MINUTES OF THE REGENTS' COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, July 18, 2002

Place & Time: Campus Center Conference Chamber, Rm. 220 University of Hawai‘i at Mānoa 4:00 p.m.

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

Committee Member Excused: Regent Kobayashi

Other Regents Present: Regents Lee McElrath Nunokawa Poe Yamasato

Others Present: Evan S. Dobelle, President, University of Hawai‘i Rose Y. Tseng, Senior Vice President, University of Hawai‘i and Chancellor, UH-Hilo James R. W. Sloane, Vice President for Administration and Chief Financial Officer Allan An San, Associate Vice President for Administration Prescott Stewart, Executive Assistant to the President Elizabeth Betsy Sloane, President, UH Foundation Robin K. Campaniano, University of Hawai‘i Foundation Board Robert Smith, National Ocean Service David Iha, Executive Administrator and Secretary of the Board Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

The minutes of meeting of the Regents’ Committee on Finance and Facilities held on May 16, 2002, were approved as circulated.
Establishment of an Internal Loan for the Student Housing Project from the University Bond System Cash

Vice President Sloane requests that the Committee authorize the administration to establish an internal loan for the Student Housing Cabling Project 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 $5.3 million to finance costs related to the Student Housing Cabling 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 Student Housing Cabling Project over a longer period of time commensurate with the benefits and life of the project by financing the project at more attractive rates than rates available commercially for municipal borrowing. 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 Student Housing Cabling Project utilizing a commercial provider would be in the neighborhood of 5.5% - 7%. Verizon Financing has proposed to finance the cable portion of the project at their municipal rate of 6.06% and the Cisco switches at 5.75%.
The University could save almost $400,000 in principal and interest over the life of a 7-year loan by utilizing an internal loan with a rate of, for example, 4%, instead of relying on Verizon’s municipal rate.

The amount of loan principal would be a maximum $5.3 million and BOR approval would be required to increase this amount. Other parameters would be a maximum seven years loan term; new revenue from the room fees associated with the room rate increases already approved by the Board would serve as revenue source; interest rate indexed to rates not less than those of equally maturing financial instruments such as Treasury Note or Bank CD; loan must comply with existing bond indenture; 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.

Vice President Sloane assured that the 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 Student Housing Cabling Project the Board will be provided with annual updates.

Following a discussion Regent Dowling moved to authorize an internal loan from the University Bond System using cash in excess of immediate institutional requirements, and authorized the administration to take the necessary steps to implement and safeguard this transaction. The motion was seconded and unanimously carried.

Authorization to Enter in a Lease Agreement for Office, Classroom and Educational Exhibit Space for the Cooperative Program between the University of Hawai‘i-Hilo and Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve

Senior Vice President Tseng requested that the Committee authorize the administration to enter into a five-year lease agreement with Dave Levenson, dba the New S. Hata Building for the lease of approximately 5,800 square feet of office, classroom and educational exhibit space at the New S. Hata Building, Hilo, Hawai‘i. She explained that this will be used for the cooperative program between the University of Hawai‘i at Hilo (UHH) and the Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve.

In September 2001, the University of Hawai‘i at Hilo entered into a one-year lease of approximately 4,320 square feet of office and educational exhibit space in the New S. Hata Building in downtown Hilo. This space consisted of a ground floor commercial space and two office suites on the second floor. One of the office suites has been used during the past year by the director and staff of the Hawai‘i Small Business Development Center (SBDC) and the other office suite has been used by the staff and Reserve Coordinator of the Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve. The commercial
space on the ground floor is under development as exhibit space.

At that point in time, the University also entered into a cooperative agreement with the Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve to carry out joint activities at these leased facilities to further the purposes of the Marine Science Program at UH-Hilo, the Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve and the National Marine Sanctuary System. Planned as an island-wide effort for the advancement of primarily marine education, the various features of this initiative will showcase the Marine Science Program of UH-Hilo at a prominent downtown location, while also housing a public interpretive exhibit featuring the work of the National Ocean Service (NOS) on the Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve and proposed designation of the Reserve as a National Marine Sanctuary. Educational classes will be possible at this leased facility in downtown Hilo and both UH and the NOS have administrative office space at this location.

The MOU established the institutional goals, objectives, roles and responsibilities governing a number of joint opportunities for education and outreach by UH and NOS. The effort will focus on providing education on the marine environment of the Hawaiian Islands archipelago, provide the public with access and information regarding the UHH Marine Programs, and familiarize the visiting public on the various missions of the National Ocean Service.

This joint partnership for education and outreach will further UHH's interest by providing a venue in a downtown Hilo location for instruction, internships, and regular student field trips to the NOS interpretive displays. The partnership will provide ideal space for an interpretive exhibit on the Northwestern Hawaiian Islands, focusing on the coral reef, deep seamount, blue water, and atoll environments of this area. These exhibits will foster better understanding of the Reserve and the National Marine Sanctuary System. Hawaiʻi is the only state that has atolls, yet many in the general public are unaware of these special places. The formal relationship afforded by this MOU will make it possible for NOS to assist UH with its ongoing marine science activities in the Northwestern Hawaiian Islands, such as the current UH Summer School program at Midway Atoll. It will also allow NOS to house some of its operations in Hilo at UH facilities.

The lease signed last summer was for one year. Following an initial year of operation, the NOS and UHH propose to expand the space in the Hata Building used by the joint program and to enter into a five-year lease agreement with the owners of the Hata Building.

The entire annual rental cost of all the space used by the NOS in the Hata Building will be provided to UH-Hilo at the start of each year of the five-year lease. All operating costs associated with the NOS operations within the leased space will be covered by the NOS. This is a net no-cost item for the University other than the annual rent for the non-
related office suite on the second floor of the Hata Building used by the SBDC. As an administrative convenience, this space is included in the total lease agreement. The monthly gross lease rent (inclusive of building operating expenses) for approximately 5,800 rentable square feet of space will be $10,272.65. No security deposit will be required.

Term of the lease would run from August 1, 2002 through July 31, 2007 provided, that said term shall be contingent upon the annual availability of funds. In addition to the rent specified, the University will pay to the Lessor in accordance with monthly billings by the Lessor, the University's proportionate share of the Lessor's operating costs and utilities for the Property.

Regent Dowling asked if the use of the NOS ship would be included in this arrangement. Mr. Smith said it would and was intended for this partnership.

Regent Thurston suggested that the lease specify that its continuance would be contingent on the availability of federal funds for this purpose. No University funds are to be used in any manner. Regent Kurisu concurred, adding that in the lease it must also stipulate that the landlord be responsible for any improvements necessary to meet ADA requirements. Mr. Smith stated that such provisions would be agreeable.

Chairperson Ikawa asked where the NOS ship would be docked. Mr. Smith informed that due to its size it would docked on O'ahu.

Regent Thurston moved to authorize the administration to enter into a five-year lease agreement with Dave Levenson, dba the New S. Hata Building, Hilo, Hawai'i, for use of approximately 5,800 square feet of space by the cooperative program between the University of Hawai'i at Hilo and the Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve with the proviso that the lease agreement stipulate that continuation of the agreement would be contingent upon the availability of federal funds and that no University funds would be required and that the landlord shall assume all costs for insuring that the lease space is brought to and maintained at full ADA compliance. In addition the University shall be named as co-insured against any liabilities related to this agreement. The motion was seconded and unanimously carried.

Mr. Smith provided a brief presentation on the Coral Reef Ecosystem Reserve project sponsored by the Federal Government.

Authorization to Enter into a Lease Agreement for Office, Research, and Education Space for John A. Burns School of Medicine in the Kaka'ako Area

Interim Chancellor Neubauer requested that the Committee authorize the administration to enter into a lease with Connecticut General Life Insurance Company for office, research, and teaching space in the Kaka'ako area at 677 Ala Moana Building for
use by the John A. Burns School of Medicine.

The new space would allow the John A. Burns School of Medicine to consolidate a critical mass of medical school departments from higher-priced space currently occupied in various other locations on O'ahu to a more affordable space in the Kaka'ako area in close proximity to the site of the new Kaka'ako campus. This consolidation would contribute to a more cost-effective use of off-campus space and to a more effective leveraging of administrative functions. The new space would also alleviate current critical space limitations that are stifling new initiatives and programs as well as provide the flexibility to capitalize on current and future private industry collaboration opportunities. In addition, based on its current size, anticipated growth, and recent budget-driven reduction in space programmed for the new Kaka'ako facilities, it is expected that the school will need space in excess of the total space available in the new Kaka'ako facilities when completed in 2005.

