MINUTES OF THE REGENTS'
COMMITTEE ON FINANCE AND FACILITIES

Date:	Thursday, February 19, 2004	
Place & Time:	Campus Center Conference Chamber, Rm. 220 University of Hawai#i at M~noa 10:22 a.m.	
Committee Members Present:	Regents	Tatibouet (presiding) Haynes Hong Tanaka Yamasato Lee (ex-officio)
Other Regents Present:	Regents	Bender Kakuda Lagareta Nunokawa
Others Present:	Evan S. Dobelle, President, University of Hawai#i Walter S. Kirimitsu, Vice President and University General Counsel Rodney T. Sakaguchi, Vice Chancellor for Administration, Finance and Operations Sam Callejo, Chief of Staff Jan Yokota, Director, Office of Capital Improvements Edwin C. Cadman, Dean, School of Medicine Robert K.W.H. Nobriga, Director, Hospital and Business Affairs Robert McLaren, Associate Director, Institute for Astronomy Margit Watts, Interim Director Student Housing Dexter Aoki, Wachovia Securities David Iha, Executive Administrator and Secretary of the Board Carl Makino, Executive Assistant to the Board	

Approval of Committee Meeting Minutes

Regent Haynes moved to approve the minutes of meetings of the Regents' Committee on Finance and Facilities held on January 15, 2004. The motion was seconded by Regent Tanaka and unanimously carried.

Subjects:

1. University of Hawai'i Endowment Fund, Quarter Ending December 31, 2003

2. Lease Agreements for Office, Teaching and Medical Service Space

3. M~noa Off-Campus Student Housing

4. Subcontracts for the Institute for Astronomy Pan-Starrs Project

5. Capital Improvements Program and Repairs and Maintenance Projects Contracts for Fiscal Year 2003-2004

6. Proposed Amendment to Board of Regents' Policy, Chapter i, Business and Finance

University of Hawai'i Endowment Fund, Quarter Ending December 31, 2003

Mr. Aoki reported that the Fund returned 7.5% increasing its value by $3.7 million for a total value of $53,051,496 which outperformed the policy index. The total Fund during the trailing twelve months returned 19.5%, increasing the Fund's value by $8,865,606. This also outperformed the policy index return. He informed that the value style of NWQ Investment increased the Fund's return as value stocks outperformed growth stocks by 3.8 percentage points. Bank of Hawai'i, with its growth emphasis, performed 1.0 percentage point above its relative benchmark while First Hawaiian Bank performed 0.8 percentage point below its relative benchmark. Brandes, the foreign stock manager, returned 18.2% for the quarter outperforming its index. The Pacific Capital Ultra Short Government Fund returned 0.2% for the quarter, performing in line with the return of the six month Treasury Bill Index. The Fund's bonds returned 0.0% performing in line with the 0.1% return of the Lehman Brothers Intermediate Government/Credit Bond Index.

As the objective of the first and second six month probation periods have been met the probation period has been extended for another twelve months after which the return for the two years ending June 30, 2004 is expected to equal or exceed the benchmark for that same period before Bishop Street will be off probation.

As the twelve month objective ending December 31, 2003 has been achieved and the fund's trailing three year performance objective ranked no lower than the 65th percentile of a universe of peers has been met, the probationary status for Bank of Hawai'i has been removed.

For the fourth quarter for 2003, Bank of Hawai'i rated an A-. Their performance increased the endowment fund return by 1.2 percentage points. The higher 62% average equity exposure during the quarter allowed the portfolio to capitalize on the 10.4% stock market rise during the period.

Bank of Hawai'i's stock returned 11.4%, outperforming the index by 1.0 percentage points. When compared to the broader based market, the portfolio's stocks performed below the S&P 500 Index's and ranked in the lower 60th percentile compared to other managed stock funds.

The portfolio's overweighting in the industrial sector was favorable as this sector returned

21.9% compared to the 10.4% of the index. Also contributing to the portfolio's better performance was the selection of stocks in the Materials sector which outpaced the benchmark by 5.0 percentage points.

First Hawaiian Bank Bishop Street rated a B for a 6.2% return. Their decision to increase equity exposure to an average of 58% in the 4th quarter was favorable as the stock market rose 12.2% during the period. Bishop Street's bond portfolio returned -0.1% which is in line with the benchmark index.

