MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

MARCH 2, 2023

I. CALL TO ORDER

Chair Diane Paloma called the meeting to order at 10:18 a.m. on Thursday, March 2, 2023, 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 Diane Paloma; Vice-Chair Gabriel Lee; Regent Wayne Higaki; Regent Laurel Loo; 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 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 Provost Michael Bruno; UH Hilo Chancellor Bonnie Irwin; UH West Oʻahu Chancellor Maenette Benham; Interim Executive Administrator and Secretary of the Board of Regents (Interim Board Secretary) Jamie Go; and others as noted.

II. APPROVAL OF MINUTES

Chair Paloma inquired if there were any corrections to the minutes of the November 3, 2022, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

Interim Board Secretary Go 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 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 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, as well as calendar, year. She 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. She also drew attention to a $2.5 million distribution made from the Fund in January 2023 to support the Regents and Presidential Scholars Program.

Mr. Yoneshige presented an overview of the Fund's portfolio performance noting that, as of December 31, 2022, the value of the Fund stood at just over $81.28 million. While the fixed-income portion of the portfolio performed better than expected, all asset classifications underperformed in calendar year 2022 relative to the benchmarks established within Regents Policy 8.207. He went over the primary drivers of this lackluster performance including lagging international equities and conformance to the fossil fuel divestiture mandate in a year that witnessed exceptional increases in the energy index. He also mentioned that internal reviews confirmed the Fund's compliance with 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 0.41 percent and includes 0.2 percent in fees charged by UBS and 0.21 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 the challenging economic conditions faced by diversified portfolios in calendar year 2022, including high inflation and the rapid increase in interest rates by the Federal Reserve to combat inflationary pressure. They also discussed annual returns and intra-year declines of the equity and bond markets over the last few decades; spoke about the rationale for interest rate hikes in 2022 and the near-term expectation for their continued escalation; and noted the positive impacts of increased interest rates on United States Treasury Bond yields. All things taken into consideration, UBS maintains its belief 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 Paloma asked if the time period between negative and positive returns experienced by the equity markets is expected to remain the same going forward given actions being taken by the Federal Reserve. Mr. Yoneshige replied that the frequency of equity market turbulence will likely remain the same for the foreseeable future. He also reiterated that, while the bond markets do offer some security since they experience positive returns nine-out-of-every-ten years, the equity markets still offer the best opportunity for long-term returns-on-investment especially given the perpetual nature of the Fund's portfolio.

B. <u>Semi-Annual Associated Students of the University of Hawai‘i (ASUH) Stadium Stock Fund Investment Performance, through December 31, 2022</u>

Rudy Ramirez, ASUH President, reported on the history of, and context under which ASUH acquired, the Stadium Stock Fund; provided overviews of the legislative and budgetary approval processes used by ASUH; reviewed budgeted versus actual payouts made from the Stadium Stock Fund over the past five years; and spoke about the various programs, services, scholarships, awards, and student support activities funded by ASUH through the Stadium Stock Fund.

Peter Backus, ASUH Investment Advisor from Graystone Consulting/Morgan Stanley, 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 continued to impact the markets throughout 2022 including increased 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 16.50 percent experienced by the investment portfolio, which was valued at $9,614,207 as of December 31, 2022; discussed the rationale for the portfolio's asset allocation amounts stating that it currently consists of 0.34 percent managed cash, 29.94 percent fixed-income, and 69.72 percent equities; went over the investment policy guidelines applicable to the Stadium Stock Fund; noted that the portfolio's expenses totaled 0.37 percent and include a 0.25 percent fee charged by Morgan Stanley; and talked about Morgan Stanley's near-, intermediate-, and long-term economic outlook and its impacts on investment actions.

Board Chair Moore expressed his concerns about budgeted versus actual amounts distributed from the Stadium Stock Fund over the past five years and encouraged ASUH to utilize its full complement of funding to support students and student activities. Mr. Ramirez stated that ASUH accepts requests for financial assistance throughout the academic year which results in withdrawals being made from the Stadium Stock Fund on an as needed basis. Given that the number and types of applications vary from year-to-year, disparities often exist between budgeted and actual expenditure amounts.

C. FY 2022-2023 Second Quarter Financial Report

VP Young provided the FY 2022-2023 second quarter financial report stating that, with two quarters 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 an increase in General Fund (GF) appropriations received from the Legislature, as well as the receipt of maintenance of effort funding, resulted in the university experiencing total revenues that were higher than the same time period last fiscal year; tuition and fees revenues received were $5.7 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 a considerable growth in on-campus activity, 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 requested clarification on the increase in GF revenues received by the university that was tied to costs associated with collective bargaining agreements. VP Young replied that funding for negotiated collective bargaining contracts is approved by the Legislature. Once funding is approved, monies for the labor costs connected to the agreements are distributed to individual departments based upon the number and type of personnel within each unit. While the funds received by the university are reflected as an increase in GF revenues realized, he emphasized that the monies received are typically offset by their immediate expenditure for the aforementioned personnel costs. However, he noted that this is not always the case for the university as some personnel costs are paid for using other sources of funding. He also mentioned that another wage increase is scheduled to take effect on July 1, 2023, which will be addressed through additional GF appropriations being made to university in the future.

D. Recommend Board Approval to Authorize the Issuance of a Merchant (Credit Card) Services Contract Pursuant to a Request for Proposals (RFP) to Provide Merchant Services for the University of Hawai‘i System, RFP No. 23-5944

Amy Kunz, Associate Vice President (AVP) for Budget and Finance/University Controller, explained that the credit card services contract allows the university to accept VISA, Mastercard, and debit cards as forms of payment for tuition and fees, room and board, dining, merchandise, and other goods and services. Given that the current contract with Bank of Hawai‘i is set to expire on July 31, 2023, the administration is seeking authorization to enter into a new contract for the provision of these services. She provided background information on the current credit card services contract; went over some of the major terms of the proposed contract; and spoke about contrasts between the current structure and the proposed credit card fee structure. The current pricing structure is a “fixed-fee” pricing in comparison to the new contract which is in line with industry standards and incorporates a “cost-plus” pricing model consisting of interchange and other pass-through costs, plus fees charged by the awardee. It was also noted that board approval of this service contract is required because the estimated cost for the contract exceeds the $5,000,000 threshold established in Regents Policy 8.201.

Board Chair Moore sought to confirm his understanding that the fee arrangement under the current contract included a flat fee of 2.15 percent of all sales for credit card transactions and a fixed fee of $0.85 per transaction for debit card transactions. AVP Kunz concurred with Chair Moore’s representation of the current fee structure.

Chair Paloma asked about the duration of the proposed contract. AVP Kunz replied that the initial term of the proposed contract is for three years with the option to renew for two additional twelve-month periods upon mutual agreement.

Regent Higaki moved to recommend board approval to authorize the issuance of a credit card services contract to provide merchant services for the university system pursuant to RFP No. 23-5944, seconded by Regent Lee, and the motion carried with all members present voting in the affirmative.

E. FY 2022 University of Hawai‘i Revenue Bonds Private Use Analysis Update

AVP Kunz provided an overview of the revenue bond post-issuance compliance review for FY 2022, 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. She 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.

F. 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, briefly reviewing each stimulus package, the three tranches of funding available, the amounts received, the expenditures of funds by campus, and funding restrictions. As of December 31, 2022, the university expended about $208.3 million of the $244.7 million it was awarded.

Referencing the remaining balance of $36.4 million in HEERF funds, Regent Wilson asked if the administration has already planned for the expenditure of these monies. VP Young replied that the balance of HEERF funds noted in the presentation was as of December 31, 2022. Since that time, additional HEERF funds have been used thereby reducing this amount. At the current rate of expenditure, the administration expects HEERF funding to be fully expended by June 30, 2023.

In light of the temporary nature of HEERF funding, Chair Paloma asked about the impacts the loss of this money will have on actions taken during the pandemic to address student needs such as the provision of wi-fi access and computer equipment. VP Young replied that a number of campuses utilized HEERF resources to build infrastructure and establish programs to meet the educational needs of students. Loss of this funding will require the campuses to determine how to continue funding these initiatives going forward.

As follow-up to Chair Paloma’s question, Board Chair Moore asked if thought had been given to how the programs that were initiated using HEERF funds can be financially maintained once federal funding is no longer available. VP Young responded that campuses will most likely have to include funding requests for these programs within their budgets. President Lassner added that HEERF funds were mainly used to provide direct financial aid to students, address the university’s revenue shortfalls associated with the COVID-19 pandemic, and improve technology and distance learning infrastructure. He also stated that significant investments were made in mental health services for students, the maintenance of which is a priority, and is something the administration must include within the university’s steady state budget.

Regent Haning expressed his belief that consideration must also be given to the needs of students suffering from the unique effects of long-COVID when determining how to proceed with the development and maintenance of future student services.

V. ADJOURNMENT

There being no further business, Chair Paloma adjourned the meeting at 11:40 a.m.

Respectfully Submitted,

/S/

Jamie Go
Interim Executive Administrator and
Secretary of the Board of Regents