The Medical School needs this space to streamline and restructure current off-campus operations, to solidify its financial base and alleviate accreditation probation concerns. Also, a solid financial base and access to space for growth and private industry collaboration will favorably position the school for maximum utilization of the new Kaka'ako facilities once completed. Rent and moving costs will be funded from savings realized from the termination of certain current costly arrangements and from extramural funds. The School has already informed certain Medical School lessors that, for budgetary and strategic purposes, the School plans to end the current contractual arrangements for leased space at their properties effective September 1, 2002. In addition, the School has discussed the possibility of a relocation with commercial leasing agents representing different properties in the Kaka'ako/downtown area near the new campus site. It is imperative that we act timely to facilitate a smooth physical and financial transition.

Over the past year, the Medical School has worked diligently to thoroughly evaluate the cost/benefit of all off-campus space that it occupies and leases. The process involved clearly identifying the space paid for by the Medical School, understanding the use of such space, assessing the cost, and evaluating the operational impact of relocating the occupants to a central location. The Medical School continues to work to complete this process, but so far it has been determined that the following medical school units are viable candidates for relocation and consolidation at a central, off-campus, location near the new Kaka'ako campus:

- **Department of Internal Medicine** – Parts of this Department’s research, education, and other functions are currently housed at different locations on O’ahu which charge almost $2.90 gross rent per square foot per month. The School anticipates significantly reducing space occupancy at these locations effective September 1, 2002 and wish to relocate parts of this Department to the Kaka'ako area. The School anticipates rent cost savings of up to $300,000 annually by making this change alone.
Office of Biomedical Research – This office facilitates the grant writing process by providing guidance and assistance to faculty in the preparing of grant proposals. It was previously supported by ‘seed’ money and housed at the M–noa Innovation Center at $2.13 gross rent per square foot per month. The School now needs to financially support this critical unit and plans to relocate it to the new consolidated space to maximize cost efficiency and improve its effectiveness by placing it in close proximity to units that would benefit greatly from OBR’s services. Anticipated savings on rent expense is over $20,000 annually.

Telemedicine Unit / Simulation Center – This unit is involved with research, training, and education using cutting-edge telecommunication and simulation technology. This unit is entirely supported by extramural funding and is currently housed at an off-campus downtown location. The School has ample opportunity for collaboration with certain external entities for research and training projects, but the current space occupied by the unit is expensive and does not provide available space for entities that wish to relocate to pursue close collaborative opportunities. Rent will be funded by extramural project funds.

Kaka’ako Campus Planning Group – This group is responsible for coordinating the construction of the New Kaka’ako campus. Operationally, it is imperative that they be located near the new campus site as construction activity increases to effectively manage the project. Currently they are located on the M–noa campus. Rent will be funded out of the project funds.

New requests for space have become increasingly frequent and every reasonable effort is made by the School’s space committee to accommodate these requests with existing on-campus space or any ‘excess’ off-campus space before considering the option of renting additional new space. It has been determined that the following new initiatives will need to have space in the new location.

Native Hawaiian Health Program – (Departmental status currently pending administrative approval.) This brand new initiative is significant in scope and will involve research, education, and training designed to improve the overall quality of health for Native Hawaiian and other Pacific Island communities. Significant funding provided by an external medical school partner will help to establish and maintain this department. This new program will be ideally situated in close proximity to the Office of Biomedical Research, PBRC grants management staff, the Telemedicine unit, and the Department of Internal Medicine and will benefit immensely through collaboration with and support from these units. Rent will be funded out of extramural project funds.

Office of Medical Education - This unit is primarily responsible for the curriculum of the MD program. Recently, they have been able to expand their capabilities with
extramural funding and are developing programs that require additional space. Rent will be funded out of extramural project funds.

- **PBRC Grants Management** – The School of Medicine and the Pacific Biomedical Research Center (PBRC) are close partners in biomedical research and PBRC administratively manages many of the School’s research grants. The significant recent growth in the combined research of PBRC and the School will require PBRC to augment its grants management staff greatly and will have nowhere to house these individuals. A central location providing close proximity to the Office of Biomedical Research (listed above) will be an ideal location operationally. Funding will be from direct extramural funds or overhead recovery funds.

The Medical School has programmed space for certain of the above units into the new facilities in the new Kaka'ako campus, but in light of current growth, expected future growth, and the recent budget-driven reductions in space planned for the new facilities, the School is confident that the space occupied by these units will continue to be occupied by parts of these units or other new units even after the new facilities are completed in late 2004 and mid 2005. Additionally, there are still other projects that the School is considering relocating to a central off-campus location. However, the Medical School is still in the process of appropriately evaluating the long and short term financial and operational feasibility of these potential candidates for relocation.

The School’s biomedical research and other related functions have already attracted interest from private companies wishing to relocate part of their operations closer to the School in order to facilitate more effective collaboration. Although these potential research partnerships are in their early stages of biomedical research, the Medical School expects that these opportunities will increase exponentially resulting in increased long-term biotechnology industry demand for space near the School. Currently, the school is not positioned geographically to take advantage of many of these opportunities. Securing new off-campus space with surrounding vacant space would allow the School to capitalize on many of these collaborative opportunities and jump-start the biotechnology park concept, which will favorably impact the effort to build a robust biotech industry in the State of Hawaii.

The gross lease rent rate (inclusive of common area maintenance fees and building operating expenses) per square foot per month for up to 15,000 square feet would be no higher than as follows:

- **Free rent for the first three to five months of the lease**
- **$1.60 per square foot per month thereafter**

The lease term would be for up to 5 years and would include, but not be limited to, the following concessions and privileges in favor of the University:
An improvement allowance of up to $15 per square foot ($225,000 for 15,000 square feet)

An option to extend for five years at the market rates reflected above

No additional funds would be required for this lease.

During the discussion, Regent Nunokawa inquired if additional funds would be needed. Interim Chancellor Neubauer explained that the current budget would be used since this lease would result in cost savings to the programs. Therefore, no additional funds would be needed for this lease.

Following the discussion Regent Thurston moved to authorize the administration to enter into the lease with Connecticut General Life Insurance Company, for space at 677 Ala Moana Building, for use by the John A. Burns School of Medicine. The motion was seconded and unanimously carried.

Status Report on JABSOM, New Campus in Kaka‘ako

Associate Vice President Ah San provided an update on the John A. Burns School of Medicine project at Kaka‘ako. He reported that the administration had been working with the State on permits and the monies from the bond sale had been deposited. The expected completion of this project was still on track for 2005. Within two weeks the final design should be ready.

Regent Nunokawa inquired as to where the term Health and Wellness Center had been derived. Associate Vice President Ah San explained that it dated back to when the Hawai‘i Community Development Association began making reference to this project. Regent Lee stated that, reference to this project should be the John A. Burns School of Medicine. Regent Nunokawa concurred citing an informal session to update Governor Cayetano on this project during which he too had expressed a preference that this project remained the John A. Burns School of Medicine project. Mr. Ah San stated that he would see to it that all further reference to this project be as instructed by the Regents.

Report on Planned Fund Raising Activities to be Undertaken by the University of Hawai‘i Foundation on Behalf of the University of Hawai‘i

Mr. Campaniano provided a briefing on the UH Foundation’s role in supporting, teaching, learning and research throughout the University. He stated that the Foundation expected to raise at least $200 million by June of 2008. However, it needed to increase its staffing and operational budget for such an undertaking. The Foundation will be requesting an additional allocation from the University.

Regent Thurston inquired about the return for the University’s investment. Mr. Campaniano stated that the projection would average about $33 million a year but
ultimately $200 million by the end of the 2008.

Regent McElrath noted that there was an elimination of alumni relations in the proposal. Foundation President Betsy Sloane stated that they are trying to keep this campaign strictly fundraising, and as such an alumni piece was not included in this campaign.

Two-Month Extension to Existing Agreement for Services Between the University of Hawai‘i and the University of Hawai‘i Foundation

Executive Assistant Stewart on behalf of the administration requested that the Committee authorize an extension to the current Agreement for Services between the University of Hawai‘i (UH) and the University of Hawai‘i Foundation (Foundation) for an additional two months at the same prorated compensation to be effective August 1, 2002.

Approval of the extension will maintain the status quo and provide time for the Foundation and UH to negotiate an agreement to plan, implement, and support a five-year $250 million fund raising campaign.

The existing Agreement between the Foundation and UH expired on its own terms on June 30, 2002. The Agreement had provided a portion of the Foundation’s operating funds. A one-month extension was previously granted by the Board of Regents which extended the contract until July 31, 2002.

The Foundation and UH are currently discussing a six-year arrangement by which the Foundation will manage a major centennial fund raising campaign and handle other services. To avoid any funding gaps, program dislocation, or personnel loss, a temporary "bridging" extension of two months is requested. Compensation paid by UH to the Foundation will be at the current annual rate of $1 million per year, prorated to two months. All other terms and conditions remain unchanged.

Regent Thurston moved to extend the current agreement for services between the University of Hawai‘i and the Foundation for an additional two months at the same rate of compensation to be effective August 1, 2002. The motion was seconded and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 5:05 p.m.

Respectfully submitted,
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David Iha, Secretary

Dated: August 19, 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