

**State of Hawai'i
Office of Hawaiian Affairs
560 N. Nimitz Hwy., Suite 200
Honolulu, HI 96817**

**Minutes of the Office of Hawaiian Affairs Board of Trustees Workshop
Wednesday, June 3, 2015, 10:00 am**

I. CALL TO ORDER

Chair Robert K. Lindsey, Jr. called the meeting of the Office of Hawaiian Affairs Board of Trustees to order at 10:08 am. Those present were as follows:

Attendance

Trustee Robert K. Lindsey, Jr., Chair
Trustee Dan Ahuna, Vice Chair
Trustee Peter Apo

Trustee S. Haunani Apoliona
Trustee Carmen Hulu Lindsey
Trustee John Waihe'e IV (arrived 10:27 am)

Excused

Trustee Lei Ahu Isa
Trustee Rowena Akana

Trustee Colette Machado

Staff Present

Dr. Kamana'opono Crabbe, Ka Pouhana/CEO
Harold Nedd, Chief of Staff
Capsun M. Poe, Board Secretary
Jeremy Kama Hopkins
Kauikeaolani Wailehua
Lehua Itokazu
Laurene Kaluau-Kealoha
Louise Yee Hoy
Reynold Freitas
Melissa Wennihan
Liana Pang
Nathan Takeuchi
Lady Garrett

Alvin Akee
Hawley Iona
Christopher Lum Lee
David Okamoto
Jim McMahon
John Kim
Kamoa Quitevis
Kawika Riley
Kehau Abad
Lorna Loebel
Mark Eshima
Miles Nishijima

II. COMMUNITY CONCERNS

Trustee Apo shared that recent research has begun to prove that there is a transmission of trauma from one generation to the next when it comes to culture. After three generations, it starts to show up. When you read it and epigenetics.

Dr. Crabbe noted that some of OHA's previous support of the John A. Burns School of Medicine has helped support similar research. Trustee Apoliona believes it all comes back to the struggle of the Hawaiian people for sovereignty.

III. WORKSHOP ON FY16/FY17 BIENNIUM BUDGET

A. Presentation on the FY16/FY17 Biennium Budget led by PKF Hawaii LLP

Chair Lindsey noted that today's workshop will be the first of at least two on the Fiscal Year 2016/Fiscal Year 2017 Biennium budget. For the past week, PKF has been reviewing the budget to identify warning signs and judge its soundness. Today's discussion is meant to help Trustees ensure that OHA is exercising reasonable care with its spending plan for the next two years.

Chair Lindsey called on Mr. Rodney Lee to lead the presentation. Mr. Lee shared the following information about OHA's Biennial Budget Review:

- Budget Review Approach
 - Reviewing for Intent – looking for the rationale for the budgeted amount
 - Alignment with OHA's Spending Policy
 - Maximize long-term return
 - Maximize annual spending from the Trust
 - Preserve real value of Trust's principal and its spending distributions over the long term
 - Maximize stability and predictability
 - Maximization of return on investment
 - Opportunities to affect positive change
 - Maximization of inter-generational equity
 - Review Criteria – the main criteria used in our review of the budget
 - Materiality – does the budgeted item materially affect OHA's annual budget? (We are examining the numbers to analyze the total effect on budget.)
 - Policy Compliance – does the budgeted item fall in compliance with OHA's policies and direction? Are policies followed?
 - Long-Term Benefit – does the budgeted item create long-term benefit for OHA or its constituents? (We are looking to see if the budgeted items support OHA in the long-term.)
 - Goal Based Spending – is the budgeted item in alignment with OHA's goals?
- Analysis Conclusion
 - OHA has money, but is increasingly challenged to meet the growing needs of its people. OHA needs to determine what is required now to succeed in the future in a sustainable way.
 - OHA needs to institute fiscal discipline to reduce financial volatility. This would mean creating and maintaining budget and eliminate impulsive funding.
 - OHA must consider the possibility of reduced earnings and should look to reduce its risk of loss of revenue. It must find a way to maximize its earnings over time – inter-generational equity.
- Inquiries
 - Upon review of the budget, we found the following items to be potentially significant to the budget for various reasons:
 - Nation building debt service
 - DHHL Debt Service
 - NH Focused Charter Schools
 - Acquisition of Kuamo'o
 - Stated benefits of travel
 - Capital asset maintenance and improvement budgets
 - Converting existing assets into revenue producing units
 - The above reasons resulted or are expected to result in a Monetary Impact to Budget of \$5,751,168 in FY 2015, \$7,359,416 in FY 2016, and \$7,496,730 in FY 2017.

- Debt service
 - Two liabilities with different terms
 - DHHL – Revenue bond, \$3M 30 year debt service agreement funded by operating budget
 - Nation Building - \$5 M credit line, 2 years to use funds in 6 tranches, 7 year payoff
 - Currently represents 6.05% of total operation budget and is forecasted to represent 6.38% and 7.46% for FY2016 and FY 2017 respectively
 - Issues:
 - Refinance DHHL debt service?
 - Balloon payment for the \$5M credit line.
 - What results are we achieving for the investment?
 - How is OHA going to accommodate these expenditures?
 - DHHL Revenue Bond Debt Service
 - Created in 2009 with a PAR amount of \$42,500,000
 - OHA agreed to pay annual debt service or \$3 million, whichever is the lesser
- NH Focused Charter Schools
 - OHA’s Fiscal Reserve Authorizations since FY10 records payments made to support NH focused charter schools for multiple years.
 - Currently represents 1.15% of total operating budget and is forecasted to represent 3.14% and 3.41% for FY2016 and FY2017 respectively
 - Issues:
 - This does not comply with fiscal reserve policy as it is not a one time expenditure
“OHA’s fiscal reserve fund is designed to provide money in certain situations including budget stabilization, unpredicted one-time payments and capital acquisitions.”
 - Should it be incorporated into the current programs?
 - How is OHA going to accommodate these expenditures?
- Acquisition of Kuamo’o
 - Support for acquisition of historic land, culturally significant
 - Issues:
 - Low impact to the budget
 - Main impact to operating budget and funds and fiscal reserve funds. Detracts from OHA’s ability to use these funds for programs/projects that show ROI.
 - No clear benefit to the organization and its constituents
 - No equity gained from the asset purchase
 - No clear direct benefit to OHA
- Travel
 - Currently represents 1.24% of total operating budget and is forecasted to represent 1.53% and 1.69% for FY 2016 and FY2017 respectively
 - Issues:
 - Are there stated benefits to the budgeted travel? What are they?
 - Can travel expenditures be negotiated further to achieve better rates?
 - What was accomplished as a result of travel?
- Government Finance Officers Association (GFOA) Capital Planning Best Practices
 - Create and fund capital reserve fund
 - Fund maintenance related projects

- Maintain and preserve infrastructure
 - Considered a GFOA “Best Practice”
 - Strive to maintain an annual contribution equal to 75% of the annual depreciation of the total assets.
 - Converting existing assets
 - Normally, many of the expenses outlined are covered by additional income streams.
 - For instance, the debt service on the DHHL revenue bond should be covered by revenues generated by the projects. Unfortunately, OHA agreed to covering the debt service, which includes a majority of the principal and interest owed each year.
 - OHA needs to find a way to convert existing assets into additional revenue streams to offset its costs as well as prepare for continued investment.
- Fiscal Suggestions
 - In order for OHA to be more fiscally sound it must:
 - OHA should improve its financial strength by reducing its reliance on drawing down its portfolio for operational purposes
 - This does not mean OHA should consider a reduction in services that are aligned with OHA’s strategic plan, strategic results and mission.
 - It would mean converting its current commercial assets into higher performing profit generators.
 - OHA should be mindful of the liabilities it already carries and the financial obligations in the agreements and should designate funds to cover its obligations.
 - OHA should mitigate its capital asset risks by saving for future improvements or replacement of equipment.
 - OHA should refrain from “political spending” that is not fully vetted, not aligned to its Strategy, and does not provide direct benefit to OHA and its constituents on a broader scale.
 - OHA should stay on budget with the intent of better preparing itself to invest in programs and ventures to help its constituents.
- Questions the Board Should Consider
 - What are OHA’s best chances to increase revenues knowing that the market can fluctuate and may not provide the level of returns in the past?
 - Ceded lands revenue from the State
 - Kaka’ako Makai and other commercial properties
 - Federal grants?
 - What operational expenses, both at the Board and administration, could OHA manage more efficiently and better justify?
 - How can OHA curb the amount of “golden parachutes that many times cause budget realignment and put additional financial strain on operations?
 - What measures can OHA put in place to reinforce fiscal discipline internally and communicate the need to exercise discipline externally?
 - How can OHA better insure grant programs build on the previous years performance and grantees be more self-sustainable?

Trustee Hulu Lindsey asked if OHA spends the maximum five percent allow under the Investment Policy statement. Mr. Lee responded that it does. Trustee Hulu Lindsey asked further if it complies with all laws and other guidance. Trustee Apo noted that he learned at Commonfund that five percent is considered the maximum draw down for most trusts. Mr. David Okamoto noted that in 2014, OHA earned five percent, and spent five percent; he added that it fluctuates so that in some years OHA earns more than it spends,

and vice versa. Mr. Okamoto clarified that the five percent guideline applies to private foundations, who must spend a minimum of five percent each year; most people use the five percent as a guideline.

