

MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

APRIL 4, 2019

I. CALL TO ORDER

Committee Chair Moore called the meeting to order at 10:52 a.m. on Thursday, April 4, 2019, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Randy Moore; Committee Vice Chair Wayne Higaki; Regent Simeon Acoba; Regent Michelle Tagorda.

Committee members excused: Regent Michael McEnerney.

Others in attendance: Board Chair Lee Putnam; Regent Kelli Acopan; Regent Eugene Bal; Regent Ben Kudo; Regent Alapaki Nahale-a; Regent Robert Westerman; Regent Ernest Wilson, Jr.; Regent Stanford Yuen (*ex officio* committee members); President David Lassner; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Budget and Finance/Chief Financial Officer Kalbert Young; UH Mānoa (UHM) Provost Michael Bruno; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE FEBRUARY 14, 2019 MEETING

Committee Vice Chair Higaki moved to approve the minutes of the April 4, 2019, meeting, seconded by Regent Tagorda, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

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

IV. AGENDA ITEMS

A. Discussion on Legacy Endowment Fund Benchmarks

Committee Chair Moore provided a brief overview and history of the Associated Students of the University of Hawai'i (ASUH) investment fund and noted the presence of Associated Students of the University of Hawai'i (ASUH) representatives Jannah Lyn Dela Cruz, President; Danson Honda, Treasurer; and Ryan Su, Senator and member of the Investments and Long Range Planning Committee. UBS, the investment manager for UH, and Greystone Consulting, the investment manager for ASUH, were also acknowledged. Committee Chair Moore stated that the purpose of this discussion was to gain a common understanding of benchmarks as a follow up to a previous discussion in which concerns were expressed regarding benchmarks.

Carl Choy from CKW Financial Group provided background on the ASUH Stadium Stock Fund. Mr. Choy served as the ASUH treasurer in 1979 when the Honolulu Stadium

stock was originally sold. He noted that polices and processes have not changed much in 40 years, and that a benchmark is a starting point and point of understanding. He elaborated that benchmarks are a tool to model around the best rate of return and making improvements. Mr. Choy suggested that the board should have investment “guidelines” instead of “policy,” and added his thought that the role of the board should be supervisory and not a day-to-day role. He also suggested that a review of what is being delegated should occur.

Discussion occurred regarding the appropriate withdrawal/payout rate together with a target rate of return. Mr. Choy suggested a withdrawal/payout rate that approximated the current return on fixed income investments would preserve the purchasing power of the corpus of the endowment. He said a 4% withdrawal/payout rate would be appropriate with a 70% equities-30% fixed-income portfolio.

Mr. Choy was asked to expand on his thoughts on the university’s investment policies and the board’s role. He noted that the board’s fiduciary responsibilities include setting reasonable guidelines for its investment manager, including benchmarks and a model stock/bond mix, and then exercising oversight. Selection of investments should be up to the investment manager.

Regent Westerman asked whether restricting investments in certain sectors has been harmful and if it is good policy. Mr. Choy responded that the board plays an oversight role in hiring others to manage the funds and holding them accountable. He added that social investing began as a response to unions, but noted that even if organizations divest from certain sectors it doesn’t necessarily mean that others will not replace your investment in those sectors.

Mr. Honda asked how autonomous ASUH should be with regard to the hiring and firing of investment managers. Mr. Choy replied that in the 1970s, students were against authority, and that the Attorney General equated the relationship of ASUH to the board as a perpetual parent-child relationship. ASUH’s authority was created by the board, which has “parental” authority, although ASUH was allowed to be somewhat autonomous. He added that ASUH also has a duty to delegate certain investment responsibilities.

B. Discussion on Regents Policy (RP) 8.207, Investments; RP 8.211, Resolution on Use of New Income, Principal, and Investment of ASUH-Mānoa Stadium Stock Fund dated January 18, 1979; and RP 8.212, Guidelines on Use of Income from the University of Hawai’i at Mānoa Stadium Stock Fund, Proceeds from the Sale of the Kaimuki Observatory Lot and from the Rental of University Property

Committee Chair Moore provided a brief overview of RPs 8.207, 8.211, and 8.212, and noted that they have not been reviewed in many years, with the exception of RP 8.207, which was last revised in 2015 to add a requirement that the investment manager divest the endowment fund from companies that produce fossil fuels.

Committee Chair Moore suggested that the committee ask the board to authorize a task group with members to be appointed by the board chair, including ASUH members since the policy directly impacts ASUH.

Regent Acoba moved to recommend to the board that a task group be appointed that includes ASUH representatives to review the three policies to make a recommendation to the committee and ultimately the board, seconded by Board Vice Chair Higaki, and the motion carried unanimously.

C. Discussion on RP 8.204, University Budget (Operating and Capital Improvements)

Committee Chair Moore facilitated a discussion on RP 8.204 and questioned whether the language in the policy is appropriate and whether it is being followed. He added his belief that it may only need minor revisions, including provisions for a 6-year rolling operating budget similar to the provisions in place for the capital improvement project (CIP) budget.

Committee Chair Moore asked several questions of administration: (1) Whether it is possible to create a dashboard of metrics; (2) whether financial management best practices are being followed; and (3) whether the budget is comprehensive. Administration was requested to present a response at the next committee meeting.

Regent Acopan departed at 11:48 p.m.

President Lassner noted that the legislative request is not the university's actual budget. He further noted that the budget policy paper and process is not helpful. Committee Chair Moore suggested that a solution be found that is workable for administration while allowing the board to feel that the budgeting process is high-performing and on point.

Regent Westerman suggested that it would be helpful to have information that board members could access easily instead of administration reporting regularly to the board.

Regent Tagorda noted that the university is also moving toward an academic rolling plan, similar to the rolling plans for the operating and CIP budgets, and asked administration to consider how they would work together. Chair Putnam added that the rolling 6-year plans for finances, facilities, and academic programs are in different stages of development. Committee Chair Moore noted that with regard to the budget, the university needs to consider the direction of academic programming and convert that into a dollar figure. President Lassner added that these issues will be addressed in the chapter 4 policy revisions that are being developed.

D. Report on the Newly Created Office of Strategic Development and Partnerships

VP Young provided background leading to the establishment of the Office of Strategic Development and Partnerships. Over the past several years, there have been several Board of Regents task groups focused on the issue of utilization of existing university real estate and in particular, public-private partnerships (P3). Last year, there was a university-initiated bill introduced at the Legislature requesting the authority to establish an office dedicated to such efforts. The Legislature did not pass the bill, but did appropriate \$90,000 and one position.

VP Young explained that the new position and several existing positions would be restructured and organized under his area of responsibility and that recruitment efforts for

a director began in March. Work responsibilities and duties are still being restructured, but he is optimistic that most of the structure will be in place by the end of the fiscal year once team members have been identified.

Regent Yuen asked whether the director would be involved in negotiations. VP Young explained that the office will not only be limited to P3, but will be focused on larger project-level development, including the facilitation of business negotiation and structuring of projects, which may include P3 delivery methods. The university is already doing this, but the goal is to have a dedicated office to lead these efforts. Further questions were asked regarding the salary of the director, and it was explained that although \$90,000 was appropriated by the Legislature, the level of expertise and skill required for this position warrants a higher salary.

President Lassner commended VP Young and VP Gouveia for their efforts in building the capacity for these efforts and achieving results ahead of schedule.

V. ADJOURNMENT

There being no further business, Committee Vice Chair Higaki moved to adjourn, Regent Tagorda seconded, and with unanimous approval, the meeting was adjourned at 12:02 p.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents