for the most recent five years.

5. The investment advisors will serve as both advisors and monitors and assist the board in achieving optimal long-term returns consistent with the Fund’s acceptable level of risk. The investment advisors shall be selected through a formal competitive process coordinated by the VP/CFO in consultation with the Committee. The responsibilities of the investment advisors shall include:

   a. Determining the asset allocation within the parameters of the investment policy;

   b. Selecting individual portfolio managers, mutual funds, and/or exchange-traded funds within the allowable categories as defined in the investment policy;

   c. Implementing asset allocation shifts;

   d. Reporting investment results monthly to the VP/CFO, or designee;
e. Reporting conformance of investments with the investment policy quarterly or sooner upon discovery of any non-conformance with the investment policy to the VP/CFO, or designee, for both of the Funds, and ASUH board or its investment committee for ASUH Stadium Stock Funds;

f. Disclosing total expenses annually;

g. Reporting investment results and conformance of investments with the investment policy for the legacy endowment quarterly to the Committee and, for the ASUH Stadium Stock Fund, to the ASUH board or its investment committee quarterly and to the Committee semi-annually; and

h. Providing other services as specified by the VP/CFO, board, and/or Committee.

6. The specific responsibilities of ASUH in the investment process include:

a. Reporting annually to the board the amounts distributed by the ASUH;

b. Recommending to the board the selection of an investment advisor; and

c. Reviewing investment results and conformance of investments with the investment policy quarterly.

C. Investment Goals and Guidelines for Investments Directed by Investment Advisors

1. This section of the policy sets forth the investment goals and comprehensive guidelines to ensure the preservation of capital and adequate growth and income. The long-range investment objective of the university is to achieve the highest risk-adjusted total return, maintain the purchasing power of the corpus over five- and ten-year periods to meet spending needs of 4.25% while preserving the real value of the endowment principal.

a. Funds investment goals and guidelines:

(1) Goals:

   (a) The investment goal of the Funds are: (i) to seek the highest risk-adjusted total return\(^1\) within reasonable levels of annual volatility to ensure the long-term growth of the Funds; and (ii) to generate

\(^1\) Resulting from income from dividends, interest and option writing, and from realized and unrealized appreciation in securities and other investments.
an annual distribution of up to 4.25% of a rolling 20-quarter average value of the Funds, with the value determined at the end of each calendar quarter and the actual distribution to be determined by the university administration for the legacy endowment and by the ASUH board for the ASUH Stadium Stock Fund.

(b) The university for the legacy endowment and ASUH for the ASUH Stadium Stock Fund shall provide the investment advisors with their respective schedules of payouts to be made during the year. The payouts will be scheduled as close to the actual expenditures as practicable to maximize the amounts retained and invested with the Funds.

(c) In the event that the amount available for distribution from either of the Funds in any year decreases by more than 5% from the previous year, due to diminution of the value of the corpus, the board may for extenuating circumstances authorize a distribution greater than the amount set forth in this policy, up to 95% of the distribution authorized in the immediate preceding year.

(2) Guidelines

(a) The “prudent investor rule” shall be followed in the investment of the Funds.

(3) Asset-allocation

(a) A balanced portfolio should be maintained within the risk profile outlined in the asset allocation model below:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed stocks</td>
<td>80%</td>
<td>40%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>60%</td>
<td>15%</td>
</tr>
<tr>
<td>Russell midcap (bottom 800 of largest 1000)</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>Russell 2000 (smallest 2000 in the Russell 3000)</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>40%</td>
<td>*</td>
</tr>
<tr>
<td>MSCI emerging markets</td>
<td>15%</td>
<td>*</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>US Treasuries, agencies, and US corporate bonds rating Baa or higher</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Asset Class</td>
<td>Maximum</td>
<td>Minimum</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>High-yield US corporate bonds</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Municipal bonds rated Baa or higher</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*In the aggregate, the minimum for these four asset classes is 15%

(b) While the foregoing establishes minimum and maximum allocation for different asset classes, an investment manager is not precluded from establishing lower invested levels while raising cash during adverse market conditions if such action is prudent and protects the principal of the Funds.

