

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
560 N. Nimitz Hwy, Suite 200
HONOLULU, HI 96817**

**Minutes of the Office of Hawaiian Affairs Committee on Resource Management
March 21, 2018
10:00am**

ATTENDANCE:

Trustee Dan Ahuna
Trustee Rowena Akana
Trustee Peter Apo
Trustee Keli'i Akina

Trustee Robert Lindsey
Trustee Colette Machado
Trustee Carmen Hulu Lindsey
Trustee John Waihe'e, IV

STAFF PRESENT:

Kamana'opono Crabbe, CEO
Alvin Akee
Anuheia Patoc
Charlyn Ontai
Claudine Calpito
Crayn Akina
Davis Price
Dylan Zheng
Gloria Li
Kama Hopkins
Kauikeaolani Wailehua
Kay Watanabe
Lehua Itokazu

Lady Elizabeth Garrett
Liana Pang
Lisa Victor, COO
Lopaka Baptiste
Maria Calderon
Max Mukai
Momilani Lazo
Nathan Takeuchi
Paul Harleman
Raina Gushiken
Raymond Matsuura
Tiger Li

GUESTS:

Germaine Meyers
Glenn Ezard
Iain Jones
Sara Lonergan
Kamuela Kalai
Bo Kahui

I. CALL TO ORDER

Committee Chair Hulu Lindsey – Calls the Committee on Resource Management to order at 10:04 am, noting for the record the following Trustees present:

		Present	Excused	Comments
TRUSTEE LEI	AHU ISA		X	
TRUSTEE DAN	AHUNA	X		
TRUSTEE ROWENA	AKANA			Arrives at 10:22am
TRUSTEE KELI'I	AKINA	X		
TRUSTEE PETER	APO	X		
TRUSTEE ROBERT	LINDSEY	X		
TRUSTEE COLETTE	MACHADO	X		
TRUSTEE JOHN	WAIHE'E			Arrives at 10:31am
CHAIRPERSON HULU	LINDSEY	X		
TOTAL		6	1	
At the Call to Order, there are six (6) Trustees PRESENT and one (1) EXCUSED.				

II. APPROVAL OF MINUTES

Trustee Robert Lindsey moves to approve the minutes of the Committee on Resource Management meeting on January 10, 2018 only. The December 6, 2017 minutes were approved at a prior committee meeting.							
Trustee Colette Machado seconds the motion.							
		1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI	AHU ISA						X
TRUSTEE DAN	AHUNA			X			
TRUSTEE ROWENA	AKANA						
TRUSTEE KELI'I	AKINA			X			
TRUSTEE PETER	APO						Steps out and returns at 10:09am

TRUSTEE ROBERT LINDSEY	X	X			
TRUSTEE COLETTE MACHADO	X	X			
TRUSTEE JOHN WAIHE'E					
CHAIRPERSON HULU LINDSEY		X			
TOTAL VOTE COUNT		5			1
MOTION: [] UNANIMOUS [x] PASSED [] DEFERRED [] FAILED Motion passes with five (5) YES votes and one (1) EXCUSED. Trustee Apo was not present for the vote and returns to the table at 10:09					

III. PUBLIC TESTIMONY

None.

IV. NEW BUSINESS

A. Native Hawaiian Trust Fund 4th Quarter 2017 Review – Glenn Ezard

Chair H. Lindsey calls up Glenn Ezard (Glenn) and Raymond Matsuura (Ray) to update the Board of Trustees (BOT) on the Native Hawaiian Trust Fund (NHTF) 4th Quarter 2017 Review.

Ray introduces the new reports for today’s meeting, and notes that State Street will no longer be making reports due to their errors that were discovered by Segal Marco.

Trustee Akina asks if this error skewed the projections made by the fund managers from last quarter.

Ray says it was not a material factor.

Glenn presents his report from a high level perspective. The report presented at the meeting is titled, *Office of Hawaiian Affairs Analysis of Investment Performance Native Hawaiian Trust Fund December 31*, written by Segal Marco Advisors and presented by Glenn, Senior Consultant. To review the report for more detail a copy of this report can be accessed by the Office of Hawaiian Affairs (OHA) Records Management Specialist.

Trustee Akina asks what level of volatility Glenn would expect to anticipate with the NHTF portfolio, and will the 5% or lower rate of spending prudent.

Ray responds that the portfolio is conservative indicating lower volatility. He says that a lower spending rate would be prudent.

Trustee Akina clarifies if the spending rate less than 5% is prudent.

Ray says that he is comfortable with keeping the spending rate at 5%.

Glenn says that the portfolio is highly liquid and compared to the peer group, the portfolio's risk is conservative.

Trustee R. Lindsey says that the needs of the community are growing so it is necessary to keep the spending at the status quo. He encourages the board to consider other streams of revenue to serve our communities. He does not believe the board should reduce the spending rate.

Trustee Akana supports lowering the spending rate to 4.5% or 4%.

Chair H. Lindsey says that the Fiscal Sustainability Plan (FSP) Spending Policy (SP) Working Group (WG) is considering the pros and cons of adjusting the spending rate of the NHTF.

Trustee Apo says that the commercial real estate (CRE) needs to be worked on to create revenue for OHA.

Ray is in agreement and revenue from the CRE would be beneficial.

Trustee Apo asks if there is a cost associated with managing the CRE compared to the inactivity.

Chair H. Lindsey says that the FSP Real Estate Investment (REI) WG is looking to procure a policy writer for the Hawaii Direct Assets Policy (HDAP) and OHA needs.

Ray says he is going to shorten the presentation to 20 pages and is working to lower the fees.

B. Portfolio Update with Pantheon

Ray introduces Pantheon and their representatives to speak on the portfolio update, Iain Jones (Iain) and Sara Lonergan (Sara).

Iain and Sara present an update to the BOT on OHA's portfolio. For more detail of their presentation, please contact OHA's Records Management Specialist for a copy of the report by Pantheon titled, *Office of Hawaiian Affairs Pantheon Private Equity Program Update March 2018*.

C. Fiscal Reserve Workshop and Discussion

Chair H. Lindsey calls up COO Victor (COO), CFO Laeha (CFO), and Trustee Aide to Chair. H. Lindsey, Max Mukai (Max). She goes on to say that outline of this workshop for OHA's Fiscal Reserve (FR) is designed to do 5 things. 1. Clarify and reeducate ourselves on the FR policy guidelines. 2. Review the comments and recommendations made by the state auditor. 3. Seek CFO and administration mana'o to reconcile the points made in the state audit. 4. To get the board's feedback on how we can improve the FR policy guidelines. And 5. To pass along the board's feedback to the Fiscal Sustainability Planning - Spending Policy Working Group, to draft an updated version of the FR for the RM committee's consideration in the near future. The Fiscal Reserve Guidelines are currently written in to OHA's Spending Policy, for which all of you have a copy. The FR guidelines begin on page 6, under the heading, "OHA's Native Hawaiian Trust Fund Spending Policy's Fiscal Reserve Withdrawal Guidelines." The guidelines show that the BOT can approve disbursements of the FR for the following reasons. 1. Budget stabilization, more specifically, during downturns in the financial market significantly affecting our NHTF drawdown. This is used as a mechanism to prevent major operational disruptions. 2. Unpredicted one-time payments. The auditor specifically scrutinized this as being too broad. 3. Capital acquisitions – for major "non-investment" land purchases. This should be clarified and we should determine the necessity of this. And finally, **Special Circumstances** – these FR requests require a super majority + 2 affirmative votes. Special circumstances are defined as any request that does not fall within the first three categories, allowing the board to waive the first three requirements.

Trustee Akana requests for clarification of the Special Circumstances.

Max says that FR spending for Special Circumstances is defined as any situation the board can consider for FR spending that does not fall within the first 3 categories as stated above by Chair H. Lindsey. Special Circumstances will require a supermajority plus 2 affirmative votes.

Trustee Akana says that is a broad definition for this policy.

Chair H. Lindsey continues the workshop explaining The FR's source of income is currently defined as lapsed-unspent budget money from the previous Fiscal Year. When OHA received the large PLT money back in 2006, OHA's fiscal management practices dictated that the funds be accounted for as FR, which was \$17.5 million. The board is able to

spend up to \$3Million per Fiscal Year. According to the policy now, under Section II. D. the FR balance is not an account established separately. Since the FR's inception, it has all been managed in the Native Hawaiian Trust Fund. – but OHA accounts for it separately. This practice allows OHA to benefit from any capital gains that can be made with financial investments of the FR held within the NHTF. The State Audit has reported the following on OHA's Fiscal Reserve management:

- Policy lacks clarity
- Claims that for the “unpredicted one-time requests” allows the Board to consider and approve almost any request
- Vetting process is “loosely administered”
- There's a lack of clarity on FR guidelines

Trustee Waihee clarifies that the Unpredicted One-Time payments category for FR disbursements are defined in the policy as any legal issues, or an emergency condition which means a situation that creates a threat to public health, welfare, or safety that may arise by reason of natural disaster, epidemic, riot, fire, or other reason. He says that this policy is specific and does not know why the auditor would consider this unspecific.

Chair H. Lindsey reiterates that she merely presenting the auditor's opinion. She continues saying the auditor said the following points:

- Most of what they sampled, OHA lacked required information
- OHA doesn't properly monitor NHTF withdrawals
- Trustees voted on “outside” factors
- FR has been spent down rapidly

She continues to say that the CFO and administration will clarify the points the auditor made.

COO outlines the history of the FR. It was developed in 2000 and solidified by action item ARM 06-03 where the \$17.5 million came to OHA. She says that the reserve balance only increases when budgeted expenditures of the prior year are unspent. She says that the board budgeted the \$17.5 million, but then was lapsed as FR funds as deliberate action.

Chair H. Lindsey reaffirms that on June 20, 2006, the board intentionally put this money in to the operating budget with the intention that it would lapse as FR funds.

Trustee Akana says that lapsed funds went back as NHTF and not in to FR. Trustee Akana says that all unspent money would actually be put in the next year's budget and be supplemented. She says the FR should not exist.

Trustee Apo supports Trustee Akana's idea. He says OHA needs to clarify if we are a state agency or not to sort out what is trust funds vs. state money.

Trustee Akana says that the state can only audit state general funds that is granted to OHA.

Trustee Waihee says that the \$17.5 million went to the portfolio.

Trustee Ahuna says that this is an easy fix.

Trustee Akana says that the trust funds are not state funds which cannot be audited or scrutinized by the state.

Trustee Machado says that on page two of the OHA NHTF Spending Policy as amended, under D. Special Circumstances, she reads, "Since the FR is a part of the NHTF and not in an account established separately, if and when the FR is utilized, the fund identified will merely serve as an additional means of financing." She says this point alone resolves the issues brought up by Trustee Apo. She says that the memo Chair H. Lindsey outlines what the auditor said with regard to OHA reviewing its FR guidelines and clarify the intent and purpose of the FR, which she says is the goal of Chair H. Lindsey. She says that the question is if we want to continue the FR as the way it is now or change it.

Trustee Akana says that the board should keep the FR and set a limit to fund, because it is important to have funds for emergencies.

Trustee Lindsey is inclined to keep the FR to handle urgent and emergent needs that come to the OHA.

Trustee Ahuna says that we need to fix the guidelines to move forward.

Trustee Apo says that many of the FR disbursements were leveraged in the communities they were serving.

Trustee Machado says we need to have reform.

CFO emphasizes the point that the FR is a budget term representing the dollars unspent from the prior year and it is not a fund. He says that the FR in the NHTF is earning gains for OHA. With regard to the state audit review slide he points out that administration went through each audited FR disbursement and clearly justified the spending and had all the required information prepared for each one. He suggests we clarify what the requirements are to make them clearer. He says that OHA does monitor the balance of the trust.

Trustee Akana says that the CFO is to come to the table to confirm if OHA can disburse funds within the limits.

CFO says that is a standard practice.

Chair H. Lindsey says that the auditor incorrectly accounted for the FR. OHA's FR is managed as part of the NHTF, but its balance is not calculated as part of the 5% rolling quarter average.

Trustee Waihee asks if admin tried explaining all of what OHA was doing was correct to the auditor when OHA received the audit draft.

Raina Gushiken says that OHA did respond to the audit draft addressing all the concerns that the auditor pointed out, yet there was no change to the final draft.

COO says that OHA was disappointed on the final draft of the audit despite the attempt to clarify the record on OHA practices.

CFO says that the FR is not a rainy day fund but it is a budget term. There was no account of these funds to “spend down” as the auditor mistakenly put. The CFO says that the recommendations made by the auditor are going to be taken in to consideration in the FSP SP WG.

Trustee Akina says that the state auditor was acting on behalf of our beneficiaries and we need to update our FR policies so that the board can exercise more oversight of the spending.

Trustee R. Lindsey suggests that when the WG addresses the updates for the FR that emergent situations be considered for FR spending.

V. COMMUNITY CONCERNS

Germaine Meyers voices her concerns about OHA’s public perception being low in the eyes of the community. She also voices her concern about the communication plan OHA contracted to have a better way to communicate with the public.

Kamuela Kalai voices her concern about the iwi situation at Kawaiahao Church and asks OHA for help with compliance.

Trustee Akana asks if Kai Markell can give the board an update on the situation.

Bo Kahui on behalf of Laiopua he voices his need to partner with OHA to support their efforts.

V. ANNOUNCEMENTS

Chairperson H. Lindsey announces that the BAE meeting will follow shortly.

VI. ADJOURNMENT

Trustee Dan Ahuna moves to adjourn the meeting. Trustee John Waihee IV seconds the motion.							
		1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI	AHU ISA						X
TRUSTEE DAN	AHUNA	X		X			
TRUSTEE ROWENA	AKANA			X			
TRUSTEE KELI'I	AKINA			X			
TRUSTEE PETER	APO			X			
TRUSTEE ROBERT	LINDSEY			X			
TRUSTEE COLETTE	MACHADO			X			
TRUSTEE JOHN	WAIHE'E		X	X			
CHAIRPERSON HULU	LINDSEY			X			
TOTAL VOTE COUNT				8			1
MOTION: [] UNANIMOUS [x] PASSED [] DEFERRED [] FAILED							
Motion passes with eight (8) YES votes and one (1) EXCUSED.							

Respectfully Submitted,



Lehua Itokazu
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management on July 11, 2018



Trustee Carmen Hulu Lindsey
Committee Chair
Committee on Resource Management