

## **MINUTES**

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

**FEBRUARY 9, 2017**

#### **I. CALL TO ORDER**

Committee Chair Benjamin Kudo called the meeting to order at 9:47 a.m. on Thursday, February 9, 2017, at the University of Hawai'i at Mānoa, Information Technology Building, 1<sup>st</sup> Floor Conference Room 105A/B, 2420 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Benjamin Kudo; Committee Vice Chair Wayne Higaki; Regent Simeon Acoba; Regent Michael McEnerney, Board Vice Chair Randy Moore, Regent Michelle Tagorda

Others in attendance: Board Chair Jan Sullivan; Regent Eugene Bal; Regent Brandon Marc Higa; Regent David Iha; Regent Jeffrey Portnoy; Regent Lee Putnam, Stanford Yuen; Regent Ernest Wilson, Jr. (*ex officio* committee members); President/Interim UH-Mānoa (UHM) Chancellor David Lassner; Vice President for Academic Planning & Policy Risa Dickson; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Research & Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer, Garret Yoshimi; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; UH-Hilo (UHH) Chancellor Donald Straney; UH-West O'ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary to the Board Cynthia Quinn; and others as noted.

#### **II. APPROVAL OF MINUTES OF THE NOVEMBER 3, 2016 MEETING**

Committee Vice Chair Higaki moved to approve the minutes of the November 3, 2016 meeting, seconded by Regent McEnerney, and the motion carried unanimously.

#### **III. PUBLIC COMMENT PERIOD**

Executive Administrator and Secretary of the Board Cynthia Quinn confirmed that no written testimony or oral testimony was received.

#### **IV. AGENDA ITEMS**

##### **A. For Information**

Due to time constraints, Committee Chair Kudo began with agenda item IV.A.2., FY17 Q2 UBS investment report first with no objections.

##### **2. FY17 Q2 UBS investment report**

The committee received the quarterly update from its investment manager UBS, that reported the second quarter performance outperformed benchmarks net of fees, although it was lower than the S&P 2016 performance. Market conditions are positive, the economy remains smooth and steady, and interest rates are rising slowly. Current portfolio performance was due to better long term forecasting and strategic allocations. All investments are in compliance with board investment policy statements, and the report included asset allocation detail, net expense, fees charged, and information on each fund, respectively. Exposure to fossil fuel is still at 2% and continues to decrease, and is expected to reach the target of less than 1% exposure by June 2018. The committee emphasized the energy target is only as to fossil fuel producers as some energy stocks are good investments, and appreciated waiting until the market develops true new fossil free products. Two new exchange-traded funds that are low cost and fossil fuel free are being monitored for growth and performance, and if these funds meet guidelines could be considered at a future meeting. Investments will remain conservative long term to avoid risk, and focus on outperforming benchmarks to cover fees. It was noted that the market is at an all-time high, but recovery from the recession is longer than usual, so UBS will keep a close watch to respond accordingly, and hope for no major corrections. Comments were raised regarding efforts to align with the S&P higher return to adjust for the compounding negative impact upon the return due to withdrawals made from the fund for scholarships.

### **1. FY17 Second Quarter Financial Report as of December 31, 2016**

VP Young reported the second quarter financials as of December 31, 2016, the reflected changes in the format included a quick snapshot of progress versus historical data. Overall, while the revenues appear to be slightly higher than projections (i.e., what was budgeted or reported as part of the budget), the trajectory is expected to flatten as 90% of revenues for the year have been collected, and expected to be less than budgeted due to decreased enrollment. Trends reveal that growth will not be at the same level as overall tuition rate projections. Expenditures were higher but largely due to timing issues. Administration will continue to monitor, anticipating no better than flat or lower revenues for the remainder of the year, and expect the expenditures to be closer to FY16 than FY17 budgeted. It is expected that campuses will moderate expenses accordingly to match the tuition & fee special funds levels. It was explained that unfunded vacant positions and other vacancies not intended to fill are not included in the budgeting. Negative transfers were explained due to timing issues when budgeted.

Lengthy discussion ensued regarding grave concerns about mitigating shortfalls and deficits in revenue and legislative appropriations with proactive contingency plans and macro cost containment strategies, e.g., early retirement, and the appropriate role of the board or utilizing a task force in addressing fiscal shortfalls to rebalance while trying to modernize facilities, engage in strategic hires and invest in facilities. Administration concurred that measures for an immediate turnaround in a fiscal shortfall are limited, academically controversial, and impactful, and explained that reserves may be needed to cover the fiscal shortfall for 2017, and reflected in a note and a decline in reserve balances. Active discussions are already underway, including with governance groups, with a target update on the UHM budget situation for the next committee meeting in April.

**V. ADJOURNMENT**

There being no further business, Committee Vice Chair Higaki moved to adjourn, and Board Vice Chair Moore seconded, and with unanimous approval, the meeting was adjourned at 10:45 a.m.

Respectfully Submitted,

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Cynthia Quinn  
Executive Administrator and  
Secretary of the Board of Regents