Trustee Apo asked since 2003, how has OHA's performance fared. Mr. Okamoto responded that the average spending is less than five percent. He added that the annualized return is 7.2%, which factors in the spending and inflation.

Trustee Hulu Lindsey expressed concern about wanting to eliminate the Fiscal Reserve, noting that OHA will want to have the flexibility to respond to a great, unexpected need. Dr. Crabbe responded that it puts strain on Administration and the budget, which result in a budget realignment. He does want to minimize realignments and Fiscal Reserve utilization in the future. Chair Lindsey believes that the Trustees need to have a better understanding of how requests are impacting the budget, which is the fiscal discipline that PKF is advocating.

Trustee Apo stated that the question of where is the benefit for OHA is a difficult one. OHA was created because of the Hawaiian Homes Commission Act and the door it opened. He believes that the one initiative that has failed over the past several decades has been Native Hawaiian home ownership. In that respect, funding of DHHL debt service is appropriate, if not entirely quantifiable. Mr. Lee responded that his intention is not to say that the DHHL debt service is a bad idea, it just could have been done in a better way to not cost as much money as OHA will end up spending. Dr. Crabbe added that OHA has not received an accounting of the exact number of homes that were created as a part of OHA's funding.

Trustee Hulu Lindsey asked if OHA should be getting the Legislature to fund Hawaiian charter schools to alleviate that from OHA's budget. Mr. Kawika Riley responded that OHA has been advocating for this exact thing, but that the environment at the Legislature is not friendly to the charter schools. He noted it has been a challenge for the charter schools to receive the support they and OHA believe they should receive.

Trustee Waihee noted that looking at the Fiscal Reserve authorizations, it has not been used for its intended purpose. If OHA simply just followed our own guidelines, we would be able to keep spending down. Mr. Lee responded that the impact would indeed have been less if the intended purpose was followed. One of his concerns was that it appears OHA seems to view the Fiscal Reserve as a savings account or extra budget available.

Trustee Hulu Lindsey noted that Kuamo'o was so culturally-significant, but worth far more than the amount that OHA put in to it for its conservation in perpetuity. Mr. Lee responded that from a financial perspective, he recommends that OHA wants to see some benefit from that, which could include credit for it.

Vice Chair Ahuna brought up the example of Lunalilo Home and asked how that benefits OHA. Dr. Crabbe responded that it does not fulfill a specific goal, but that by supporting an ali'i trust, we are helping.

Trustee Apoliona noted that the due diligence process should be tightened up. If we skip out of understanding the pros and cons, it is a slippery road.

Chair Lindsey noted that the Trustees need to be more cognizant of their fiduciary obligations to the trust. Mr. Lee responded that when doing that it will always be positive, while at the same time raising the bar. That is what he as a financial person is looking for in the numbers.

Trustee Apoliona asked if Trustee travel reports are still being submitted. Dr. Crabbe responded that they are. Trustee Hulu Lindsey asked if staff is subjected to the same requirements as Trustees. Dr. Crabbe responded that they are. Vice Chair Ahuna asked if Administration is looking at other ways to be more efficient with travel, for example by using Skype. Dr. Crabbe responded that they are identifying other ways with ISRM to do that or have other options. Trustee Apo noted that living in an island state, he does not have a problem when it comes to Trustees having to travel to other islands to provide access to Trustees and beneficiaries.

Trustee Hulu Lindsey asked for examples of political spending. Mr. Lee responded that when people have come to ask for funds, OHA was right to decline opportunities to fund different buildings or centers if they did not align with OHA's strategic plan. This was true for local, national, and even foreign proposals.

IV. BENEFICIARY COMMENTS

There were no Beneficiary Comments.

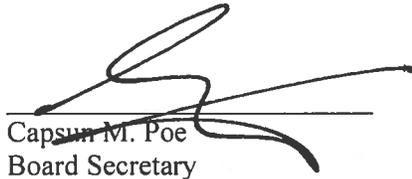
V. ANNOUNCEMENTS

Chair Lindsey announced that the next budget workshop will be on Tuesday, June 16; the Moloka'i Community Meeting will be on Wednesday, June 17; and, the next BOT Meeting (Moloka'i) will be on Thursday, June 18.

VI. ADJOURNMENT

Having no further business, Chair Lindsey adjourned the meeting at 12:13 pm.

Respectfully Submitted,


Capson M. Poe
Board Secretary

As approved by the Board of Trustees on June 18, 2015:


Trustee Robert K. Lindsey, Jr.
Chair, Board of Trustees