MINUTES OF THE REGENTS' COMMITTEE ON FINANCE AND FACILITIES

Date: Thursday, September 12, 2002

Place & Time: Moloka‘i Education Center
              Room 105
              3:00 p.m.

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

Other Regents Present: Regents Hartley
                       Ikawa
                       Lee
                       McElrath
                       Poe

Others Present: Evan S. Dobelle, President, University of Hawai‘i
                Prescott Stewart, Executive Assistant to the President
                Dexter Aoki, Senior Vice President, Wachovia Securities
                William King, Vice President for Administration/Chief Financial Officer, University of Hawai‘i Foundation
                Lei Desha, Hawai‘i Government Employees’ Association
                David Iha, Executive Administrator and Secretary of the Board
                Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

The minutes of meetings of the Regents’ Committee on Finance and Facilities held on June 20, 2002 and July 18, 2002, were approved as circulated.
Contract for Services Between the University of Hawai‘i and the University of Hawai‘i Foundation

Mr. Stewart requested that the Committee approve the proposed contract for services between the University of Hawai‘i (UH) and the University of Hawai‘i Foundation ("Foundation") for the period October 1, 2002 until December 31, 2007. He explained that the proposed agreement would enable the Foundation to plan, implement, and support a five-year fundraising campaign to raise between $200-$250 million for the benefit of the University of Hawai‘i, focusing its efforts on the priorities established by the University. In addition, the Agreement will enable the Foundation to plan, implement, and support alumni relations and athletic services for the benefit of the University.

There has been a dramatic rise in private giving to public universities in the 1990’s. In 1989, the 16 top public universities in the US raised a total of $950 million a year. By 2000, those same public universities raised a total of $2.5 billion a year but did not develop special alumni or major gift programs except for athletic clubs and independent alumni associations to engage in fundraising beyond what was needed to support their particular activities.

The first big public university campaigns began with UCLA in 1982 with most public institutions soon following with dramatic success. Success of the first campaigns led to second campaigns and today all of the top 16 public universities have just completed or are in the midst of a $1 billion campaign. Fundraising costs range from 6 cents to 28 cents per new dollar raised with a median cost of 11 cents. At UH, it cost 9.6 cents for every new dollar raised during the first comprehensive campaign. $11.2 million was spent by the UH Foundation to raise $116 million.

Private fundraising patterns at UH are comparable to the top 16 public universities. However, independent efforts resulted in a highly decentralized approach with 130
separate 501(c)(3) organizations supporting a wide array of university programs. In 1997, the UH President asked that funding at UH be centralized under the UH Foundation for the first comprehensive campaign. The majority of these separate accounts did not transfer to the Foundation though some of these nonprofit organizations make “gifts” to restricted accounts at the UHF periodically.

The First Comprehensive Campaign resulted in $116 million in cash, pledges, deferred gifts and gifts-in-kind to UH. The intended outcomes of the Centennial Fund Campaign are:

- Provide the resources necessary to move UH to the next level of excellence in teaching, learning, and research
- Broaden and deepen the partnership between the UH Foundation, the University, UH Alumni Relations, UH Athletics, and the Community-at-large for successful fundraising now and in the future
- Build long-term capacity of UHF to support the new level of academic endeavor at the University

The goals of the Centennial Fund Campaign are:

- Significantly raise annual level of current and future gifts from an average of $23-$33M to between $35M and $45M by June 2008
- Raise at least $200M in total giving to the UH system between August 1, 2002 and June 30, 2008
- Broaden alumni support from 10% to 18% systemwide

To accomplish these goals will require increasing the Foundation staff from 57 to 82 full-time and part-time staff over an 18-month period and a $9 million annual operating budget. In addition, the Foundation is requesting that the service fee paid by the University be increased to $2 million annually, up from $1 million. A new fee for alumni relations services would add an additional $350,000 to the annual amount paid to the Foundation under the proposed Agreement of Services contract. The Foundation is also asking the University to reimburse them for 50% of unit-based development officers’ salaries and benefits plus applicable taxes.

Mr. Stewart added that the Foundation would raise approximately $15 for every $1 the University invests in fundraising. The reason for the increase in fees is the larger goal necessitating an increase to the Foundation’s staff. The administration and Foundation is also looking to bring Alumni Relations into the Foundation in order to not duplicate the data base and efforts. The cost for this would be about $350,000 per annum, however, this move would not be made until the unions have been appropriately consulted. The proposed agreement would be for 5.5 years at a cost of $14.6 million, with an additional
$1.8 million for Alumni Affairs for a total of $16.4 million in fees. He added that there are funds in the budget to accommodate these fees.

Regent Kurisu asked about the deficit in the Foundation. Mr. King said that it was due to the market, however, much of the deficit would be covered by funds from previous years.

Regent Lee inquired about the percentage from gifts. Mr. King explained that approximately 2% or about $250,000 were derived from gift surcharges last year. Regent Lee noted that half of the cost for development officers would be paid under the new agreement, by the respective departments whereas in the past the entire amount was paid from Foundation funds. She asked if the department had no money what would happen. The administration will provide a more comprehensive answer but President Dobelle assured that no department in need of a development officer would go without one.

Regent McElrath stated that she was not clear about the reorganization of Alumni Relations and preferred to defer that portion of the proposal for now. Ms. Desha, representing Hawai‘i Government Employees’ Association (HGEA), stated that the Board was asked by the administration to approve earlier reorganizations involving the Mānoa Chancellor’s Office and subsequently the Office of the Capital Improvement Director, both of which were done prior to obtaining full good-faith consultation with HGEA. She expressed that it is the University’s responsibility to present a position and proposal for consultation prior to the Board being asked to consider that reorganization. She therefore asked if the same infraction would be happening in this case. Regent Kurisu stated that unfortunately, the Board was being asked to consider the matter at that time.

Regent Kawakami moved to approve the proposed service contract between the University of Hawai‘i and the University of Hawai‘i Foundation. The motion was seconded followed by discussion. Ms. Desha asked for a clarification as to whether this would take place prior to consulting with the union. Regent Kurisu, in response, stated that, unfortunately the matter had been brought to the Committee by the administration for action. He assured that the Alumni Affairs portion would not be implemented until HGEA had time to respond. Upon call the motion was unanimously carried.

University of Hawai‘i Endowment Fund - Performance Evaluation Reports of Quarters Ending March 31, 2002 and June 30, 2002

Mr. Aoki reported that for the quarter ending June 30, 2002, the Endowment Fund was valued at $51.86 million, down by $4,164,882. The Fund’s US stocks declined 14.4% for the fiscal year outperforming the -18% return of the S&P 500 Index by 3.6 percentage points. Growth stocks declined 26.5% over the last 12 months trailing value stocks by 17.5
percentage points. The -24.6% and 21.2% stock declines of Bishop Street and Pacific Century underperformed the S&P 500's -18% return, however, both managers performed above the growth stock benchmark. The value style of Jurika & Voyles moderated the Fund's decline by returning -13%. The bond funds returned 9.7% for the fiscal year, performing above the 8.2% return of the benchmark Index. All three bond managers exceeded their benchmarks. Brandes the foreign stock manager representing 12% of the Total Fund returned -8.1% for the last 12 months, outperforming the -9.2% return of the Index. Brandes' stock selection was favorable as the portfolio outpaced the MSCI EAFE Value Index's -9.3% return.

Regent Thurston reported on the meeting that the Committee had with the various investment managers. Regent Kurisu added that, at the time, concerns were expressed about Bishop Street’s underperforming the index. Mr. Aoki confirmed that occurrence, stating that Bishop Street staffing was inadequate along with their research. However the new Bishop Street team seems to offer a positive future and that First Hawaiian has placed resources into investment managing. He pointed out that the Committee needed to address its fiduciary responsibility by placing Bishop Street on notice.

UH-West O'ahu Site Selection

Mr. Ah San recommended that the Committee approve a 500 acre parcel makai of the H-1 Freeway in Kapolei as the site for a permanent UH West O'ahu (UHWO) campus. This action rescinds the March 22, 1996 Board of Regents’ action endorsing the State-proposed site located on a 991 acre parcel mauka of the H-1 Freeway. The 500 acre Kapolei Makai parcel is the same parcel that was selected by the Board on December 9, 1993 after an extensive site evaluation study and five public meetings.

The selection of a permanent UHWO campus will allow the administration to proceed with the acquisition of the land from the State Department of Land and Natural Resources (DLNR), begin the preparation of a Long Range Development Plan for Board of Regents' approval, prepare an Environmental Impact Statement, and seek Plan Review use approval from the City Council.

During the Fall of 2001, the University Administration, the Estate of James Campbell, and the Governor explored the possibility of relocating UHWO from the 991 acres mauka of H-1 to the City of Kapolei. The parties agreed that the development of UHWO in the City of Kapolei would be advantageous from an urban planning perspective and development cost. The Governor and University submitted a funding proposal to the Third Special Session of the 2001 Legislature and the University received an appropriation of $8.000 million in general obligation bond funds for plans and design for the development of UHWO.
In our site selection study we reviewed sixteen (16) sites, including all previous sites in the 1993 evaluation study. Based upon a site evaluation criteria, three sites initially were listed - Leeward Community College, City of Kapolei and the Kapolei Sports Complex, and the Kapolei Makai 500 acre site was added based upon community input. In total, six community meetings were held in Kapolei and Ewa. All strongly favored the 500 acre Kapolei Makai site. Initial discussions with the State (DLNR and HCDCH) indicate support for the recommended site.

Interim Vice President Neubauer also informed that an additional 16 acres adjacent to the City and State buildings in the City of Kapolei had become available and that the Committee was asked to also authorize the administration to acquire that additional parcel as an interim measure incase the main campus and funding is not available.

Regent Dowling moved to approve the 500 acre Kapolei Makai site as the permanent UHWO campus as recommended and that the administration obtain from the State the transfer of title to the 500 contiguous acres of Kapolei in fee simple, unencumbered, except for easements that do not adversely affect the development of the campus and in addition to authorize the administration to initiate the necessary actions for the transfer, development and use of 16.23 acres in the City of Kapolei adjacent to the City and State buildings pending successful negotiations with the State of Hawai‘i and the Estate of James Campbell. The motion was seconded and unanimously carried.

Report on Public Hearings on Proposed Amendments to Hawai‘i Administrative Rules Governing Delinquent Financial Obligations and the State Higher Education Loan Fund

Secretary Iha reported that pursuant to Chapter 91, Hawai‘i Revised Statutes, public hearings were held on proposed amendments to Chapters 20-8 and 20-10, Hawai‘i Administrative Rules governing delinquent financial obligations to the University of Hawai‘i and the State Higher Education Loan fund.

The proposed amendments would allow the Board of Regents to delegate the final decision making authority in contested cases to the President or the President’s designee. The University utilizes State of Hawai‘i tax refund intercept program to recover delinquent financial obligations to the University. Debtors are given the right to contest their withholding of their tax refunds for delinquent financial obligations owed to the University.

Under the current rules, a hearing officer must hear the contested case and issue a proposed decision. The Board of Regents must review the proposed decision and issue a final decision on behalf of the University. The proposed amendments are intended to free the Board from having to review each contested case, thereby reducing the amount of time it takes to adjudicate a contested case. Hawai‘i Revised Statutes have been
amended to allow the Board of Regents to delegate the final decision-making authority to the President or the President’s designee. The adoption of these rules would provide for consistency with the law and would establish procedures for the Board to delegate the final decision-making authority in contested cases.

In addition, other technical changes are being made such as the inclusion of a category of overdue payment for financial aid where the person fails to meet any eligibility criteria, term or condition of the financial aid.

Public hearings were held on the islands of Mū, Hawai‘i, Kaua‘i and O‘ahu on July 17, 22, 23, and 24, 2002 respectively. Notice of the hearings were published in the Honolulu Star Bulletin on June 18, 2002; the Hawai‘i Tribune Herald on June 20, 2002; The Garden Island; on June 18, 2002; and the Mū News on June 18, 2002.

Regent Dowling presided over the July 17th hearing on Mū. Regent Poe presided over the hearing on July 22nd on the Big Island as well as on July 24th on O‘ahu and Regent Kawakami presided over the Kaua‘i hearing on July 23, 2002. No testimonies in opposition to the proposed amendments were received during the public hearings. It was therefore announced that the Regents’ Committee on Finance and Facilities would be meeting on September 12, 2002 to consider the adoption of the proposed amendments.

Regent Thurston moved to recommend to the Board the adoption of proposed amendments to Chapters 20-8 and 20-10 Hawai‘i Administrative Rules governing Delinquent Financial Obligations to the University of Hawai‘i and the State Higher Education Loan Fund as taken to public hearing. The motion was seconded and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 3:43 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: October 1, 2002

c: Chairperson Bert A. Kobayashi
Members, Committee on Finance and Facilities
President Evan S. Dobelle
Vice President James R. W. Sloane
Associate Vice President Allan Ah San