

## MINUTES

### BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

NOVEMBER 3, 2022

#### I. CALL TO ORDER

Chair Robert Westerman called the meeting to order at 9:04 a.m. on Thursday, November 3, 2022, at the University of Hawai'i (UH) at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 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 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. APPROVAL OF MINUTES

Chair Westerman inquired if there were any corrections to the minutes of the September 1, 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.

#### IV. AGENDA ITEMS

##### A. Fiscal Year (FY) 2022-2023 First Quarter UBS Legacy Endowment Fund (Fund) Investment Performance Report

Kyle Yoneshige and Lori Hamano from UBS provided a report on the Fund for the first quarter of FY 2022-2023, reviewing both asset allocation and investment performance. Ms. Hamano stated that the Fund's investment portfolio was comprised of cash, fixed-income, and equity assets and noted that each asset class experienced a decrease in performance during the last fiscal year. She also provided the rationale for UBS's decisions to raise \$3 million in cash at the end of the 2021 calendar year and to

convert \$1 million in international growth stocks to United States equities in August 2022, stating that these were strategic maneuvers to address concerns regarding the impacts of market volatility on the Fund's cash and equity assets, as well as the projected underperformance of international equities.

Regent Nahale-a arrived at 9:11 a.m.

Mr. Yoneshige presented an overview of the Fund's portfolio performance noting that, as of September 30, 2022, the value of the Fund stood at just over \$75.67 million. He highlighted the improved performance of the fixed-income portion of the portfolio, as well as the continued lag in international equities, but stated that UBS believes the Fund is performing in line with the benchmarks established within Regents Policy (RP) 8.207 given current market and economic conditions. He also noted that internal reviews confirmed the Fund's compliance 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 0.39 percent and includes 0.2 percent in fees charged by UBS and 0.19 percent in fees charged by the investment manager; and that a change in international equity investment managers was made as part of an effort to improve performance.

Ms. Hamano and Mr. Yoneshige briefed the committee on current economic conditions noting the effects of high inflation and efforts by the Federal Reserve to combat inflationary pressure, including a rapid increase in interest rates, on overall market performance. They also discussed the basis for continued high inflation, including low unemployment and high wage growth; noted the positive impacts of increased interest rates on United States Treasury Bond yields; talked about long- and short-term returns on equities that would need to be experienced by the Fund to return to valuations witnessed in January 2022; 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.

Chair Westerman asked if decreasing numbers of younger individuals entering the labor market as a result of declining birthrates was a contributing factor to labor shortages being experienced across numerous business sectors despite record-low unemployment. Mr. Yoneshige replied that a large number of individuals at or near retirement age exited the workforce during the COVID-19 pandemic, stating that this was the largest labor-market exodus since World War II and has been dubbed "The Great Resignation". Given that there is a dearth of younger individuals to fill these vacated positions, labor shortages persist despite low unemployment.

Referencing the improved bond market, Chair Westerman questioned whether UBS was considering increasing the Fund's fixed-income asset allocation and if so, whether some of money raised at the end of the 2021 calendar year would be utilized for this purpose. Ms. Hamano responded that UBS did not plan on increasing the Fund's fixed-income asset allocation stating that the returns being experienced by this asset class

were insufficient to meet the long-term needs of the Fund. While additional allocations to the fixed-income asset class would not be made, Mr. Yoneshige stated that adjustments were made to bond distributions contained within the fixed-income portfolio so as to increase the percentage of government bonds held as opposed to corporate bonds since the former offered opportunities for greater yields with less risk.

Regent Nahale-a inquired as to whether the size of the Fund's portfolio has any bearing on decisions made by UBS with respect to asset allocation. Mr. Yoneshige stated that UBS manages portfolios based upon a client's established goals but noted that the size of the portfolio may provide greater flexibility in meeting these objectives. Specific to the Fund, UBS's decisions regarding asset allocation are guided by the allocation, variance, and distribution requirements contained within RP 8.207 which are aimed at achieving optimal long-term returns consistent with an acceptable level of risk.

## **B. FY 2022-2023 First Quarter Financial Report**

VP Young provided the FY 2022-2023 first quarter financial report stating that, with one quarter of the fiscal year completed, the fiscal condition of the university remains positive. He presented systemwide and campus specific revenue and expenditure data pointing out that there was an increase in General Fund (GF) appropriations received from the Legislature which resulted in the university experiencing total revenues that were higher than the same time period last fiscal year; tuition and fees revenues received were \$8.9 million lower than the same time period last fiscal year due to declining enrollment at all campuses; other special and revolving funds revenues were trending higher as a result of upticks in on-campus activities but remain below pre-pandemic levels; and expenditures grew due to a variety of factors including greater utilization of campus facilities, high inflation for products and services, increased utility costs, and costs associated with previously agreed upon collective bargaining agreements. He also presented information on several enrollment data points noting that impacts to Tuition and Fees Special Fund revenues resulting from a continued trend in declining overall enrollment is a fiscal concern.

Regent Lee asked about the early release of GF revenues this fiscal year and the impact this will have on GF allocations received over the next three quarters. VP Young replied that, unlike previous fiscal years when the State released GF allocations on a more periodic basis, the university has already received its total allotment of GF revenues for the current fiscal year and will not be receiving any additional funds. As such, the rate of GF revenues will catch-up comparatively to previous fiscal years over the next three quarters.

Regent Lee questioned whether lower utilization due to declining enrollment will lead to a decrease in university expenditures over the next three quarters of the fiscal year. VP Young stated that the administration expects utilization across the campuses to increase over the next three quarters due to a greater on-campus presence which will result in higher expenses for the university.

Referencing the large number of variables associated with tuition revenues and enrollment, Regent Nahale-a inquired about the administration's consideration of these

factors in conducting its analysis of revenues and expenditures for presentation to the board. He also questioned whether regents need to be more involved in these conversations. VP Young replied that data regarding enrollment and tuition revenues is not necessarily correlative noting that there have been several instances in which enrollment has increased with a concomitant decrease in tuition revenues. Similarly, there have been occasions where tuition revenues increased despite a decline in enrollment. He stated that the enrollment managers and financial officers of the university analyze this data at a more granular level than is presented to regents in order to gain a better understanding of the relationship between various enrollment factors and tuition revenue trends as well as the numerous variables involved in this matter. President Lassner added that a more in-depth presentation on enrollment that includes a comprehensive breakdown of data is scheduled for the next board meeting.

Regent Wilson asked if tuition revenues generated by a program relative to its costs was considered by the administration when determining program expansion or contraction. VP Young stated that he could not speak to any specific programs but noted that from a strictly systemwide financial perspective, academic programs do not generate sufficient tuition revenues to cover expenses and must rely on a mixture of funding sources, including GF revenues, to augment their operations.

**C. Recommend Board Approval of Fiscal Biennium (FB) 2023-2025 Operating Budget Request for the University of Hawai'i for Submittal to the Governor and the Legislature**

VP Young presented the FB 2023–2025 operating budget request of the university that will be submitted to the Governor and Legislature upon approval by the board, stating that this request only reflected major augmentations to the university's appropriated budget and was not indicative of the university's overall operating budget. He reviewed the process used to construct the biennium budget proposal which included input from various levels. He also explained that the gubernatorial transition will result in two budget submittals: one status quo budget to be submitted in December 2022 and a second budget proposal reflecting the new administration's policy and budget priorities being tendered in February or March 2023.

Given the Council on Revenues' optimistic outlook for GF revenues over the next two fiscal years, VP Young stated that the administration believes sufficient revenues will be available for the Legislature and the incoming Governor to consider funding new initiatives. However, he cautioned that significant downside risks remain including an aggressive monetary policy from the Federal Reserve to combat inflation, ongoing geopolitical events, continued supply chain disruptions and labor shortages, increased commodity prices, and a possible mild recession, which the University of Hawai'i Economic Research Organization is forecasting will occur in the first half of calendar year 2023.

VP Young summarized the total operating budget request for FB 2023-2025 which includes approximately \$115 million in additions to the university's base budget and encompasses roughly 160 full-time equivalent (FTE) positions in each fiscal year, many of which already currently exist. He reviewed each of the administration's requests

including funding for the continuation of the Hawai'i Promise Program (Hawai'i Promise) at the community colleges and expansion of the Program to four-year institutions; initiatives to help deal with critical staffing shortages in the healthcare industry; the provision of support services to improve student success; increased counseling and advising services to help augment the growth of early college programs; programs to address areas of State need identified by the university; and the support of campus facilities and core services. Requests for the restoration of \$17.5 million in GF revenues previously appropriated by the Legislature that was designated as non-recurring funds; the reinstatement of funding support for athletics programs at UHM and UHH; continued funding for currently operating programs that were approved in the FY 2023 budget; an increase in the non-general fund ceiling transfer for the Physician Workforce Assessment Special Fund; and position transfers between campuses to more accurately reflect the university's organizational structure were also included in university's proposed biennium budget.

Regent Bal inquired as to the reason why there was a large difference between the funding requests for expansion of Hawai'i Promise at UHH and UHWO. VP Young explained that the calculation of these figures was based upon Hawai'i Promise's requirement that a potential scholarship recipient show an unmet financial need based upon federal criteria. He stated that the student population demographics of each institution can account for the large difference between the funding requests.

Referencing funding to support student success, Regent Bal asked whether the requested appropriation amounts correlated directly to the noted position counts or if they included other operational expenses. Chancellor Benham replied that the amount requested by UHWO for student success support was directly related to the salaries associated with the noted position counts. President Lassner stated that, while this may be true for UHWO, the funding request amounts for student success initiatives at other institutions may be linked to additional expenses over and above personnel costs.

Citing major flooding that occurred on the UHM campus 18 years ago, Regent Haning asked if funding for a needs assessment with respect to disaster response was included in the budget request. VP Young replied that a disaster response needs assessment could more than likely be accomplished without a need to request additional funding from the Legislature specifically for this purpose. Regent Haning expressed his concern that once a needs assessment identifies a problem, the remedy for this issue could be expensive. VP Young stated that if something identified in a needs assessment requires costly remediation, the administration would formulate a financial strategy to address the situation including the pursuit of legislative funding.

Vice-Chair Paloma questioned whether expanding Hawai'i Promise to the four-year institutions would necessitate additional positions or the creation of a new office. She also asked if there were any programs similar to Hawai'i Promise already in existence on these campuses. VP Young replied that expanding Hawai'i Promise to the four-year institutions would not involve the creation of a new office or any additional positions. He also stated that there was no program at the four-year campuses that would be considered equivalent to Hawai'i Promise noting that four-year institutions do not have

the ability to provide additional financial aid to students who may need extra help in addressing an unmet fiscal need.

Noting that the proposed position transfer requests are for existing positions within the university, Vice-Chair Paloma asked how the administration would convey this information to legislators. VP Young replied that this matter is an intricacy of government budgeting and that the university's budget team explains the necessity of transferring these positions to individual legislators, legislative fiscal staff, and others each year. Despite these conversations, the university has been unable to convince the Legislature to permanently transfer the positions to their appropriate units.

Regent Lee asked if the administration was required to include supporting documentation, such as the various assumptions used to develop the budget proposal, in its submitted budget request. He also queried whether adjustments will be made to the budget during the second year of the FB if there is a variance between requested and approved funding. VP Young replied that a bevy of additional information regarding the university's budget requests is provided to the Legislature and State Department of Budget and Finance, including the total operating budget forecast for the university. He also stated that there is often a divergence between what the university requests and what is ultimately approved by the Legislature. As such, budgetary adjustments are made through the submittal of a supplemental budget request prior to the second year of the FB. The administration also considers these differences when it develops the university's spending plan, which also must be approved by the board.

Highlighting funding requests made for approximately 38 FTE positions for nursing programs across several campuses, Regent Wilson asked if there was a concerted effort to ensure that these programs are integrated. He also asked about the amount of program funding that will be needed to address Hawai'i's nursing workforce shortage. Chancellor Benham spoke about UHWO's pre-nursing program stating that it was developed in partnership with the Nancy Atmospera-Walch School of Nursing at UHM and collaboration is occurring between the two programs. Chancellor Irwin added that the health initiative requests were developed using a systemwide approach with conversations taking place among all of the campuses, as well as healthcare industry leaders, about how best to meet Hawai'i's healthcare workforce needs. President Lassner concurred with Chancellor Irwin and Chancellor Benham stating that the Healthcare Association of Hawai'i has been instrumental in helping the university better understand healthcare workforce shortages in Hawai'i and actions that it can take to address these needs. With respect to the amount of program funding that would be necessary to address the nursing shortage in Hawai'i, VP Young stated that these initiatives only begin to deal with this issue and that the amount of funds needed to fully attend to the nursing shortage in Hawai'i is much larger than what is being requested.

Stating that the request to expand Hawai'i Promise has been made over the past several years, Regent Nahale-a questioned whether funds for this expansion have been included in previous Governor's budget requests and inquired about barriers to the approval of this request. VP Young replied that, while funds to expand Hawai'i Promise have been included in prior Governor's budget proposals, there have been some obstacles to obtaining approval for this request including the costs of providing this

program at a four-year institution as compared to the community colleges as well as desires that the program be more targeted towards specific academic degrees.

Given the difficulties faced by the university in recruiting qualified nursing faculty, Regent Moore asked if the administration believes it can fill the nursing program positions being requested should they be approved by the Legislature. President Lassner stated that nursing faculty has been classified as a shortage category which allows the university to offer more competitive compensation packages to attract and retain individuals for those positions. He also stated that productive conversations have occurred with healthcare employers and industry leaders regarding the collaboration that will be needed to address Hawai'i's nursing shortage.

Regent Wilson asked whether collaboration with the healthcare industry was occurring with respect to education and training programs to address its workforce needs. President Lassner replied in the affirmative stating that the university has been in discussions with the healthcare industry about creating “earn-and-learn” lattices that will allow individuals to enter the workforce quickly while providing opportunities for professional development and career advancement in the future.

Regent Lee moved to recommend board approval of the FB 2023–2025 operating budget request, seconded by Regent Higaki, and the motion carried with all members present voting in the affirmative.

**D. Recommend Board Approval of an Amendment to Seventh Supplemental Resolution Authorizing the Issuance of Revenue Bonds for Refunding and University Project in an Amount Not to Exceed \$115,000,000 (Seventh Supplemental Resolution)**

VP Young stated that the university is constitutionally authorized to sell revenue bonds and provided historical context to the sale of approximately \$115 million in revenue bonds that occurred in 2017. He explained that the board approved the use of \$4.5 million in bond proceeds from this sale for the construction and renovation of research and innovation offices in the basement of Sinclair Library and noted that this project was completed under budget. As such, the administration began to consider other capital improvement projects on which the remaining funds could be utilized given the research and innovation parameters established for the use of these monies. It was determined that a project to renovate the Mānoa Innovation Center (MIC) met these requirements. Thus, the administration was seeking board approval and adoption of an amendment to the Seventh Supplemental Resolution to authorize the use of approximately \$1.5 million in bond proceeds for the MIC project.

Regent Lee asked if the \$1.5 million in unused bond proceeds were invested and, if so, whether the returns on this investment exceeded interest that is being paid on the bonds. VP Young replied that the bond proceeds were placed in an account that is drawing interest but that the interest earned does not exceed the interest being paid on the bonds.

Regent Nahale-a moved to recommend board approval of the amendment to the Seventh Supplemental Resolution, seconded by Regent Higaki, and the motion carried with all members present voting in the affirmative.

**E. Report on Distribution of Legacy Endowment Funds for FY 2022-2023**

VP Young provided a brief overview and history of the Fund noting that its corpus was received and invested on behalf of the university prior to the creation of the University of Hawai'i Foundation (UHF) and is, therefore, separate and apart from the UHF endowment fund. The Fund is currently managed by UBS Financial Services, who provides quarterly investment performance and asset allocation reports to the board throughout the fiscal year.

It was noted that distributions from the Fund are controlled by RP 8.207 which currently provides the president with the authority to annually distribute up to 4.25 percent of the Fund's valuation, which is based upon a 20-quarter rolling average of its market value. VP Young stated that based upon these parameters, the amount of funds authorized for distribution in FY 2022-2023 was approximately \$2.88 million. In FY 2023-2024, the president has authorized the distribution of 4.10 percent from the Fund which equates to roughly \$2.94 million.

VP Young reviewed a comparative analysis of restricted versus unrestricted fund allocations, as well as authorized versus actual Fund distributions, and provided a breakdown of the various purposes for which allocations from the Fund were made, including scholarships, faculty and staff awards, research, athletics, and faculty support. He also remarked that not all of the funds allocated for distribution in a given fiscal year are drawn down due to a variety of reasons including the lack of applications or an awardee's failure to fulfill the requirements of their award.

Regent Lee asked if the current balance in the Fund was greater than the original corpus and whether there could be a situation whereby it would fall below this amount. VP Young responded that the Fund was established decades ago and has experienced significant financial growth since that time. As such, the current balance in the Fund is much larger than the original corpus. He also emphasized that the Fund was a closed endowment in that additional funding beyond interest and investment earnings is not added to the Fund. Although there is a potential for the current balance to fall below the original corpus due to annual distributions made in accordance with RP 8.207, UBS and the administration work diligently to ensure the perpetual viability of the Fund.

Regent Haning espoused the benefits of the Regent and Presidential Scholarships that are supported with monies from the Fund but noted that the amounts for these scholarships have not been increased in quite some time. VP Young stated that discussions about revisions to the Legacy Endowment Program and the use of these funds were scheduled for later in the agenda.

Chair Westerman recessed the meeting at 11:13 a.m. to allow the Committee on Planning and Facilities (P&F) to begin its scheduled meeting. He announced that the



Budget and Finance Committee meeting would be reconvened upon completion of the P&F Committee meeting.

The meeting was reconvened at 12:55 p.m.

**F. Discussion on Future Distribution of Legacy Endowment Funds**

Discussions occurred on the necessity of addressing this agenda item. As it was determined that this was neither a time sensitive issue nor required action to be taken, Chair Westerman deferred this matter for discussion at a future meeting.

**G. For Information Only (no presentation)**

**1. Annual Report on Short-Term Investments for the FY Ended June 30, 2022**

VP Young stated that a report on short-term investments for FY 2021-2022, which details investments of the temporary surplus funds of the university for the last fiscal year, was provided in the committee materials in accordance with annual reporting requirements contained within Section 36-21, Hawai'i Revised Statutes, as well as RP 8.207 and explained that this item was being transmitted for informational purposes only.

**V. ADJOURNMENT**

There being no further business, Chair Westerman adjourned the meeting at 12:57 p.m.

Respectfully Submitted,

/S/

Kendra Oishi  
Executive Administrator and Secretary  
of the Board of Regents