(c) The Committee will review the Fund’s asset allocation annually as set forth in the table above.

i. Preservation of principal

The investment managers shall make reasonable efforts to preserve the principal of funds provided them, but preservation of the principal shall not be imposed on each individual investment.

ii. Liquidity

The board will be responsible for providing the investment advisors with as much advance notice as possible or practical in the event that changes in income payout or principal withdrawals are required.

iii. Diversification

To avoid the risk of concentration of assets, individual bond positions, other than obligations of the U.S. government, should not comprise more than 5% of the total fixed income portion of the portfolio. Individual equities should comprise no more than 4% of the total market value of the stock portfolio. In addition, investments in any one stock are not to exceed 1% of the corporation’s outstanding common stock.

The investment advisors will not be required to invest in equity securities representing a cross section of the economy. The investment advisors may choose the degree of concentration
in any industry that is within four percentage points of the percentage that such industry is represented in the MSCI All Cap World Index at market value and a maximum limit of 4% in any one company.

iv. Permitted investments

The use of the following investment vehicles is permitted:

- Savings accounts
- Commercial paper with A-1 or P-1 rating
- Certificate of deposit
- Floating rate securities
- High yield bonds
- Municipal bonds
- Money market funds/common trust cash equivalent funds
- U.S. government, its agencies, or its instrumentalities
- Securities guaranteed by or collateralized by securities guaranteed by the U.S. government, its agencies, or its instrumentalities
- Debt securities and convertible securities of U.S. corporations and supranational organizations
- Preferred stocks
- Common stocks
- Publicly-trade foreign securities
- Mutual funds, exchange traded funds and common trust or commingled funds, including such funds that use leverage
- American depository receipts/shares
- Global depository receipts/shares
- The selling of covered call options
- The buying of protected put options
- Real estate investment trusts
- Forward foreign exchange contracts, and bond/currency options and futures used for the defensive hedging of foreign currency exposure
- Publicly traded limited partnerships

All investment vehicles selected for the portfolio must have a readily ascertainable market value.

v. Permitted investments with prior board approval:
vi. Prohibited investments/transactions

- Direct investments in entities which, including predecessors, have a record of less than three years of continuous operation
- Commodities
- Lettered stock and private placements
- Selling "naked" puts and/or calls
- Derivative securities not covered under permitted investments
- Adjustable rate issues with coupons which move inversely to an index
- Securities issued by the managers, their parents or subsidiaries
- Assets of the Funds in their own interest or for their own account
- Transactions involving fund assets on behalf of a party whose interests are adverse to the interests of the Fund or their beneficiaries
- Transactions involving third party compensation for their own account from any party in connection with a transaction involving the Funds’ assets
- Any securities of the top 200 fossil fuel companies\(^2\)

vii. Investment markets for equities

The investment advisor is authorized to invest in equity securities listed on the New York Stock Exchange, principal regional exchanges, and over-the-counter securities for which there is a strong market providing ready saleability of the specific security. All securities shall be held by a custodian registered and licensed by appropriate bodies such as the Securities and Exchange Commission and the Federal

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\(^2\) As identified in an annually updated listing of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. This list is produced and maintained by Fossil Free Indexes, LLC and can be accessed at [https://gofossilfree.org/top-200/](https://gofossilfree.org/top-200/). Because of the small size of its corpus, the prohibition against investment in the securities of companies with fossil fuel reserves shall not apply to the ASUH stadium stock fund.
Reserve Board. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.

The investment advisor is also authorized to invest in equity securities traded on foreign exchanges for which there are readily ascertainable market prices and ample trading liquidity.

2. Custody of securities:

All securities shall be held by a custodian registered and licensed by appropriate bodies such as the Securities and Exchange Commission and the Federal Reserve Board. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.

3. Name:

All securities held by the university shall be registered in the name, “University of Hawai‘i.”

D. Monitoring and Evaluation of Investments Directed by Investment Advisors

1. Performance measurement

a. Investment performance and management of the Fund and the separately managed portfolios will be measured net of fees on a time-weighted basis (which eliminates the influence of cash flows that are beyond the control of the investment manager) and evaluated using benchmark data as a tool to assess the performance of the investment advisors. The benchmarks are not a floor for expected returns.

(1) Quantitative benchmark standards to evaluate the performance of the Funds as a whole, and specific asset classes

(a) A benchmark constructed from this allocation model, reviewed quarterly and annually, over five years:

<table>
<thead>
<tr>
<th>Benchmark Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 stock index</td>
<td>40%</td>
</tr>
<tr>
<td>Russell midcap index (bottom 800 of the largest 1000)</td>
<td>5%</td>
</tr>
<tr>
<td>Russell 2000 index (smallest 2000 in the Russell 3000)</td>
<td>5%</td>
</tr>
<tr>
<td>MSCI EAFE-NR index (net of foreign withholding taxes)</td>
<td>15%</td>
</tr>
</tbody>
</table>
MSCI emerging markets index | 5%
---|---
Bloomberg Barclay’s US aggregate bond index | 30%
Total | 100%

(b) The total of 4.5% plus the rate of inflation, reviewed annually and measured over ten and twenty years.

