MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

SEPTEMBER 1, 2022

I. CALL TO ORDER

Chair Robert Westerman called the meeting to order at 9:04 a.m. on Thursday, September 1, 2022, at the University of Hawaiʻi (UH) at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawaiʻi 96822, with regents participating from various locations.

Committee members in attendance: Chair Robert Westerman; Vice-Chair Diane Paloma; Regent Wayne Higaki; Regent Gabriel Lee; and Regent Alapaki Nahale-a.

Others in attendance: Board Chair Randy Moore; Regent Eugene Bal; Regent William Haning; Regent Laurie Tochiki; Regent Ernest Wilson (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Academic Strategy Debora Halbert; 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 Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES

Chair Westerman inquired if there were any corrections to the minutes of the June 2, 2022, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

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

Regent Wilson arrived at 9:06 a.m.

IV. AGENDA ITEMS

A. Semi-Annual Associated Students of the University of Hawaiʻi (ASUH) Stadium Stock Fund Investment Performance, through June 30, 2022

VP Young explained that Regents Policy (RP) 8.207 requires that a semi-annual report on the investment performance of the ASUH Stadium Stock Fund portfolio be provided to the committee. He introduced Mr. Peter Backus, ASUH Investment Advisor from Graystone Consulting/Morgan Stanley and Ms. Bonnyjean Manini, Director of the Office of Student Life and Development at UHM, who would be providing the report. Although ASUH representatives usually participate in the presentation of this report, conflicts with academic schedules precluded their attendance at this meeting.

Mr. Backus presented data on the overall performance of the investment markets as well as the investment performance of the Stadium Stock Fund, noting several events that contributed to market volatility during the latter half of 2021 and continue to impact the markets through the first six months of 2022 including increased commodity prices and interest rates, persistent high inflation, and geopolitical tensions. He also reported on the Stadium Stock Fund's performance relative to established benchmarks; provided the basis for the year-to-date decline of 17.73 percent experienced by the investment portfolio, which was valued at $9,432,944 as of June 30, 2022; discussed the rationale for the portfolio's asset allocation amounts stating that it currently consists of 0.87 percent cash, 27.24 percent fixed-income, and 71.88 percent equities; spoke about Morgan Stanley's near-, intermediate-, and long-term economic outlook and its impacts on investment actions; and stated that internal reviews indicate that the Stadium Stock Fund is in compliance with all applicable investment policies.

Director Manini noted the history of, and context under which ASUH acquired, the Stadium Stock Fund; provided overviews of the processes used by ASUH to approve its legislation and its budget; reviewed budgeted versus actual payouts made from the Stadium Stock Fund over the past five years; spoke about the various programs, services, scholarships, awards, and student support activities funded by ASUH through the Stadium Stock Fund; and discussed the impacts of past market volatility on ASUH operations. She also stated that ASUH has adjusted the way in which it calculates the Stadium Stock Fund's annual distribution rate in order to comply with the requirements of RP 8.207.

Regent Higaki inquired about the substance of the ASUH-sponsored Maunakea town hall event. Director Manini replied that the Maunakea town hall was partially funded by ASUH and organized in collaboration with the UHM Graduate Student Organization. The event, which was geared towards educating students on matters pertaining to Maunakea as well as the university's land-management activities on the mountain, featured panel discussions involving several individuals with differing perspectives on these issues.

Regent Nahale-a arrived at 9:13 a.m.

Chair Westerman expressed his concerns about the variance between the amount of Stadium Stock Fund monies that have been budgeted for use by ASUH relative to actual expenditures and encouraged ASUH to utilize the entire amount of its budgeted funds to support students and student activities. He also asked whether information was available on the specific disbursements made by ASUH. Director Manini explained that formulaic calculations contained within RP 8.207 determine the amount of Stadium Stock Fund monies that will be available for use by ASUH during a given academic year. She also noted that ASUH accepts requests for financial assistance to support student-related activities throughout the academic year which results in withdrawals being made on an as-needed basis. Since the number and types of applications received for financial aid vary from year-to-year, disparities often exist between budgeted and actual expenditure amounts. As for specific data on expenditures authorized by ASUH, Director Manini stated that this information is contained within the university's Kuali Financial System. VP Young added that the Legacy Endowment Fund faces similar issues regarding the encumbrance of funds budgeted for expenditure over the course of a fiscal year. He also stated that the Stadium Stock Fund and Legacy Endowment Fund are being similarly managed, particularly with respect to determining the most opportune times for raising additional capital and drawing down funds.

Given this information, Chair Westerman requested clarification on the budgeting request process used by ASUH. Mr. Backus replied that ASUH uses portfolio performance data received in June or July of each year to plan and develop a budget for the coming academic year. Once the budget is reviewed and approved, he holds regular meetings with ASUH to determine it's upcoming cash needs in order to ensure that withdrawals are made at the most opportune times.

Regent Haning asked about the organizational relationship between the various ASUH entities across the university system and whether the Stadium Stock Fund provided direct support to each entity. VP Young replied that there is no integration between the various ASUH organizations in existence across the university system and that financial support received from the Stadium Stock Fund is specific to ASUH at UHM.

Regent Tochiki commended the efforts of students involved in ASUH and the management of its funds stating that this activity provides a tremendous learning opportunity for individuals who oftentimes become the leaders of the State and university.

B. <u>Fiscal Year (FY) 2021-2022 Fourth Quarter UBS Legacy Endowment Fund (Fund) Investment Performance Report</u>

Kyle Yoneshige and Lori Hamano from UBS provided a report on the Fund for the fourth quarter of FY 2021-2022, reviewing both asset allocation and investment performance. Ms. Hamano stated that the asset allocation of the Fund consisted of 5.75 percent cash, 25.75 percent fixed-income, and 68.50 percent equities, and provided a detailed breakdown of each asset class. She also spoke about a decision made at the end of the 2021 calendar year to raise $3 million in cash explaining that this was a strategic maneuver given UBS's heightened concerns about market volatility and the impact this would have on cash and equity assets of the Fund. Of the total amount raised, $1 million was deployed in United States equities at the beginning of May 2022 with $2 million in tactical cash remaining for reinvestment in equities when the investment markets become more favorable or for application toward the university's need for liquid assets.

Mr. Yoneshige presented an overview of the Fund's portfolio performance stating that as of June 30, 2022, the value of the Fund stood at just over $80.38 million. He stated that the Fund experienced an overall decrease in performance for the fiscal year and was lagging benchmark metrics established within RP 8.207. While these shortfalls can mainly be attributed to underperforming international equity holdings, the board's fossil fuel mandate was also a significant performance detractor during the last fiscal year, although it was emphasized that UBS considered this to be an outlier event. It was noted that internal compliance reviews confirmed that the Fund was in accord with fossil fuel divestiture mandates and all investment policies; that no material changes or weaknesses have been identified with respect to the management of the Fund; that the total cost of investments for the Fund is 0.45 percent and includes 0.2 percent in fees charged by UBS and 0.25 percent in fees charged by the investment manager; and that the Fund's portfolio has increased by $2 million since the close of the fourth quarter.

Mr. Yoneshige reviewed tactical moves made by UBS with respect to the management of the Fund's portfolio since the beginning of the current fiscal year including the conversion of approximately $1 million in international growth stocks to United States equities due to a projected lack of growth in the international equities' asset class. A change in international equity investment managers was also made as part of an effort to improve performance.

Ms. Hamano and Mr. Yoneshige briefed the committee on current economic conditions and spoke about some of the impacts on overall market performance resulting from high inflation, the rapid increase in interest rates made by the Federal Reserve to combat inflationary pressures, and bond market volatility. They also discussed the rationale for continued high inflation; provided an overview of bond market and equity market performance over the last 46 and 42 years respectively; and reviewed the duration of economic expansions and recessions that have occurred over the last 100 years. All things taken into consideration, UBS continues to believe that equities currently offer the best opportunities for long-term returns-on-investment. UBS will continue to monitor the financial markets, focusing on long-term returns that consider inflation and market volatility, and adjust its investment strategy accordingly.

Regent Nahale-a expressed his belief that global interdependence and political instability caused by changing geopolitical climates can have a major impact on market performance. As such, he asked about UBS's approach to assessing market risks posed by these factors. Mr. Yoneshige concurred with Regent Nahale-a's assessment and noted that UBS considers a multitude of factors when making decisions regarding the long-term performance of the Fund, including the dramatic change in economic interdependence and geopolitical climates that has occurred over the last few years and the impact this has had on worldwide economic conditions.

Chair Westerman asked whether any further amendments to the Fund's asset allocation ranges contained within RP 8.207 would be beneficial. Ms. Hamano replied that the currently established parameters are appropriate and prudent.

C. <u>FY 2021-2022 Fourth Quarter Financial Report</u>

VP Young provided the FY 2021-2022 fourth quarter financial report noting that total revenues exceeded expenditures by approximately $154 million. He presented systemwide and campus specific revenue and expenditure data pointing out that there was a decrease in general fund (GF) revenues received by the university in FY 2022; tuition and fees revenue increases were mainly attributable to a notable rise in enrollment at UHM, which more than offset enrollment declines experienced by all other campuses; and the uptick in on-campus activities due to greater in-person presence has boosted revenues generated for other special and revolving funds, though they remained below pre-pandemic levels. It was also noted that the net gain in operating revenues allowed for the bolstering of reserve fund balances.

While fiscal year expenditures were $123.2 million lower than projected, VP Young stated that this was mainly due to cost mitigation strategies implemented by the administration, such as a hiring freeze, and the receipt of federal relief fund cost reimbursements. However, the administration is anticipating an increase in university expenses in the coming years due to factors such as greater on-campus activity, the loosening of hiring restrictions, the expiration of federal relief fund assistance, and costs associated with previously agreed upon collective bargaining agreements, as well as uncertainties about GF support. As such, it was noted that the use of reserve fund balances may be necessitated in order to cover additional expenditures.

Regent Lee asked whether federal stimulus money was considered to be additional revenue for the university and requested clarification on the use of these funds to cover expenditures. VP Young replied that federal stimulus funds were used to offset expenditures that would have otherwise been paid for with monies from a specific fund and were not considered as revenue for the university.

Chair Westerman commended the administration's efforts to reduce costs and improve the management of expenses over the last two years. He also applauded the prospective planning approach being taken to address known future costs.

D. Multi-year Financial Forecast, FY 2022-2028

VP Young explained that, in accordance with RP 8.204, the administration was providing a rolling six-year financial plan (Financial Plan) for the university in conjunction with the university's expenditure plan. While multi-year financial plans are valuable tools, he cautioned that they should be treated as point-in-time forecasts and dynamic documents that must be fluid and adaptive to changes in economic conditions. Accordingly, the purpose of the Financial Plan is to review and identify areas of fiscal concern that the university may face over the next several years.

Although the restoration of GF appropriations to pre-pandemic levels has improved the university's near-term financial outlook, a deeper analysis of university earned revenues, as well as known and projected expenses, must be undertaken to ensure the long-term fiscal viability of the university. Projected deficits in FY 2024 and beyond will necessitate the use of reserve fund balances to provide bridge funding while strategic plans are being developed to address and eliminate these fiscal shortfalls. However, it was emphasized that reserve fund levels are projected to remain in compliance with requirements established under board policy and that the significant ending fund balances realized in FY 2021-2022 will be sufficient to meet the near-term fiscal needs of the university.

VP Young spoke about several of the assumptions and factors considered in developing the Financial Plan; reviewed revenue and expenditure projections, as well as forecasted reserve fund and net operating revenue balances, through FY 2028; and stated that, overall, the university will be in a stable financial position over the next few years. He also stressed that the Financial Plan will continue to be refined over the course of the next six-years as economic conditions change.

Regent Paloma arrived at 10:24 a.m.

Regent Lee asked if there were any established board or administration requirements for minimum budget reserve balances. VP Young explained that Executive Policy requires each major unit of the university to maintain a minimum reserve balance of five percent every fiscal year. RP 8.203 establishes a target of 16 percent for minimum operating reserves, which is equivalent to approximately two months of operating costs. The administration continues to manage the reserve fund balances to comply with these two benchmarks such that all campuses presently have reserve balances that are at least five percent, with some campuses being closer to the 16 percent target.

Regent Nahale-a inquired about potential revenue-generating opportunities for the university through means other than fee or rate increases. VP Young replied that more normalized university business activity should result in increased revenues. Additionally, the administration continues to work on several non-academic initiatives that have the potential to generate significant revenue growth or reduce overall university expenditures including various real estate ventures and public-private partnerships.

E. <u>Recommend Board Approval of FY 2022-2023 Operating Budget</u>

VP Young presented the university's proposed operating budget for FY 2022-2023 and reviewed the various assumptions considered in developing the expenditure plan. He reviewed budgeted, actual, and projected revenues and expenditures for each of the major units of the university across all fund categories highlighting that, as compared to FY 2022, total GF revenues are projected to increase by $88.7 million, or 17.8 percent; Tuition and Fees Special Fund (TFSF) revenues are projected to decrease by $17.5 million, or 5.1 percent; and Research and Training Revolving Fund revenues are projected to decrease by $11.8 million, or 18.8 percent. While revenues for other special and revolving funds are expected to increase due to greater on-campus activity, the administration also anticipates a concomitant increase in expenditures across all fund categories. Overall the administration is expecting the university to realize a net operating loss of $14.9 million. Although the use of reserve fund balances will be necessary to mitigate operating losses, fund balances will remain well above the 16 percent target for operating reserves established under RP 8.203.

