# MINUTES

# BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

# FEBRUARY 4, 2021

**Note:** On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a public health emergency of international concern, subsequently declaring it a pandemic on March 11, 2020. On March 16, 2020, Governor David Y. Ige issued a supplementary proclamation that temporarily suspended Chapter 92, Hawaiʻi Revised Statutes, relating to public meetings and records, "to the extent necessary to enable boards to conduct business in person or through remote technology without holding meetings open to the public."

## 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 Oʻahu (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 Hawaiʻi 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 Fund's assets available for scholarships each year, only a fraction of the 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,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents