MINUTES OF THE REGENTS' COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, May 16, 2002

Place & Time: Campus Center Conference Chamber, Rm. 220 University of Hawai‘i at Mānoa 2:00 p.m.

Committee Members Present: Regents Kobayashi (presiding) Dowling Kawakami Kurisu Thurston Ikawa (ex-officio)

Other Regents Present: Regents Bergin Lee McElrath Nunokawa Poe Weiner

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Subjects:

1. Bond Resolutions
2. Student Information System
3. Authorization to Finance the Student Information System (SIS) Through an Internal Loan, Utilizing University Bond System Cash in Excess of Immediate Union
5. Health and Wellness Center, Project Status Update
6. Adoption of Administrative Rules Governing the Hawai‘i Educator Loan Program
7. Transfer of Additional Season Tickets to ‘Ahahui Koa Anuenue and Establishment of Individual Football and Wahine Volleyball Ticket Prices for the 2002 Season

Bond Resolutions

Vice President Sloane requested that the Committee approve the adoption of a master bond resolution and a supplemental resolution. The purpose of the 2002 Resolution is to provide a master security document to serve as a vehicle for issuing bonds to finance various facilities at the University. The 2002 Resolution is a separate security document from the basic resolution adopted by the Board at its November 16, 2001 meeting. The November 2001 resolution replaced an older resolution, and the supplemental resolution adopted pursuant to that basic resolution was to provide for the refunding of outstanding Series G and I Revenue Bonds and the exchange of Series D Revenue Bonds originally issued to the United States government.

The 2002 Resolution is a security document for the issuance of bonds to finance various facilities at the University. The 2002 Resolution is a separate security document from the basic resolution adopted by the Board at its November 16, 2001 meeting. The November 2001 resolution replaced an older resolution, and the supplemental resolution adopted pursuant to that basic resolution was to provide for the refunding of outstanding Series G and I Revenue Bonds and the exchange of Series D Revenue Bonds originally issued to the United States government.

Under the 2002 Resolution, the Board may, by supplemental resolution authorizing a particular series of Bonds, grant as supplemental security for such series of Bonds, a pledge of and lien on, and a security interest in, (i) all or a portion of the moneys appropriated by the Legislature of the State for deposit in the University Revenue-Undertakings Fund for the purpose of paying all or a portion of the principal of, and interest on, such series of Bonds, or (ii) all or any portion of the proceeds of such series of Bonds,
or (iii) both. Pursuant to that provision of the 2002 Resolution, the 2002 Supplemental Resolution grants as supplemental security for the Series 2002A Bonds a pledge of and a lien on, and a security interest in, Auxiliary Moneys, 2002A. The term "Auxiliary Moneys, 2002A" is defined under the 2002 Supplemental Resolution as those amounts on credit to the Auxiliary Account, 2002A in the University Revenue-Undertakings Fund is required to be applied solely to payment of the principal of and interest on, and to generate required coverage, if any, on bonds issued by the Board to construct the University's Health and Wellness Center. Pursuant to legislation enacted at the Third Special Session Laws of Hawai'i 2001, the Legislature of the State has indicated its intention to allocate and appropriate each year, for the purpose of paying debt service on the Series 2002A Bonds, a portion of the moneys received under a settlement with certain tobacco companies.

The 2002 Supplemental Resolution delegates certain decisions to the "Designated Financial Officer" who is specified as the Vice-President for Administration and Chief Financial Officer of the University. The Designated Financial Officer will issue a "Certificate of Determination" on or before closing for the Series 2002A Bonds providing, among other things, that upon each date on which Available Moneys are required to be transferred to the Interest Account, 2002A, the Serial Bond Principal Account, 2002A, or the Term Bond Principal Account, 2002A, created in the aforesaid Certificate of Determination, in the event and to the extent there are any Auxiliary Moneys, 2002A, on deposit in the University Revenue-Undertakings Fund and on credit to the Auxiliary Account, 2002A, therein, there shall be transferred to the paying agent for the Series 2002A Bonds, all Auxiliary Moneys, 2002A, on deposit in the University Revenue-Undertakings Fund and on credit to the Auxiliary Account, 2002A, therein, but not in excess of the payment due on the next interest payment date, in lieu of and in substitution for the transfer to the paying agents for the Series 2002A Bonds of such amount from the Available Moneys. To the extent Auxiliary Moneys, 2002A, are not sufficient to provide for the payment due on the next interest payment date, Available Moneys shall be transferred to the Paying Agent for the Series 2002A Bonds, as required by the 2002 Resolution. In addition, the Certificate of Determination will fix certain details of the Series 2002A Bonds, establish provisions relating to insurance on the Series 2002A Bonds, and provide for the execution and delivery of the bond purchase agreement and various closing documents.

The 2002 Resolution and 2002 Supplemental Resolution were prepared by the law firm of Hawkins, Delafield & Wood and has been reviewed by the Department of Budget and Finance, the Department of the Attorney General and University General Counsel.

The 2002 Resolution provides a framework with respect to the facilities permitted to be financed and the revenue base that may be pledged towards payment of the bonds issued thereunder. The 2002 Resolution has been developed over a period of several months with the input of the underwriters, UBS PaineWebber and Solomon Smith Barney, Inc., and their counsel, the offices of the Department of Budget and Finance, the Department of the Attorney General and the Hawai'i Community Development Authority,
in addition to members of the staff of the University and the office of the University General Counsel. The 2002 Resolution will not provide for a general reserve fund for all bonds issued thereunder nor require the University or the Board to generate "coverage" or meet tests for the issuance of additional debt thereunder. It would include authority to issue variable rate bonds, to enter into hedge agreements, support agreements, integrated swap agreements, and other financial agreements in connection therewith and allows for the issue of refunding bonds but recognizes that market volatility and further recognizes that such volatility can give rise to occasions when it would be fiscally advantageous to the University to be able to act quickly to effect an issue of refunding bonds. Further it would allow the Board to delegate to the Designated Financial Officer, for periods of up to one year, the authority to effect an issue of refunding bonds (so long as certain conditions pertaining to the present value savings to the Board of such issue have been met and the Designated Financial Officer has concluded that the issue of one or more series of refunding bonds is in the best interests of the Board) and includes various covenants as required by law and the marketplace such as to defend title, complete construction, operate and maintain the University and to keep the same in good repair, to impose and collect rates, rents, fees and charges, to pay lawful charges, to keep books and accounts, and with respect to subordinate obligations, encumbrances, and insurance.

Regent Nunokawa inquired as to who picked the underwriters. Vice President Sloane informed that the University was merely State-selected underwriters who are UBS PaineWebber and Solomon Smith Barney, Inc.

Regent Kurisu moved to adopt the new proposed 2002 Bond Resolution and the 2002 Supplemental Bond Resolution as presented. The motion was seconded and unanimously carried.

Student Information System

John Morton reported on the development of the new Student Information System for the entire University. He informed that the University has a critical need to integrate its student information systems in order to provide better service to students and to function more clearly as a University system. This need has been identified as among the highest priorities for the University in the current strategic planning process, in the Board-approved Strategic Plan for Information Technology, and in consultant and audit reports.

In addition to the general need to improve and integrate the student information systems, the license for the current Community College system expires on June 30, 2002. That information system is no longer sold by the vendor nor does it provide even basic web services for students. The Community Colleges strongly believe that it is in the best interest of the University to convert the Community Colleges to a modern information system rather than re-negotiate license fees for the existing defunct system.
Additionally, financial aid auditors have strongly urged the UH-M~noa campus to obtain improved financial aid software to ensure better compliance with Federal government regulations. The need is to have operational software by January 2003 in order to process financial aid applications and disbursements for the 2003 - 2004 financial aid year.

The project being undertaken by the University addresses both the short-term need of the Community Colleges by July 1, 2002, and the creation of an integrated information system for the entire University system by Fall 2003.

Regent Nunokawa inquired about the budget for this project. Provost Morton stated that the project is budgeted at a total cost of $20 million but will be paid at certain benchmarks. He added that the contract included terms favorable to the University including a performance bond protecting against default by the company in the total amount of the project cost.

Regent Lee asked if this system would facilitate registration across campuses. Provost Morton stated that a student would be able to register anywhere and would also be able to register for distance education.

Regent Poe asked if the system would interact with the library and Provost Morton stated that it would. Regent Poe followed about the security of the information. Provost Morton stated that the data would be protected by a firewall. Banner has audit logs for those with access and individual security would be by pin numbers.

During the first two months of the project, UH teams in student services, financial aid, accounts receivable, and data conversion have been working with SCT staff to develop and configure the system. New computer hardware has been ordered and is scheduled for delivery in April. All timetables necessary to meet both the July 1 Community College deadline and the Fall 2003 University implementation are on track. The level of cooperation and commitment from within the project teams and the larger University community has been outstanding.

The University General Counsel has determined that the present actions and decisions are within the authority of the President and do not require specific Board approval. Further updates on the project will be provided to the Committee on a regular basis and Provost Morton would also be available if more details are needed.

Authorization to Finance the Student Information System (SIS) Through an Internal Loan Utilizing University Bond System Cash in Excess of Immediate Requirements

Vice President Sloane requested that the Committee authorize the administration
to establish an internal loan for the Student Information System (SIS) implementation from the University Bond System using cash deemed to be in excess of immediate program requirements.

The purpose of this request is to authorize a loan not to exceed $20 million to finance one-time implementation costs related to the SIS project. University Bond System cash in excess of immediate requirements that would otherwise be invested in bank certificates of deposits or other investments will be utilized to finance the loan. The University will benefit financially by being able to spread the cost of the SIS project over a longer period of time commensurate with the benefits and life of the system by financing the SIS project at more attractive rates than rates available commercially for municipal borrowing or leasing. This loan will also increase interest earnings for the University Bond System.

The University maintains a short-term investment portfolio of over $125 million. In the current financial environment these investments are currently earning a composite rate of approximately 3.5%. The current interest rate for a 1-year bank certificate of deposit is about 2.4%, while a 5-year Treasury yields about 4.33%. In comparison, interest rates to finance the SIS implementation utilizing a commercial provider would be in the neighborhood of 5.5% - 7%.

Parameters/constraints of the proposed internal loan are:

1) Amount of Loan Principal – maximum $20 million (BOR approval required to increase).
2) Loan Term – maximum seven years (BOR approval required to increase).
3) Repayment Period – monthly, quarterly, semi-annual or annual.
4) Source of Repayment – new revenue from the Tuition and Fees Special Fund associated with the tuition increases already approved by the Board. Interest Rate - indexed to rates not less than those of equally maturing financial instruments such as Treasury Note or Bank CD.
5) Compliance - loan must comply with existing bond indenture.
6) Loan Administration – responsibility of the CFO and University Bond System Custodian, with consultation from Bond Counsel and University General Counsel to ensure continued compliance with all University Bond System bond covenants and other legal requirements as well as the proper accounting and reporting of loan program activities.

Use of the University Bond System cash balances for this purpose has been reviewed by the University’s External Bond Counsel. During the term of the SIS project the
Board will be provided with monthly updates.

Regent Dowling moved to approve the internal loan as specified herein and authorize the administration to take all necessary steps to implement, document and administer the loan with the understanding that monthly financial and risk reports are to be made to the Board relative to the progress of the SIS project. The motion was seconded and unanimously carried.

Extension of Contract with Cassidy & Associates, Inc.

President Dobelle explained that this recommendation would be to extend the current contract with Cassidy & Associates, Inc., (Cassidy) of Washington, D.C. for consulting services through June 30, 2003.

The proposed issuance of the contract extension will enable the University to secure the continued services of Cassidy in the University’s efforts to obtain federal funds for new and continuing programs. The new initiatives in FY 2003 are: 1) authorization of the Cancer Research Center, $80 million; 2) the Institute for Astronomy Big Telescope Project, $10 million; 3) Warfighter Sustainment Advanced Technology, $5 million; and 4) Value-Added Agricultural Business Partnerships, $500,000. These new program requests total $95.5 million, with $80 million in authorization and $15.5 million in appropriations.

For FY 2003, the continuing programs for which funding is being sought are: 1) Mauna Kea Astronomy Education Center, $10 million; 2) Active Hyperspectral Imaging, $5 million; 3) Hawai’i Energy and Environmental Technology, $4 million; 4) Hawai’i Coral Reef Initiative Research Program, $1 million; 5) University of Hawai’i at Hilo Pharmacy Program, $1 million; 6) International Pacific Research Center, $2 million; 7) Marine Mammal Hearing Research, $2.12 million; 8) School Assisted Interactive Learning (SAIL), $3 million. The total request for continuing programs is $28.12 million.

The proposed fee to Cassidy for the contract extension will remain at the current monthly rate of $22,453 for an annual fee of $269,436. Payments will come from the Research and Training Revolving Fund as they have in the past. A further need for these consulting services exists, because of the University’s interest in obtaining federal funding for continuing and new initiatives as listed above.

The Board of Regents approved a two-year contract with Cassidy in May 1987 to acquire federal matching funds for the Pacific Ocean Science and Technology (POST) facility. Cassidy was selected because it offered the University widely-acknowledged expertise in securing building and programmatic funds for universities, and the Board has since approved the renewal for that contract for the periods July 1, 1989 to June 30, 1991; July 1, 1991 to June 30, 1993; July 1, 1993 to June 30, 1995; and July 1, 1995 to June 30, 1996. The current contract was awarded to Cassidy following a February 23, 1996 issuance of a formal Request for Proposals (RFP) under the provisions of the Hawai’i
Revised Statutes, Chapters 103 and 103D. Cassidy submitted a proposal that was evaluated according to the categories and thresholds published in the RFP. A copy of the RFP and the proposal are on file with the BOR Office. Under this contract, the Board approved renewals for the periods July 1, 1996 to June 30, 1998; July 1, 1998 to June 30, 2001; and July 1, 2001 to June 20, 2002.

Pursuant to this contract, Cassidy personnel have worked closely with the University and the Hawai‘i Congressional delegation to identify and describe the University’s needs, to match these needs with related federal priorities, to present all relevant details to the U.S. Congress, and to assist Hawai‘i’s Congressional delegates guide funding requests through complicated negotiations over several legislative sessions.

Over the 15 years in which Cassidy has assisted the University in securing federal funds, there have been many successes. More recently, Cassidy assisted in obtaining a total of $15.5 million for the University in FY 2002.

Funding requests for FY 2003 have been submitted to the Hawai‘i delegation, and the University is now working with the delegation and Cassidy in attempts to obtain special authorization and appropriations from Congress. The requests total $135.72 million. Considering that Cassidy is currently assisting in these ongoing efforts, it is in the best interest of the University to continue contracting for their services in order to maintain continuity of effort.

Regent Dowling moved to approve an extension of the contract for consultant services with Cassidy and Associates, Inc., of Washington, D. C., for a one-year period from July 2, 2002 to June 3, 2003. The motion was seconded and unanimously carried.

John A. Burns School of Medicine Kakaako Project (Health and Wellness Center)

Rex Johnson reported on the progress of the Health and Wellness Center stating that the draft environmental assessment was filed with OEQC on March 13, 2002, and that the design guideline review was completed on April 22, 2002. Hawai‘i Community Development Authority (HCDA) Development permit was issued on April 30, 2002.

Regent McElrath inquired about the parking plans. Mr. Johnson stated that there would probably be a need to rely on some off-site parking.

President Dobelle inquired about incorporating environmental features into the design. Mr. Johnson stated that they would be hiring a specialist in this area in order to make the building an environmental state-of-art design.

Adoption of Administrative Rules Governing the Hawai‘i Educator Loan Program
Secretary Iha reported that pursuant to Chapter 91 the Board of Regents conducted public hearings on proposed Chapter 20-25 Hawai‘i Administrative Rules governing the proposed Hawai‘i Educator Loan Program.

The purpose of the proposed rules is to provide guidelines and procedures to administer the Hawai‘i Educator Loan Program which would apply to teacher candidates on both the University of Hawai‘i at Mānoa and Hilo campuses. The loans would be used to cover the cost of tuition, books and other necessary instructional material. The student must be a resident of Hawai‘i and the loan would be awarded on a competitive basis. In repaying the loan, 10% of the loan would be waived for each year the loan recipient teaches in the Hawai‘i Department of Education in a hard to fill position including Special Education and Title I schools.

Public hearings were held on the islands of Hawai‘i, Māui, Kaua‘i and O‘ahu on May 7, 8, 9 and 13, 2002, respectively. Notice of the hearings were published in the Honolulu Star Bulletin on April 1, 2002; The Garden Island on April 1, 2002; Māui News on April 11, 2002; and in the Hawai‘i Tribune Herald on April 12, 2002.

Regent Poe presided over the hearings on May 7th and 8th. Regent Kawakami presided over the hearing on May 9th and Regent Kurisu the hearing on the 13th. The College of Education, UHM, sent resource representatives to all of the hearings.

There were no testimonies opposing the proposed rules provided during any of the public hearings. At each of the hearings it was announced that the Regents’ Committee on Finance and Facilities would be meeting on May 16, 2002 at approximately 1:30 p.m. at the University of Hawai‘i at Mānoa to consider the adoption of the proposed rules. Should the Committee recommend adoption the Board of Regents would consider the proposed rules at its meeting to be held on May 17, 2002 at approximately 8:30 a.m. at Leeward Community College.

Regent Kurisu moved to recommend that the Board adopt the proposed Chapter 20-25 Hawai‘i Administrative Rules governing the Hawai‘i Educator Loan Program as taken to public hearing. The motion was seconded and unanimously carried.

Transfer of Additional Season Tickets to ‘Ahahui Koa Anuenue and Establishment of Individual Football and Wahine Volleyball Ticket Prices for the 2002 Season

Director Yoshida requested that the Committee approve the transfer of additional season tickets for all sports to ‘Ahahui Koa Anuenue (AKA), season tickets will be made available to members of the general public by Koa Anuenue as part of its fundraising efforts for the Athletic department. In addition the department was requesting approval to
Mr. Burns explained that the purpose of the proposal was to enable Koa Anuenue to raise money for scholarships for all sports. The University of Hawai‘i Athletic Department has been involved in reorganizing our booster organization, AKA through meetings with all stakeholders involved with UH Athletics (i.e. representatives of the booster organizations, student-athlete group, business community, donors, faculty, etc.) From this group of 65 representatives, a consensus was reached to collectively work with AKA to restructure its organization including its board of directors. One of the primary objectives is to increase revenues for the athletic department.

The reorganized AKA Board held their initial meetings and agreed to support the athletic department’s initiative to reconstruct the “Premium Seat Donation”, currently in place from previous years.

If approved, this process would take effect beginning with the 2002 football and wahine volleyball seasons. For all other sports, the AKA Board will be working with the athletic department to develop a similar program for “Premium Seat Donations”. This increase of allocated seats will provide AKA the ability to generate new revenue without raising ticket prices. For many years, it has always been the practice of AKA to generate revenue for the athletic department through this process.

As in the previous year, we will maintain the same season ticket prices for this year and also still provide an overall additional incentive for football season ticket holders as they will realize a discount for their commitment to UH Athletics. At the same time, individual game ticket prices will change with pricing to reflect the quality or perceived quality of the opponent. This will allow the UHAD to continue to maximize revenues from the most desired opponents.

The proposed individual football and women’s volleyball ticket prices for the coming (2002) season would be:

<table>
<thead>
<tr>
<th>Opponent</th>
<th>Sideline</th>
<th>Endzone</th>
<th>Youth/Senior Citizens/Students*</th>
<th>UH System Students#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington State</td>
<td>$28</td>
<td>$21</td>
<td>$16</td>
<td>$3</td>
</tr>
<tr>
<td>Cincinnati &amp; San Diego St.</td>
<td>$23</td>
<td>$17</td>
<td>$12</td>
<td>$3</td>
</tr>
<tr>
<td>WAC Games</td>
<td>$21</td>
<td>$16</td>
<td>$12</td>
<td>$3</td>
</tr>
<tr>
<td>Eastern Illinois</td>
<td>$19</td>
<td>$15</td>
<td>$11</td>
<td>FREE</td>
</tr>
</tbody>
</table>
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*Youth, Senior Citizen, and UH Student Tickets are located in the North Endzone.

#See attachment II for locations

Proposed Individual Wahine Volleyball Ticket Prices (2002):

<table>
<thead>
<tr>
<th>Tier</th>
<th>Adult/Lower</th>
<th>Adult/Upper</th>
<th>Senior/Upper</th>
<th>UH Students/Students (age 4-18)</th>
<th>Super Rooter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier I</td>
<td>$14</td>
<td>$11</td>
<td>$9</td>
<td>$6</td>
<td>$6</td>
</tr>
<tr>
<td>Tier II</td>
<td>$13</td>
<td>$10</td>
<td>$8</td>
<td>$6</td>
<td>$6</td>
</tr>
<tr>
<td>Tier III</td>
<td>$12</td>
<td>$9</td>
<td>$8</td>
<td>$5</td>
<td>$5</td>
</tr>
</tbody>
</table>

The three levels (tiers) of ticket prices will be determined in accordance with the success and marketability of an opponent. Tier I prices will be assigned to the most successful and marketable opponents; Tier II will be assigned to the second most successful and marketable teams; and Tier III will be assigned to the least successful and marketable teams.

Regent Dowling inquired about the relationship between Koa Anuenue with UH Foundation. Mr. Burns explained there was no current relationship since Koa Anuenue is an independent 501(c)3 organization. Regent Lee clarified that this proposal is from the new Koa Anuenue which incorporated all booster groups.

Regent Dowling asked if Steinberg, marketing consultant to the Athletic Department had seen the proposal. Director Yoshida stated that he had been consulted and felt that the premium prices were still too low.

President Dobelle stated that he was not satisfied with the level of student input, since aside from the few students on the Advisory Committee this matter had not been widely publicized nor given much opportunity for input. More sensitivity needs to be demonstrated on the part of the Department in order for the students to feel more welcomed to athletic events.

Mr. Goodenow testified in favor of the proposal explaining that the booster groups and stakeholders involved were committed to this proposal. However, President Dobelle stated that there appears to be several concerns, legal and otherwise, and that there was still a level of discomfort among the Regents. He suggested that this matter be deferred. This would give the Regents more time to understand the proposal. Regent Weiner concurred and stated that her observation was that historically, Koa Anuenue did not have women on their board of directors and that efforts should be made to ensure for a more balanced representation particularly in light of gender equity.
Regent Dowling moved to defer the matter, until such time the Committee felt it understood the issue and the legal issues addressed. The motion was seconded and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 3:10 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: July 1, 2002

c: Chairperson Allan K. Ikawa
Members, Committee on Finance and Facilities
President Evan S. Dobelle
Senior Vice President and University General Counsel Walter S. Kirimitsu
Vice President James R. W. Sloane
Interim Vice Chancellor Rodney Sakaguchi