

RESOURCE MANAGEMENT COMMITTEE
 Dan Ahuna, Chairperson
 Robert K. Lindsey, Jr., Vice Chairperson
 Leina'ala Ahu Isa, At-Large
 Kalei Akaka, O'ahu
 Keli'i Akina, At-Large
 Brendon Kalei'āina Lee, At-Large
 Carmen Hulu Lindsey, Maui
 Colette Y. Machado, Moloka'i/Lāna'i
 John Waihe'e IV, At-Large



STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS

MEETING OF THE COMMITTEE ON RESOURCE MANAGEMENT

DATE: Wednesday, March 27, 2019
TIME: 11:00 am
PLACE: OHA Board Room, Nā Lama Kukui
 560 N. Nimitz Hwy., Suite 200
 Honolulu, HI 96817

AGENDA

- I. Call to Order
- II. Public Testimony*
- III. Approval of Minutes[†]
 - A. February 27, 2019
- IV. New Business
 - A. Discussion with Spire (Certified Public Accountants for Fiscal Sustainability) on draft fiscal policies. †
- V. Announcements
- VI. Adjournment

If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting.

*Notice: Persons wishing to provide testimony are requested to submit 13 copies of their testimony to the Chief Executive Officer at 560 N. Nimitz, Suite 200, Honolulu, HI, 96817 or fax to 594-1868, or email BOTmeetings@oha.org 48 hours prior to the scheduled meeting. Persons wishing to testify orally may do so at the meeting, provided that oral testimony shall be limited to five minutes.

†Notice: The 72 Hour rule, pursuant to OHA BOT Operations Manual, Section 49, shall be waived for distribution of new committee materials.

Trustee Robert K. Lindsey Jr
 Vice-Chairperson, Committee on Resource
 Management

Date

March 19, 2019

Trustee Dan Ahuna
Chair, Resource Management Committee
Office of Hawaiian Affairs
560 North Nimitz Highway, Suite 200
Honolulu, HI 96817

Subject: Draft OHA Policies

Aloha e Trustee Ahuna,

As promised, attached are content for draft policies based on the Board's discussions at the policy workshop and update. The draft policies cover subjects of interest to the Board in exploring its options for increasing its revenues, and cover the following four topics: (1) debt, (2) economic development, (3) investments, and (4) spending. We understand that the content drafts will be forwarded by you for review and inclusion into the appropriate policy and action item format by OHA's attorneys. Please note that there are two policy decisions for each topic, to reflect the most common choices to be deliberated on by the Board—one to take action, and the other to maintain the status quo. As these drafts are intended to be the starting point for the Board's discussions on these topics, the Board's options are not limited to the ones stated in the drafts.

In addition to legal review, we recommend review by the Administration, so that it may assess the risk of the proposed policy changes and identify any budgetary effects that might occur because of the changes.

Please do not hesitate to contact us if you have any questions.

Mahalo,



Rodney Lee
Executive Vice President



Lucas Sayin
Partner

Attachments (4)

C: Ron Porter (with attachments)

ATTACHMENT 1
DEBT MANAGEMENT

- DRAFT DEBT MANAGEMENT POLICY**
- POLICY TO MAINTAIN STATUS QUO**

MARCH 2019

DRAFT DEBT MANAGEMENT POLICY

I. PURPOSE

The purpose of this Debt Management Policy (“Policy”) is to ensure that all debt issuances undertaken by the Office of Hawaiian Affairs (“OHA”) are completed in an efficient manner and in accordance with best practices. This Policy reflects the intent of OHA’s Board of Trustees (“Board”) to adhere to prudent financial management practices and commit to long-term capital and financial planning. This Policy will enable OHA to foster consistency and optimize the use of its limited resources to meet its long-term capital needs.

OHA believes that debt is an equitable means of financing projects and represents an important means of meeting fiscal responsibilities. Adherence to a policy is essential to ensure that OHA maintains a sound debt position and protects the credit quality of its obligations.

OHA intends to use debt efficiently to maximize the delivery of projects within acceptable levels of risk, balancing obtaining the best possible credit ratings, minimizing interest costs, and optimizing future flexibility.

II. SCOPE & AUTHORITY

The debt covered by this Policy is as defined in GASB Statement 88, namely: “[F]or this purpose, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.” Debt includes, but is not limited to, issuances under Hawai‘i Revised Statutes (“HRS”) sections 10-22 and 10-23.

Nothing in this Policy is intended to supersede the requirements of State or federal law, including Article VII, sections 12 and 13 of the State Constitution, HRS sections 13(2) and 10-36, and HRS chapter 10, part II.

III. CONDITIONS FOR ISSUING DEBT

All debt is to be issued pursuant to the provisions, restrictions and limitations of the State Constitution, the HRS, the applicable provisions of the State of Hawai‘i Debt Management Policy, applicable federal law, and other mandatory requirements.

A. Purpose of Debt

OHA shall not incur debt that is more than necessary to fund the OHA project or purpose for which the issuance was approved and any associated financing costs. Debt proceeds should be secured as close to the date of expenditure as possible, unless there are practical reasons to issue sooner, in which cases such reasons should be documented and approved by the Board.

Debt should improve OHA’s net worth or help to generate value, including cultural value.

Additionally:

- i. OHA should not issue debt that it cannot repay or that causes it to incur undue financial risk. OHA should not take on debt without a repayment solution that is consistent with its spending and withdrawal policies and its budget.
- ii. Debt should be taken against an asset only for a financial gain. Prior to incurring debt, OHA must consider financial alternatives where its assets and portfolio are not totally at risk. OHA should leverage its assets wisely by using debt strategically and prudently.
- iii. A rigorous due diligence analysis should be conducted prior to issuance of debt, including impact of future budgets, sufficiency of revenues dedicated to debt service or operating costs of capital assets, and impact on ability to provide future services.

B. Financial and Credit Limitations

In addition to legal limitations, financial and credit limitations must also be considered, such as target coverage levels and credit ratings goals, before issuing new debt. In conjunction with this Policy, OHA will undertake a Debt Affordability Study (“Study”) every two years to optimize the use of limited debt capacity while meeting public spending goals and to ensure the prudent use of debt and to preserve enough future debt capacity. The Study analyzes the OHA’s debt profiles and presents relevant financial metrics to assess debt affordability. Before the issuance of any new debt, the analysis and recommendations of the most recent Study should be considered. The financial and credit impact of new debt must be evaluated, in order that OHA will not issue debt that it cannot repay or that causes it to incur undue financial risk.

IV. PROCEDURES TO IMPLEMENT THE POLICY

Ka Pouhana shall develop, for review by the Board, procedures regarding debt which shall be congruent with this Policy. The procedures shall model best practices for issuing debt. The procedures must address, at a minimum:

- a. Procedures for incurring and managing debt, including the requirements for the due diligence analysis and process prior to incurring debt, the process for requesting approval by the Board, and reporting requirements to the Board
- b. Performance standards for OHA staff and external consultants, managers, or advisors
- c. Permissible/impermissible forms of debt

The procedures shall detail how the policy principles will be implemented - what will be done, what resources will be used and what results will be expected.

V. EXCEPTIONS TO THE POLICY

While adherence to this Policy is required in applicable circumstances, changes in the capital markets, programs and other unforeseen circumstances may produce situations that are not covered by the Policy or require modifications or exceptions to achieve Policy goals. In these cases, the Board may consider and approve exceptions to provisions within this Policy. A memo detailing the rationale for any exception to the Policy must be submitted to the Board.

NO CHANGE (STATUS QUO) POLICY STATEMENT

After due consideration and deliberation, the Board of Trustees of the Office of Hawaiian Affairs (“OHA”) has decided that development of a debt policy is not necessary to meet its needs.

ATTACHMENT 2
ECONOMIC DEVELOPMENT POLICY

-DRAFT ECONOMIC DEVELOPMENT POLICY
-POLICY TO MAINTAIN STATUS QUO

MARCH 2019

ECONOMIC DEVELOPMENT POLICY

I. PURPOSE

The purpose of this Economic Development Policy (“Policy”) is to ensure that revenue enhancement and other economic development projects undertaken by the Office of Hawaiian Affairs (“OHA”) are conducted in a manner consistent with best practices and aligned with OHA’s long-term strategies and current conditions.

This Policy reflects the intent of OHA’s Board of Trustees (“Board”) to ensure the development of procedures for selecting economic development projects and the operating structures for the projects that reflect cultural priorities and current economic conditions. The Board believes that documented procedures are important to ensure consistency within OHA regarding the use of land, cultural assets and other resources, and OHA’s expectations for business conduct. Additionally, the principles reflected in the procedures can be incorporated in development and other economic development agreements, enabling projects that are developed will be consistent with OHA’s needs and priorities.

II. SCOPE & AUTHORITY

The projects covered by this Policy are all projects intended to increase the value of OHA assets, generate additional revenues, or achieve cultural and socio-economic priorities. Ka Pouhana is delegated the authority to develop the procedures necessary to implement this Policy. Nothing in this delegation is intended to diminish the approval authority of the Board as stated in the State Constitution, State law, or other OHA policies and procedures.

III. PROCEDURES TO IMPLEMENT THE POLICY

Ka Pouhana shall develop, for approval by the Board, procedures regarding economic development projects which shall be congruent with this Policy. The procedures shall model best practices and must address, at a minimum:

- a. Procedures for analyzing and selecting economic development projects, including the requirements for the due diligence analysis and process prior to selecting the projects, the process for requesting approval by the Board, and reporting requirements to the Board.
- b. Performance standards for OHA staff and external consultants, managers, or advisors.
- c. Permissible/impermissible projects, if any.
- d. Criteria for assessing different operating structures for the projects, including the evaluation criteria for selecting structures (such as LLCs and partnerships) so that diverse factors such as risk to OHA, control by OHA, and revenue potential can be weighed to achieve a structure that best fits OHA’s needs.

The procedures shall detail how the policy principles will be implemented - what will be done, what resources will be used and what results will be expected.

IV. EXCEPTIONS TO THE POLICY

While adherence to this Policy is required in applicable circumstances, changes in the capital markets, programs and other unforeseen circumstances may produce situations that are not covered by the Policy or require modifications or exceptions to achieve Policy goals. In these cases, the Board may consider and approve exceptions to provisions within this Policy. When a request for exception is made to the Board, a memo detailing the rationale for any exception to the Policy must be submitted to the Board.

NO CHANGE (STATUS QUO) POLICY STATEMENT

After due consideration and deliberation, the Board of Trustees of the Office of Hawaiian Affairs (“OHA”) has decided that development of an economic development policy is not necessary to meet its needs.

ATTACHMENT 3

REVISIONS TO INVESTMENT POLICY AND REAL ESTATE POLICY

- DRAFT REVISIONS TO INVESTMENT POLICY AND
MANDATING NEW REAL ESTATE POLICY**
- POLICY TO MAINTAIN STATUS QUO**

MARCH 2019

REVISIONS TO THE INVESTMENT POLICY AND CREATION OF A REAL ESTATE POLICY

I. PURPOSE

The purposes of this policy are to (1) ensure that real estate assets and equity interests of the Office of Hawaiian Affairs (“OHA”) are managed differently from its financial security assets, (2) establish a process for setting an appropriate and achievable blended return goal for financial security assets, real estate assets, and other assets, (3) establish a real estate advisory committee to provide real estate expertise, and (4) direct Ka Pouhana to propose robust policies and procedures to manage the real estate and equity interest portfolio with the assistance of the real estate advisory committee and other experts. The rationale for each purpose is summarized below.

A. **Separate management of the real estate assets and equity interests from the financial security assets**

The Board’s first purpose is to separate the management of real property and equity interest assets of the Native Hawaiian Trust Fund (“NHTF”) from the financial securities assets in the NHTF. Currently, OHA has only one investment policy that covers all assets, while best practices promote individual consideration of asset classes to manage investment risk. The management of real estate assets is governed by the Hawai‘i Direct Investment Policy (“HDIP”), which is a policy that resides within the Native Hawaiian Trust Fund Investment Policy Statement (“NHTFIPS”). However, as noted by the State Auditor, the HDIP is not a robust real estate policy. It is also out-of-date, as it refers to the prospective acquisition of OHA headquarters, which has already occurred with the acquisition of Nā Lama Kukui. The transfer of all real property and equity interest assets into a discrete portfolio with the appropriate policies will result in more effective and efficient management of these assets. The separation of real estate (including equity interests) from securities, is consistent with best practices and the Kamehameha Schools’ structure for asset investment management, which separates real estate from other financial assets.

B. **Maintain an appropriate and achievable blended return goal for financial security assets, real estate assets, and other assets**

The Board’s second purpose is to ensure the OHA return benchmarks are appropriate, are regularly reviewed, and are realistic. This purpose addresses the current deficiency that there is no requirement to regularly update return targets, and that targets are set for assets that have little potential to generate such returns, like legacy and programmatic lands.

C. **Consult with an expert real estate advisory committee**

The Board’s third purpose is to establish a real estate advisory committee to provide OHA expertise in real estate matters. The advantages of adding a real estate committee are to provide OHA with expert real estate guidance, assist the BOT in meeting its fiduciary duties to beneficiaries, and improve the quality of analyses when making decisions. The establishment of a separate committee acknowledges that real estate and financial securities assets are not alike and need to be managed using different expertise.

D. Develop a robust real estate plan

The State Auditor has noted that OHA requires a robust real estate plan. The fourth purpose is to OHA require the development of a real estate plan, including guidelines to manage OHA's real property portfolio based on best practices, which consider value, purpose, and utilization.

It is contemplated that revisions to the NHTFIPS and the HDIP should be developed as part of the ongoing review of these policies by the Administration and its attorneys and investment advisors.

II. SCOPE & AUTHORITY

Ka Pouhana is delegated the authority to develop the procedures necessary to implement this Policy. Nothing in this delegation is intended to diminish the approval authority of the Board as stated in the State Constitution, State law, or other OHA policies and procedures.

III. DRAFT POLICIES AND PROCEDURES TO IMPLEMENT THE POLICIES

- A.** Ka Pouhana, with the assistance of OHA's attorneys and investment advisors, shall develop revisions to the NHTFIPS for consideration by the Board to establish: (1) an index-based blended expected return and (2) a routine procedure to set up to revisit and update the short-term and long-term return targets and (3) a plan to separate Legacy and Programmatic Lands from Commercial Lands.
- B.** Ka Pouhana, with the assistance of OHA's attorneys and investment advisors, shall develop for consideration by the Board: (1) other changes in the NHTFIPS or procedures, if any are required by this action item, and (2) policies and procedures to manage the real estate and equity assets.
- C.** The policies and procedures for management of OHA's real estate investments shall be congruent with OHA's Real Estate Vision, Mission and Strategy ("VM&S"), which state that OHA's Board and staff shall model best practices in the stewardship of OHA's real estate involvements.
- D.** Ka Pouhana shall develop an updated VM&S for the Board's consideration, which should be consistent with OHA's mission, values, objectives, and resources, and a HDIP Strategic Plan to guide the implementation of the HDIP's real estate strategy regarding the acquisition, development, management, and disposition of OHA's properties.
- E.** Ka Pouhana shall develop a real estate implementation plan for BOT approval. Together, the policy and the plan should describe a robust real estate management program. The policy and plan must address, at a minimum:
 - i. Debt and spending policies.
 - ii. Investment objectives and priorities.
 - iii. Economic and cultural objectives, including methods for balancing these objectives.
 - iv. Performance standards for OHA staff and external consultants, managers, or advisors.
 - v. Asset allocation guidelines and portfolio composition targets, if appropriate.
 - vi. Liquidity pool and capital budget.
 - vii. Real estate standards and valuation criteria.

- viii. Permissible / impermissible forms of ownership.
 - ix. Permissible investments.
 - x. Prohibited investments.
 - xi. Return expectations and leverage guidelines, if any.
 - xii. Portfolio reporting requirements to the BOT.
 - xiii. Approval process and standards for implementing real estate involvements.
 - xiv. Acquisition standards.
 - xv. Confidentiality.
 - xvi. Details on how the policy principles will be implemented - what will be done, what resources will be used and what results are expected.
- F.** Following BOT approval of the strategic and implementation plan described in D. and E., the Ka Pouhana and OHA Land Assets Pā‘ia shall create a Procedures Manual that further defines the processes and practices utilized by the OHA Staff and Advisors to manage the HDIP consistent with the policy and program.
- G.** Ka Pouhana shall develop a plan, structure and procedures for an independent HDIP Investment Advisory Committee (“IAC”), which shall review the HDIP Strategic Plan and the business plans for each property, and develop recommendations to the BOT. The Ka Pouhana shall also propose to the Board the names of members who might serve on the HDIP IAC, for Board consideration. The proposed HDIP IAC members should (a) share the values of and are committed to OHA’s strategic objectives; (b) understand the OHA Real Estate Vision, Mission and Strategy and agree with the Strategy and associated policies; (c) can participate confidentially and impartially in discussions independently of their active real estate involvements; and (d) have experience in real estate management, investing, and capital budgeting.
- H.** Ka Pouhana, with the assistance of OHA’s attorneys and investment advisors, shall develop policies for OHA’s equity investments in Hawai‘i businesses (“mission-related investments” or “MRI”) for consideration by the BOT, and procedures to implement the equity investment policy. The policies and procedures should address, at a minimum:
- i. Purpose / objectives of the investments. The purposes and objectives should be consistent with the following OHA goals: to further OHA’s strategic plan by making investments with the potential to create sustainable economic activity for Native Hawaiians and, secondarily, to produce a return that meets or exceeds the designated benchmark return while maintaining appropriate risk parameters.
 - ii. The scope of permissible investments, including geographic and other limitations.
 - iii. Qualifications for MRI, including the type of businesses.
 - iv. Limitations on the amounts available for investment.
 - v. Standards.

NO CHANGE (STATUS QUO) POLICY STATEMENT

After due consideration and deliberation, the Board of Trustees of the Office of Hawaiian Affairs (“OHA”) has decided that revision of its Investment Policy and development of a real estate policy are not necessary to meet its needs.

ATTACHMENT 4
REVISIONS TO SPENDING POLICY

-DRAFT REVISIONS TO SPENDING POLICY
-POLICY TO MAINTAIN STATUS QUO

MARCH 2019

CHANGES TO SPENDING POLICY

I. PURPOSE

The purpose of this policy is to direct changes to the OHA Spending Policy (“Policy”) to effect the directives in Hawai‘i Revised Statutes (“HRS”) sections 10-1(b) and 10-3(3) and (4) and improve its financial management processes.

In order to prioritize and manage its own spending, OHA must identify spending for core functions (required by law) from spending for non-core functions (not required by law, but related to OHA’s mission of improving and servicing beneficiaries). OHA’s Spending Policy revisions are required because the two types of functions require different priorities and funding sources.

Further, OHA should implement cost center reporting to identify the costs incurred at the service and activity level, for better management of financial resources and its reporting.

II. AUTHORITY

Ka Pouhana is delegated the authority to develop the proposed Spending Policy revisions and the procedures necessary to implement the Spending Policy revisions. Nothing in this delegation is intended to diminish the approval authority of the Board as stated in the State Constitution, State law, or other OHA policies and procedures.

III. PROCEDURES TO IMPLEMENT THE POLICY

Ka Pouhana shall develop, for approval by the Board, proposals to amend the Spending Policy to accomplish the purposes of this policy. The policies and procedures shall model best practices and must address, at a minimum:

- a. Procedures for defining whether programs and projects are core and non-core programs.
- b. Procedures for prioritizing programs and projects based on their classification of core and non-core.
- c. Procedures for implementing and prioritizing programs and projects based on their classification of core and non-core.
- d. Procedures for implementing cost center budgeting and reporting.

The procedures shall detail how the policy principles will be implemented - what will be done, what resources will be used and what results will be expected.

NO CHANGE (STATUS QUO) POLICY STATEMENT

After due consideration and deliberation, the Board of Trustees of the Office of Hawaiian Affairs (“OHA”) has decided that changes to its Spending Policy are not necessary to meet its needs.