NWQ's investment rated an A with an 8.4% return. Their stocks returned 15.9%, outperforming the index by 1.7 percentage points. The performance ranked in the upper 10th percentile compared to other managed stock funds.

Stock selection improved the portfolio's performance as stocks outperformed their benchmarks in 7 of the 10 sectors invested in.

Brandes the international manager rated an A- for an 18.2% return. Mr. Aoki explained that while the percentage return was high Brandes received an A- because when compared against their index MSCI EAFE index which was at the 17.1%, 18.2% outperformed but not much of their index. The 18.5% return of the portfolio's foreign stocks outperformed the index by 1.4 percentage points. Stock selections in 10 of the 19 foreign countries invested in during the quarter outperformed their respective benchmarks.

Bank of Hawai'i - Ultra Short Fixed Income portfolio returned 0.2% which rated it a C. The return which had a 0.6 year average maturity for the quarter, performed slightly below the 0.3% total return of the Index.

Regent Hong moved to receive the third party monitor's report presented by Wachovia Securities. Regent Haynes seconded the motion which was unanimously carried.

<u>Lease Agreements for Office, Teaching and Medical Service Space</u>

Dean Cadman requested that the Committee authorize the administration to enter into lease agreements for office, teaching, and medical service space currently occupied by the John A. Burns School of Medicine at the following affiliated medical centers:

< Kuakini Medical Center (located at 347 North Kuakini Street, Honolulu, Hawai'i 96817)
< St. Francis Medical Center (located at 2226 Liliha Street, Honolulu, Hawai'i 96817)
< Queen's Medical Center (located at 1356 Lusitana Street, Honolulu, Hawaii 96813)

Entering into formal lease agreements will enable the medical school to improve its current contractual arrangements for the office, teaching, and medical service space it currently occupies at its affiliated medical centers.

These leases are necessary to support the Medical School's long-standing academic programs which are conducted at these medical centers. This current need for space is not expected to be impacted significantly by the School's move to the new Kakaʻako campus because the School has already gone through the process of consolidating its off-campus space usage in preparation for the move to the new campus.

The contractual form that is currently, and has historically, covered the Medical School's space usage at the affiliated medical centers is an annually negotiated service agreement which does not effectively and clearly address the many relevant legal and financial issues related to the use of this space. Formal leases would allow the Medical School to lock in multi-year long-term favorable rates, eliminate ambiguity related to rights and responsibilities of both contracting parties, effectively address liability issues related to the use of the space, and eliminate late execution of the contractual documents and late payments which are both caused by the heavy administrative burden of renegotiating each of the agreements on an annual basis. The conversion from annual service agreements to multi-year leases will not require the expenditure of any additional funds to support the Medical School's hospital-based programs.

The proposed lease agreements would be consistent with the standard University format and approved as to form by the Office of the University General Counsel. The leases would be for commitments for periods up to five years. Rent rates per square foot would differ between medical centers, but it is expected that the total compensation currently paid under the existing contracts would not increase under the new lease agreements. The circumstances affecting the rental rate negotiations at each medical center vary greatly. For example, St. Francis Medical Center currently leases space under a master lease and a sublease to the Medical School would reflect the same rate as the master lease. The rate that Kuakini Medical Center would charge the Medical School under a lease would be reflective of rates the Medical School is charged at other facilities of a comparable rating.

This requested action is also necessary to enable the Medical School to address concerns raised in past audits with regard to improving the consistency and clarity of contractual terms in the current service agreements and the timing of contract execution on an annual basis.

The Medical School has preliminarily agreed to the following terms, pending Board of Regents' approval, with Kuakini Medical Center, St. Francis Medical Center, and Queen's Medical Center and is in the process of negotiating terms with the other medical centers. Assuming that this contractual approach is acceptable to the Board of Regents, a formal request to enter into lease agreements with the remaining medical centers will be made after the School has established preliminarily agreed-upon terms with each organization.

Kuakini Medical Center (Proposed Lease #1 for Office and Teaching Space):
Kuakini Medical Center's patient base provides for a valuable training experience for the medical students due to their unique patient demographics which provides for a specialization in geriatric medicine. The Medical School occupies space at the Kuakini Medical Center that is located mainly on the eight floor of the Hale Pulama Mau Building to conduct the education of medical students during their internal medicine and surgery rotations. Preliminary terms are 2,941 total square feet @ $2.13 gross rent per square foot per month for an annual cost of $75,161.04 with a five year commitment period.

Kuakini Medical Center (Proposed Lease #2 for Medical Services Space):
The Medical School occupies another block of space at the Kuakini Medical Center located on the ground floor of the Medical Center to run the Hyperbaric Treatment Center. The Hyperbaric Treatment Center is the only facility in the State available to the public to treat victims of diving accidents through the provision of recompression chamber treatments. In addition, the HTC also provides hyperbaric oxygen therapy for other medical conditions requiring adjunct therapy. Preliminary terms are 5,207 total square feet @ $2.13 gross rent per square foot per month for an annual cost of $133,090.92 with a five year commitment period.

St. Francis Medical Center (Proposed Lease #3 for Office and Teaching Space):
St. Francis Medical Center's patient base provides for a valuable training experience for the medical students as they are the only facility in the State specializing in organ transplant surgery. The space at the St. Francis Medical Center is also used to conduct the education of medical students during their internal medicine and surgery rotations. Preliminary terms for this space lease are 1,293 square feet @ $3.22 gross rent per square foot per month, plus GET, for an annual cost of $52,062.34 with a five year commitment period.

Queen's Medical Center (Proposed Lease #4 for Office and Teaching Space):
Queen's Medical Center serves as the main training site for medical students in areas such as internal medicine, surgery, and psychiatry. The size of their patient base ensures that there will be a sufficient amount and diversity of clinical material to support the quality of the Medical School's educational program. The Medical School occupies the entire 4th, 6th, and 7th floors of the University Towers on the Queen's campus to conduct the education of medical students during their internal medicine, surgery, and psychiatry rotations. We have preliminarily agreed to continue with our previous contract annual cost of $247,439.00 with a five year commitment period.

Chairperson Lee inquired about the fair market value and why the differential rates accorded Kuakini for the per square foot rates. Mr. Robert Nobriga explained that in the case of St. Francis Medical Center there was a different relationship with the University. And in the case of Kuakini Medical Center they simply demanded fair market value and that is what they went with. He pointed out that each of the hospitals have a different type of relationship with the University; for example, Queens Medical Center whose rate was different because of the assistance provided in building the University Tower.

Regent Tatibouet inquired about the terms of the leases. Mr. Nobriga responded that they would be for five year terms with a five year option after that. She asked if it had been reviewed by counsel. General Counsel Kirimitsu informed that the leases had been reviewed only as to form but not for content. Regent Tatibouet asked if someone had actually inspected the sites to insure that this time, the University was getting what it was paying for. Mr. Nobriga stated that he had visited the sites and that the space being negotiated for were accurately described.

Chairperson Lee added that the language in the lease should be stated that this lease is subject to the existence of JABSOM and for fair market value.

Regent Haynes asked if space would still be needed after the Kaka'ako project was completed. Dean Cadman said that the space would still be needed except for some of the space at the Kuakini Medical Center.

Regent Tatibouet asked if the five year option should be approved by the Board. General Counsel Kirimitsu stated that he would insure that such language be included.

Regent Tanaka suggested a meeting to evaluate leases at all campuses as well as the use of all University properties, particularly by outside organizations. The Committee felt that it was a good suggestion.

Regent Hong moved to approve the leases and to authorize the administration to enter into the leases as set forth for use of space by the John A. Burns School of Medicine at its affiliated medical centers, for a duration not to exceed five years, subject to legal review for form and content with the understanding that the Board may periodically call for an internal audit of the execution of these leases and that the execution of the second five year option must be approved by the Board. The motion was seconded by Regent Haynes and unanimously carried.

M~noa Off-Campus Student Housing

Vice Chancellor Sakaguchi requested that the Committee approve the process of entering into a formal contract with the entity submitting the best proposals selected through the process for off-campus Student Housing.

The acquisition of off-campus housing is critical to the short and long range planning goals of the UHM Student Housing program to efficiently and effectively renovate their older facility assets on campus, meet the growing need for additional residential living quarters on campus, while trying to maintain and continue to provide a semblance of a positive residential life experience for students that is conducive to learning.

In order for the UHM Student Housing program to renovate its older facility assets on campus, it must have a means of displacing the current residents that occupy the facility, without adversely affecting their ability to generate income and meet the current demand for on-campus housing. The acquisition of off-campus housing for a period of 3-5 years accomplishes this by allowing the UHM Student Housing program to relocate students occupying a facility in need of major renovations and repairs, on a temporary basis, and in phases that mirror their ability to finance each project. It is also anticipated that in the long range planning for the development of new residential living quarters on campus that there will be a need to relocate students during periods of construction that coincide with the academic year to mitigate the adverse affects of construction noise.

These factors coupled with the amount of students on the UHM Student Housing program's waitlist for on-campus housing, provide the financial and quantative basis for the program's ability and need to enter into an agreement for off-campus housing.

Additionally, it is the general consensus of the UHM Chancellor and Student Housing administration that residing in an off-campus residence requires some level of maturity and responsibility above that which is needed for on-campus living. Therefore, incoming freshmen, pending unforeseen circumstances, will not be allowed to participate in the off-campus housing program, and a request to the President for a waiver to BOR Policy Chapter 7 § 7-5 (c) *Student Housing Assignment Priorities* will be forthcoming to allow for that restriction.

For the project to be financially viable and sustainable, it will be necessary for the UHM Student Housing program to charge room rates to students based on: (1) the negotiated room rates with property owners, and (2) the University's expenses for providing residential life advisors and services, such as a direct means of transportation to the campus. These rates are anticipated to be higher than the current approved room rate schedule for on-campus living. In order to be in compliance with BOR Policy Chapter 7, § 7-5 (b) *Guidelines for the Establishment of Student Housing Room Rates,* requiring that the housing rate structure cover all operational costs, a supplemental rate structure for this project will be established.

Board of Regents' Policy, Section 7-5, Student Housing, provides that it is the University of Hawai'i's goal to provide reasonable levels of accommodations for its students and that the absence of suitable student housing may restrict the ability of students to attend college beyond easy commuting distance from their home, as well as present a barrier to equal educational opportunity for citizens of our state.

The University of Hawai'i at M~noa Student Housing program has sent out a Request for Proposal (RFP) to offerors interested in providing off-campus housing accommodations to students. The RFP calls for interested hotel operators or property owners, located within a five-mile radius of the campus, to allow the UHM Student Housing program to utilize 100% of their own room inventory for its housing purposes.

The timeline for entering into an agreement with an interested party is critical in anticipation that hotel operators or property owners require notification of intent to enter into a contract no later than March 1, 2004. Notification by the March 1, 2004 deadline is critical to allow hotel operators or property owners enough time prior to the start of the contract (August 1, 2004) to transition their business with the least amount of negative financial impact to their operations. Vice Chancellor Sakaguchi informed that no commitments were made.

Regent Haynes inquired about the budget and cost benefits. Regent Kakuda asked about the amenities and if it includes furnishings as well as internet hookup. Regent Tatibouet stated that there was a need for policy specifying minimal amenities for student housing. Margit Watts, who introduced herself as the Interim Director for Student Housing, stated that she would work on these matters.

Regent Lagareta expressed concerns over the ownership of one of the hotels being considered. She explained that there might be legal exposure by the Regents due to the property being held by a former Regent. She stated that the administration will be held accountable for giving the Board all the information necessary to make a decision including whether there are any conflicts.

Regent Hong moved to defer this matter, subject to receiving the requested information on amenities, maintenance costs, budget, liability, safety, and who would pay for restorations. The motion was seconded by Regent Haynes and unanimously carried.

Subcontracts for the Institute for Astronomy Pann-Starrs Project

Chief of Staff Callejo requested that the Committee approve the following subcontracts anticipated in years 2 and 3 of the Institute for Astronomy's Air Force Research Laboratory (AFRL) grant F29601-02-1-0268 entitled "The Panoramic Survey Telescope and Rapid Response System (Pan-STARRS)". This project is administered by the Research Corporation of the University of Hawai'i.

All subcontracts are covered by the Air Force grant already received by the University. These UH funds have already been budgeted to this project.

The following subcontractors are identified in the proposal and grant award document as collaborating institutions on this project.

Subcontractor	Est. Amount	Description of Work
Science Applications International Corporation	$2,500,000	Subcontractor will analyze and design the Pan-STARRS data management system, consisting of the mass storage system and database and user interface.
Massachusetts Institute of Technology, Lincoln Laboratory	$2,500,000	Subcontractor will develop state-of-the-art Orthogonal-Transfer Charge-Coupled Devices (OTCCD) for the Pan-STARRS camera system.

The following subcontracts will be competitively solicited or justified by sole-source procurement.

Subcontractor	Est. Amount	Description of Work
Pending	$6,000,000	Subcontractor will provide services for the Haleakala Broadcast Tower relocation.
Pending	$1,500,000	Subcontractor will construct a mount for a single prototype telescope.
Pending	$1,500,000	Subcontractor will fabricate the optics for a single prototype telescope.
Pending	$1,000,000	Subcontractor will conduct civil construction work for a single prototype telescope.
Pending	$100,000	Subcontractor will provide analysis and interpretation of weather parameters on Mt. Haleakala that may affect astronomical observations.
Pending	$200,000	Subcontractor will provide consulting services for the Pan-STARRS science program.
Pending	$180,000	Subcontractor will provide consulting services on the optics of the Pan-STARRS system.
Pending	$100,000	Subcontractor will prepare an environmental evaluation for Mauna Kea.
Pending	$100,000	Subcontractor will prepare an environmental evaluation for Mt. Haleakala.

Associate Director Mclaren explained, the purpose of this request is to obtain approval to enter into subcontracts for the design, preparation, and construction of the Pan-STARRS telescope.

The Board is requested to authorize the subcontract for the Institute for Astronomy Pan-STARRS Project. A proposal entitled "The Panoramic Survey Telescope and Rapid Response System (Pan-STARRS)" was submitted by the Institute for Astronomy to the AFRL in May, 2002 in response to BAA-02-DE-01. AFRL Grant F29601-02-1-0268 was received on September 23, 2002. Total grant amount awarded to date is $9,659,596 for years 1 and 2; however, an additional $14,800,000 for year 3 is anticipated. The project cumulative total through year 3 is expected to be approximately $24,500,000. The total cost of this project for completion of all work is expected to reach $60,000,000. The requested subcontracts above represent the currently known subcontracts subject to Board approval in years 2 and 3.

This project is a five-year construction program to develop and deploy telescopes and a data management system which will provide an extremely comprehensive all-sky digital survey. Pan-STARRS will address numerous science applications ranging from the structure of the Solar System to the properties of the Universe on the largest scales. Pan-STARRS will employ a unique combination of wide field of view and time-resolution capability that will allow detection of a wide range of transient variable or moving objects. In particular, it will be able to detect and catalog large numbers of Earth-orbit crossing asteroids, or near Earth objects, that present a threat to mankind. This program will develop a range of new technologies applicable to general telescope facility instrumentation. These include a new class of wide-field imaging telescope array; advanced robotic observatory operation; charge-coupled device (CCD) detectors incorporating new technologies; massively parallel computer systems and software for processing of the image data; and technologies for data storage, retrieval and search of the very large database that will be created by Pan-STARRS.

This proposal was submitted with the University of Hawai'i, Institute for Astronomy, as the lead institution. Collaborating institutions on the proposal included the Science Applications International Corporation, the Massachusetts Institute of Technology Lincoln Laboratory, and the M~ui High Performance Computing Center.

Regent Yamasato moved to authorize the administration to execute the subcontracts for the design and construction of the Panoramic Survey Telescope and Rapid Response System as presented provided that any substantive changes are to be approved by the Board. The motion was seconded by Regent Tanaka and unanimously carried.

<u>Capital Improvements Program and Repairs and Maintenance Projects Contracts for Fiscal Year 2003-2004</u>

Director Yokota requested that the Committee approve capital improvements program (CIP) and repairs and maintenance (R&M) contracts for planning and design consultants.

On September 5, 2003 and January 16, 2004, the Board of Regents authorized the Administration to enter into consultant and construction contracts for CIP and R&M projects for fiscal year 2003-2004. This request is an addendum to the previous actions to include additional projects that meet the criteria of Board policy.

The projects requiring planning and design consultants for CIP and R&M will be undertaken in fiscal year 2003-2004. This list provides the location of the project to be undertaken, the project number, project title/description, the estimated cost or appropriated amount, the means of financing, and the estimated contract date.

Regent Haynes moved to authorize the administration to enter into consultant contracts for CIP and R&M projects. The motion was seconded by Regent Yamasato and unanimously carried.

Proposed Amendment to Board of Regents' Policy, Chapter 8, business and Finance

This matter was deferred at Regent Hong's request.

There being no further business before the Committee, the meeting was adjourned at 1:30 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: March 19, 2004

c: Chairperson Patricia Y. Lee
Members, Committee on Finance and Facilities
President Evan S. Dobelle
Vice President James R. W. Sloane
Chief of Staff Sam Callejo
Director Jan Yokota