(c) Performance of college endowments of a similar size, reviewed annually and measured over five and ten years.

(2) Qualitative standards

(a) The investment advisor’s adherence to the investment policies and guidelines of the Funds.

(b) The investment advisor’s consistency in the application of its own investment philosophy.

(c) The investment advisors shall be relied on and expected to provide advice whenever appropriate on the composition, performance, and governance, e.g., policies, of the Funds.

2. The evaluation and monitoring of the Funds will be accomplished as follows:

a. Quarterly review as related to the legacy endowment funds and semi-annual review of the ASUH Stadium Stock Funds by the Committee with the investment advisors to review the following:

(1) Rate of return of the Funds on a rolling basis and compared to the last review period, one, three, and five fiscal years, and its component parts.

(2) Current asset allocation with rationale.

(3) Investment outlook for the near-, intermediate-, and long-term future, and how that outlook affects the advisor’s actions.

(4) Current level of risk, with rationale, and explanation of how it is measured.

(5) Explanation of deviation of performance from benchmarks.

(6) Compliance of the investment advisors with the investment policy. While the board recognizes that performance for an interval as short
as one year or less is not a fair basis for evaluation of the performance of the investment advisors, it reserves the right to change the investment advisors.

3. The Committee may recommend to the board the termination of any advisor. The board may terminate any advisor at any time if it determines in its sole discretion that the advisor is no longer appropriate for the Funds. The following are illustrative examples only and do not limit the board’s sole discretion to determine that termination is appropriate.

   a. Termination may be appropriate if an investment advisor's performance is not comparing favorably to the benchmarks as defined in this policy.

   b. Upon hiring of the investment advisor, a list of key personnel will be provided by the advisor to the VP/CFO and the board. The list will be ordered according to authority. The advisor is responsible for updating the list on an as needed basis. If two of the three top personnel listed have departed from the firm, the advisor may be terminated.

   c. An investment advisor must immediately notify the VP/CFO, or designee, of any pending litigation. Based on the gravity of the suit and the possible impact on the investment process, the advisor may be terminated.

   d. An investment advisor may be terminated should it fail to adhere to stated investment philosophy and style, or when that style is no longer compatible with the Funds' investment approach.

E. Investment Responsibility

1. Statement. The primary fiduciary responsibility of the board in managing the Funds is to attain an adequate financial return on those resources, taking into account the amount of risk appropriate for university investment policy. However, when the board determines that corporate policies or practices cause substantial social injury, the board, as a responsible and ethical investor, shall give independent weight to this factor in its investment policies and in voting proxies on corporate securities.

2. Policy guidelines. Normally, the board shall not vote on any shareholder resolution involving social issues unless it concludes that a company’s activities cause substantial social injury and such activities are the subject of a shareholder proposal which would eliminate or materially reduce the substantial social injury. The board will vote on the proposal, provided such action is not inconsistent with the board’s fiduciary obligations. In cases where the proposed remedy is deemed unreasonable, the board may abstain.
Where the board concludes that a company’s activities or policies cause substantial social injury, and the board concludes that: (a) a desired change in the company’s activities would have a direct and material effect in alleviating such injury; (b) the board has exhausted its practicable shareholder rights in seeking to modify the company’s activities to eliminate or reduce the substantial social injury thereby caused; (c) the company has been afforded the maximum reasonable opportunity to alter its activities; and (d) no alleviation of the substantial social injury by the company is likely within a reasonable time, the board will consider the alternative of not continuing to exercise its shareholder rights under the previous paragraph, and may instead, when such an action is consistent with its fiduciary obligations, direct its investment managers to sell the securities in question within a reasonable period of time and in a prudent manner. Failure to meet the above guidelines presumes that no new investments will be made in such companies provided such action is consistent with the fiduciary duties of the board.

If the board concludes that a specific board action otherwise indicated under these guidelines is likely to impair the capacity of the university to carry out its educational mission and/or meet its financial obligations, then the board need not take such action.

F. Direct Investments in Real Estate

1. This section of the policy is applicable to the direct investment of legacy endowment funds in real estate.

2. The board may authorize the investment of up to 10% of the legacy endowment corpus directly in real estate. This limit shall not be interpreted to require the sale of any fund-owned real estate in the event a decline in the market value of the fund or an increase in the market value of the real estate causes the direct real estate component to exceed 10% of the market value of the fund.

3. The VP/CFO or designee is authorized to execute any documents necessary or desirable to accomplish the direct investment of legacy endowment funds in real estate approved by the board.

4. The guidelines for the direct investment in real estate are:

   a. Control of the property is strategic to the university, as determined by the board.
b. The property is projected to earn a rate of return for the fund that is not lower than the current rate on 10-year U.S. Treasury securities.

G. Short-term Investments

1. This section of the policy is applicable to the investment of temporary surplus funds of the university (not to funds within the university legacy endowment or the ASUH Stadium Stock Fund).

2. It is the policy of the board to invest its funds in excess of immediate requirements in investments permitted under Section 36-21, Hawai‘i Revised Statutes, relating to short-term investment of state moneys.

a. The objectives of the university’s short-term investment policy are:

   (1) Safety—To safeguard university funds by minimizing risk through collateralization, diversification and by depositing funds into federally-insured banks and savings and loan associations.

   (2) Liquidity—To insure the availability of funds to meet university payments by the timely forecasting of cash requirements and the selection of securities that can be promptly converted into cash with a minimum risk of loss in principal.

   (3) Yield—To maximize interest earnings on university investments by investing idle funds to the maximum extent possible.

b. The guidelines for short-term investments are:

   (1) For banks and savings and loan associations without collateral agreements with the university and insured by the Federal Deposit Insurance Corporation “FDIC” of the Federal Savings and Loan Insurance Corporation “FSLIC”, the maximum amount of the investment is not to exceed the maximum insurance coverage provided by the FDIC or FSLIC.

   (2) For banks and savings and loan associations with collateral agreements with the university and insured by the FDIC and FSLIC, the amount invested will be on the basis of the highest interest rate available for such maturity at the time the investment is placed.

c. Other investments shall observe the objectives of safety, liquidity, and yield. Prudent risk control shall be of paramount importance in investment
decisions with emphasis placed on the probable safety of capital rather than the probable income to be derived.

d. Investments with local depositories are to be made at bank branches which service university checking accounts or the main office of banks and savings and loan associations or at branches designated by the main office.

e. Collateralization of short-term investments is required under this policy for all deposits exceeding the maximum amount of federal deposit insurance.

f. The president or his/her designees are authorized to manage the university’s short-term investment program. The Committee will review the performance of the short-term investment program at least annually.

IV. Delegation of Authority:

The board delegates to the president certain authority as specified above. Authority delegated to the president may at the president’s discretion be further delegated unless the board specifically limits the delegation of authority to the president. See RP 2.202(G).

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

None

Approved as to Form:

Kendra Oishi
Executive Administrator and
Secretary of the Board of Regents
Status of Federal Emergency Relief Funds

March 4, 2021
Committee on Budget and Finance
Introduction / Overview

- This presentation updates information presented to the Board in November 2020 on the Higher Education Emergency Relief Funds (HEERF) included as part of CARES funding.

- This update includes all expenditures reported in conformance with federal reporting guidance through December 31, 2020. These reports are also available online via the UH Government Relations web page.

- Since November 2020, Congress has passed another COVID response bill and is currently deliberating another.

- UH received additional support from the State’s share of the CARES Act (Coronavirus Relief Funds) for PPE, other COVID-related expenses and reimbursements.
Three COVID Response Bills

• Three COVID response packages that have already provided or may provide funding to UH:

1. CARES – Coronavirus Aid, Relief, and Economic Security Act
   • Signed into law on March 27, 2020

2. CRRSA – Coronavirus Response and Relief Supplemental Appropriations Act
   • Signed into law on December 27, 2020

3. The “American Rescue Plan” is currently being formulated, so far by Democrats only, in the House

The Higher Education Emergency Relief Fund (HEERF) is the formula-funded support in all three packages; these are sometimes referred to as HEERF I, II and III.
Three Tranches of CARES

<table>
<thead>
<tr>
<th>Campus</th>
<th>Tranche 1</th>
<th>Tranche 2</th>
<th>Tranche 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mānoa</td>
<td>$5,504,934</td>
<td>$5,504,933</td>
<td>$9,761,214</td>
<td>$20,771,081</td>
</tr>
<tr>
<td>Hilo</td>
<td>$1,497,363</td>
<td>$1,497,362</td>
<td>$2,745,995</td>
<td>$5,740,720</td>
</tr>
<tr>
<td>UHWO</td>
<td>$697,500</td>
<td>$697,500</td>
<td>$1,263,422</td>
<td>$2,658,422</td>
</tr>
<tr>
<td>HawCC</td>
<td>$573,613</td>
<td>$573,613</td>
<td>$1,017,101</td>
<td>$2,164,327</td>
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<tr>
<td>HonCC</td>
<td>$553,694</td>
<td>$553,693</td>
<td>$959,947</td>
<td>$2,067,334</td>
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<tr>
<td>KapCC</td>
<td>$1,011,471</td>
<td>$1,011,470</td>
<td>$1,700,403</td>
<td>$3,723,344</td>
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<tr>
<td>Kauai</td>
<td>$267,842</td>
<td>$267,842</td>
<td>$472,524</td>
<td>$1,008,208</td>
</tr>
<tr>
<td>LeeCC</td>
<td>$1,033,945</td>
<td>$1,033,944</td>
<td>$1,811,503</td>
<td>$3,879,392</td>
</tr>
<tr>
<td>Maui</td>
<td>$593,954</td>
<td>$593,953</td>
<td>$1,062,574</td>
<td>$2,250,481</td>
</tr>
<tr>
<td>WinCC</td>
<td>$275,549</td>
<td>$275,549</td>
<td>$476,238</td>
<td>$1,027,336</td>
</tr>
<tr>
<td>Total</td>
<td>$12,009,865</td>
<td>$12,009,859</td>
<td>$21,270,921</td>
<td>$45,290,645</td>
</tr>
</tbody>
</table>

**Tranche 1 (Student Grants)** is to “…provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to coronavirus including eligible expenses under a student’s cost of attendance, such as food, housing, course materials, technology, health care, and child care.”

**Tranche 2 (Institutional Portion)** may be used to “…cover any costs associated with significant changes to the delivery of instruction due to the coronavirus, so long as such costs do not include payment to contractors for the provision of pre-enrollment recruitment activities; endowments; or capital outlays associated with facilities related to athletics, sectarian instructions, or religious worship.”

**Tranche 3 (Minority-Serving Institutions)** may be used to “…defray expenses (including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff training, payroll) incurred by institutions of higher education and for grants to students for any component of the student’s cost of attendance including food, housing, course materials, technology, health care, and child care.”
**CRRSAA Awards**

<table>
<thead>
<tr>
<th>Campus</th>
<th>Tranche 1 (Minimum Student Aid)</th>
<th>Tranche 2 (Maximum Institutional)</th>
<th>Total (pending)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mānoa</td>
<td>$ 5,504,934</td>
<td>$ 12,196,651</td>
<td>$ 17,701,585</td>
</tr>
<tr>
<td>Hilo</td>
<td>$ 1,497,363</td>
<td>$ 3,565,960</td>
<td>$ 5,063,323</td>
</tr>
<tr>
<td>UHWO</td>
<td>$ 697,500</td>
<td>$ 2,218,948</td>
<td>$ 2,916,448</td>
</tr>
<tr>
<td>HawCC</td>
<td>$ 573,613</td>
<td>$ 2,000,387</td>
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</tr>
<tr>
<td>HonCC</td>
<td>$ 553,694</td>
<td>$ 2,014,335</td>
<td>$ 2,568,029</td>
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<tr>
<td>KapCC</td>
<td>$ 1,011,471</td>
<td>$ 3,472,813</td>
<td>$ 4,484,284</td>
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<td>Kauai</td>
<td>$ 267,842</td>
<td>$ 1,017,443</td>
<td>$ 1,285,285</td>
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<td>LeeCC</td>
<td>$ 1,033,945</td>
<td>$ 3,801,189</td>
<td>$ 4,835,134</td>
</tr>
<tr>
<td>Maui</td>
<td>$ 593,954</td>
<td>$ 2,074,148</td>
<td>$ 2,668,102</td>
</tr>
<tr>
<td>WinCC</td>
<td>$ 275,549</td>
<td>$ 1,157,165</td>
<td>$ 1,432,714</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 12,009,865</strong></td>
<td><strong>$ 33,519,039</strong></td>
<td><strong>$ 45,528,904</strong></td>
</tr>
</tbody>
</table>

- Only Tranche 1 and 2 amounts have been announced by U.S. DOE.
- CRRSAA used a modified CARES formula that better recognized part-time students resulting in greater increases to CCs and UHWO than UHM and UHH.
- Only Mānoa has received its first CRRSAA award at this time, for student aid only.
- Tranche 3 is likely to be comparable in size to Tranche 2.
- CRRSAA sets minimum amounts to be provided as student grants. Additional student grants may be made from the institutional portion of a campus award.
“American Rescue Plan”

• The latest House Committee draft of the next COVID-19 relief bill uses the same HEERF structure as CRRSAA and the numbers are higher.

• This draft would need to become part of a House Bill that passes the House and, and would then go to the Senate where it may need to be negotiated to receive 51 votes.

• The House Committee work product thus far also includes even more support for K12 and, unlike CRRSAA, includes support for state and local governments.
CARES Expenditure Summaries as of December 31, 2020

<table>
<thead>
<tr>
<th>Campus</th>
<th>Tranche 1 (Student Grants)</th>
<th>Tranche 2 (Institutional)</th>
<th>Tranche 3 (Minority-Serving)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Awarded</td>
<td>Expended</td>
<td>Balance</td>
</tr>
<tr>
<td>Mānoa</td>
<td>$5,504,934</td>
<td>$5,355,160</td>
<td>$149,774</td>
</tr>
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<td>$697,500</td>
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</table>

- CRRSAA provided a one-year no-cost extension for the expenditure of HEERF from both CARES and CRRSAA. As a result, campuses should have until at least January 2022 to spend both CARES and CRRSAA funds.

- Only one of thirty eventual CRRSAA grants awarded so far, so no summaries available yet.
Federal Expenditure Reports

• Expenditure reports are provided to the federal government on a quarterly basis.
• There are 15 different expenditure categories to report for each tranche of funds from each of the campuses.
• The following slides present the data provided to the federal government from the latest report (as of December 31, 2020).
• Any defined categories that did not have expenditures by any campus have been removed from the list for brevity.
## Use of Funds – Tranche 2

<table>
<thead>
<tr>
<th>Campus</th>
<th>Student Grants</th>
<th>Reimbursements</th>
<th>Additional Technology to Students</th>
<th>High Speed Internet</th>
<th>Housing/Travel for Density/Isolation</th>
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<td>$ 1,254</td>
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<tr>
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<tr>
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<tr>
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<td>$ 135,084</td>
<td>$ 2,881</td>
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<td>$ 1,254</td>
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<table>
<thead>
<tr>
<th>Campus</th>
<th>Additional Class Sections</th>
<th>Campus Safety &amp; Operations</th>
<th>Additional Instruction Equipment &amp; Supplies</th>
<th>Training</th>
<th>Equipment for Distance Learning</th>
<th>Other</th>
<th>Total</th>
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# Use of Funds – Tranche 3

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<th>Tuition Discounts</th>
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<th>Additional Class Sections</th>
<th>Campus Safety &amp; Operations</th>
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<table>
<thead>
<tr>
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<th>Training</th>
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<th>Other</th>
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<td><strong>50,611</strong></td>
<td><strong>$ 548,550</strong></td>
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</table>
There is a link from UH’s main COVID-19 page. This link will lead to individual campus reports that follow federal reporting requirements. These reports will be updated quarterly, per federal guidelines.
Non-HEERF Support from CARES

- $11.0 million was provided to UH from the State via its CRF allocation for immediate purchases and reimbursements (expired on December 31, 2020).
- $1.45 million from Hawaii Emergency Management Agency (HIEMA) was also used to reimburse prior PPE purchases.
- Additional grants to support State and County needs for testing, workforce training, small business development, contact tracing, etc., were also were subawarded to UH.
- Total of $47.4 million from CARES awarded to UH outside of HEERF.
Closing Notes

• General Fund reductions to UH in the Governor’s budget total $78.4 million in each year of the biennium.
• Additional uncertainty around potential special fund sweeps.
• Campuses face additional uncertain costs for Fall instruction online and in-person, continuing COVID-19 costs and revenue shortfalls, and need for enhanced student support during this economic and pandemic crisis.
• While substantial, these are one-time funds that will not outlast Hawai‘i’s economic downturn.
• We need to invest these welcome resources in compliant one-time activities that will strengthen our financial position by decreasing ongoing costs and increasing ongoing revenues to prepare UH to be more sustainable in a challenging post-pandemic future.