Regent Lee asked about the source of the $7.9 million for planned facility repair and maintenance (R&M) projects on the UHH campus as well as the cost-savings the community colleges expect to realize from their buy-out of their Power Purchase Agreements (PPAs). VP Young replied that monies from UHH's TFSF reserve fund balance, as well as reserve fund balances from other enterprise-specific revolving and special funds, will be used to fund the various facility R&M projects on the UHH campus. Michael Unebasami, Associate Vice President for Administrative Affairs for Community Colleges, explained that the buy-out of the two PPAs is expected to result in cost savings for the community colleges of approximately $2 million per year.

Chair Westerman expressed his support for the community colleges' efforts to buy out their PPAs stating that he expects a significant return-on-investment to be realized given anticipated global increases in future energy costs.

Regent Nahale-a asked if the strategies to generate additional revenues and increase operational efficiencies that were discussed throughout the pandemic were still under consideration and whether potential actions related to these strategies inform the development of the university's budget. President Lassner responded in the affirmative stating that post-pandemic planning, strategic planning, and budget planning are interrelated. President Lassner offered to provide the board with an update on the initiatives being considered to improve operational effectiveness and efficiency at a future meeting. Regent Nahale-a opined that the budget approval process allows the board to support the university's priorities and expressed his support for the administration's efforts toward greater program efficiency.

Regent Nahale-a moved to recommend board approval of the FY 2022-2023 operating budget, seconded by Regent Higaki, and the motion carried with all members voting in the affirmative.

F. Recommend Board Approval of the Operating Budget for the Office of the Board of Regents (Board Office) and Office of Internal Audit (OIA) for FY 2022-2023

Board Secretary Oishi and Glenn Shizumura, Director of OIA, presented the proposed operating budgets for the Board Office and OIA, respectively, for FY 2022–2023, including information on budgeted-to-actual expenditures over the past three fiscal years and cost-savings experienced during the past fiscal year. They also provided summaries of their respective office personnel, as well as the activities of, and services provided by, each office. Although both of the proposed operating budgets were very similar to those from the previous fiscal year, cost adjustments for increased travel associated with attendance at board meetings, the holding of board retreats, records digitization, equipment purchases, and increased personnel costs due to scheduled salary increases contained in collective bargaining agreements were highlighted and reviewed. It was noted that both the Board Office and OIA budgets were well within budget allocations.

Chair Westerman asked whether funding provided to OIA was sufficient to hire external auditors should it become necessary. Director Shizumura responded that OIA's current staffing level is sufficient to carry out the Internal Audit Work Plan and that it would not be necessary to seek any assistance from external auditing firms.

Referencing travel restrictions imposed upon regents during the pandemic, Chair Westerman expressed his belief that these restrictions should be rescinded as in-person attendance at meetings, as well as professional development seminars, are of tremendous benefit to regents. Board Secretary Oishi replied that the Board Office's current budget is sufficient to allow for increased travel to board and committee meetings. She noted that the budget also included funding for conference travel.

Regent Higaki moved to recommend board approval of the proposed FY 2022-2023 operating budget for the Board Office and OIA, seconded by Regent Nahale-a, and the motion carried with all members present voting in the affirmative.

G. Status of Higher Education Emergency Relief Funds (HEERF)

VP Young reported on the status of the expenditure of HEERF funds received by the university as part of the federal coronavirus stimulus response funding packages and briefly reviewed the three tranches of funding available, the amounts received, the expenditures of funds by campus, and funding restrictions. As of June 30, 2022, the university expended about $173.9 million of the $242.4 million it was awarded.

Chair Westerman asked about the deadline to expend all HEERF monies. VP Young replied that the deadline to expend all federal funds received is June 30, 2023.

H. FY2020 and FY2021 Bond Post-Issuance Compliance Update

VP Young provided an overview of the revenue bond post-issuance compliance review for FY 2020 and FY 2021, stating that the purpose of this review is to monitor bond post-issuance compliance issues, including the amount of private activity occurring on or within facilities financed with university revenue bonds. He reported that the university is compliant with all revenue bond requirements and noted that, while this report is required for regulatory purposes, it is not required to be formally presented to the board.

I. Committee Work Plan

Chair Westerman referenced the Committee Work Plan noting that it would be used as an outline of the work to be performed by the committee during the coming year. He stated that it was a living document that may be modified as needed and asked committee members if they had any questions or comments about the Committee Work Plan. No questions or comments were raised.

V. **ADJOURNMENT**

There being no further business, Chair Westerman adjourned the meeting at 11:21 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents