

**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  
Tuesday, June 16, 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 10:04 am. Those present were as follows:

**Attendance**

Trustee Robert K. Lindsey, Jr., Chair	Trustee Rowena Akana (arrived 10:51 am)
Trustee Dan Ahuna, Vice Chair (departed 11:55 am)	Trustee S. Haunani Apoliona
Trustee Lei Ahu Isa (arrived 10:10 am)	Trustee Carmen Hulu Lindsey
	Trustee John Waihe'e IV (arrived 10:32 am)

**Excused**

Trustee Peter Apo	Trustee Colette Machado
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**Staff Present**

Dr. Kamana'opono Crabbe, Ka Pouhana/CEO	Lady Garrett
Harold Nedd, Chief of Staff	Hawley Iona
Capsun M. Poe, Board Secretary	David Okamoto
Kauikeaolani Wailehua	John Kim
Lehua Itokazu	Kawika Riley
Laurene Kaluau-Kealoha	Keala Nichols
Claudine Calpito	Kehau Abad
Louise Yee Hoy	Lisa Watkins-Victorino
Reynold Freitas	Lorna Loebel
Liana Pang	Miles Nishijima
Nathan Takeuchi	Momilani Lazo

**II. COMMUNITY CONCERNS**

There were no Community Concerns.

**III. WORKSHOP ON FY16/FY17 BIENNIUM BUDGET**

**A. Presentation on the FY16/FY17 Biennium Budget led by OHA Administration**

Chair Lindsey noted that today's workshop is the second on the Fiscal Year 2016/Fiscal Year 2017 Biennium budget. 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 Dr. Kamana'opono Crabbe to lead the presentation. Dr. Crabbe asked that questions be taken at the end of the presentation and shared the following information about Administration's Response to the PKF Report on the FY 16/FY 17 Biennium Budget:

- Fiscal Policy and Strategy
  - Financial Governance
    - Board of Trustees set policy and make strategic decisions
    - OHA Staff and Advisors advise, implement, monitor, and report
  - Spending Policy
    - Background & Historical Context: Spending, inflation and investment returns are the three key components of OHA's investment and spending policies
    - The past 11 years can be broken into 3 distinct time periods in terms of these 3 variables
      - FY03 – FY07
        - Low spending
        - Moderate Inflation
        - High investment returns
      - FY08 – FY09
        - Increasing spending
        - Low inflation
        - Negative investment returns
      - FY10 – FY14
        - High spending and use of Fiscal Reserve
        - Low inflation
        - High investment returns
    - 5% of the 20-quarter rolling average market value + \$3M from Fiscal Reserve
    - Spending rate (5%) is aligned with the real (after inflation) return target of the NHTF
    - 20-quarter average mitigates large changes in year-over-year spending
  - Fiscal Reserve
    - OHA's Fiscal Reserve Balance is calculated as follows:
      - + Increases: Audited financials that include:
        - Unexpended and unencumbered "approved" core operating budget
        - Unused funding from a prior fiscal year that is later "lapsed"
      - - Decreases: BOT-authorized withdrawals
      - = Ending Balance
    - As of July 1, 2015, approx. \$2.9 million remains available
    - Fiscal reserve spending causes OHA's spending rate to exceed 5%
    - Not all approvals are in clear compliance with approved guidelines
    - \$17.87 million authorizations = \$23.98 million relinquished value
    - Today's \$367 million vs. Hypothetical value (assuming no FR spending) = \$391 million
  - Return on Investment
    - OHA's high investment returns over the past 5 years have been able to outpace its increased levels of spending
    - OHA has also benefited from below trend levels of inflation
  - Intergenerational Equity

- Intergenerational Equity: The principle that an institution's spending rate must not exceed its after-inflation rate of compound return so that investment gains are spent equally on current and future generations
  - Conclusions
    - Although OHA has achieved intergenerational equity, as of FY 14 AND
    - Although OHA's high investment returns over the past 5 years have been able to outpace its increased levels of spending...
    - Fiscal reserve spending has caused OHA's spending rate to exceed 5%
    - OHA's Advisor's are projecting lower returns over the next 5 -10 years which are unlikely to keep pace with OHA's current spending
    - If OHA continues to spend at the same rate (5.9%) as it has during the last 5 years, the probability of maintaining intergenerational equity will be put in serious jeopardy
- OHA Progress on Key Strategic Indicators
  - Spending power in OHA's core operating budget has decreased by \$2.5 million annually since its peak in FY 09
  - OHA has balanced the reduction in spending and the increased demand from our beneficiaries for service and assistance through prudent spending and fiscal accountability while progressing towards achievement of its OHA's 2010-2018 Strategic Plan
  - A more comprehensive update on OHA's Strategic Plan is forthcoming in September 2015
- Debt Service Obligations
  - Department of Hawaiian Home Lands
    - Year 8 & 9 (FY 16 & FY 17) of a 30-year commitment
    - Significant impact to operational efficiency
      - Multi-year Board commitments affect OHA's ability to respond to future operational needs
    - OHA Administration has initiated an internal evaluation and is working closely with PKF to determine available options to help reduce impact to OHA's total operating budget
  - Nation Building Line of Credit
    - Year 2 & 3 (FY 16 & FY 17) of a 8-year commitment
    - Significant increase in monetary impact to OHA's total operating budget beginning in FY 18 for principal repayments of its Nation Building Line of Credit
- Native Hawaiian-Focused Charter Schools
  - OHA Administration has made a concerted effort to eliminate the use of its Fiscal Reserve Authorizations moving forward
  - To accommodate funding for Native Hawaiian-Focused Charter Schools and other priorities, Administration made considerable reductions to some of OHA's on-going programs and initiatives while attempting to maintain the same level of beneficiary support and strategic impact that OHA has experienced in recent years

- Since 2005, OHA has awarded \$15.6 million to support Native Hawaiian-Focused Charter Schools
- In total, Administration reduced program costs by over \$2.7 million to accommodate these priorities
- OHA's Land Holdings
  - OHA owns over 28,000 acres of land ranking it as Hawai'i's 13<sup>th</sup> largest land owner
  - Land management costs for OHA's 26,395 acres of legacy and programmatic lands are included in its Core Operating Budget
    - \$838,709 in FY 16
    - \$396,439 in FY 17
  - In January 2015, OHA Administration provided an update to the 2013 State Audit Report. Highlights included:
    - Creation of the Board's Land & Property (LAP) Committee
    - Creation of Administration's Land & Property Management Line of Business and the hiring of its Land Director
    - Update on land policies and procedures including its review of OHA's draft Real Estate Investment Policy
    - List of workshops and other presentations provided to the LAP
  - Conclusions:
    - The adoption of OHA's Real Estate Investment Policy should be a top priority for the Trustees
    - Administration is moving forward in setting up a Capital Reserve Account for Nā Lama Kukui beginning in FY 16
    - Until such time as all operating needs are met for existing legacy and programmatic land holdings, OHA should not acquire nor contribute funding for the acquisition or management of non-OHA lands from its Core Operating Budget or from its Fiscal Reserve
- OHA's Travel Budget
  - Although not considered material in the overall budget, it is an expense that is highly scrutinized both internally and externally
  - OHA travel procedures are governed by Section 2.2.8 of OHA's Fiscal Procedures Manual which are based on the State's code per Chapter 3-10, Hawai'i Administrative Rules. Highlights include:
    - Travel requests must be submitted timely to allow for the best available price
    - All requests must be accompanied by supporting documentation
    - If travel is requested for the purpose of training/professional development, HR approval is required before any travel arrangements can be processed
    - Travelers are provided with per diem to cover expenses for lodging, meals and incidentals
    - When meals are furnished to the traveler, an adjustment to the per diem is made to avoid duplicate payment for meals
      - Furthermore, any meals paid for during business travel via OHA pCard (OHA CEO) or Trustee Allowance would also be considered a duplicate payment for meals and Travel Services should be notified if a previous

meal adjustment was not already made to the traveler's per diem. This includes all travelers for which a benefit for payment of meal was received.

- All allowable expenses must be supported by receipts when receipts are issued
- Travelers on official OHA business are not allowed to accept airline offers to delay travel in exchange for compensation of any kind.
- From 2013 to 2014, OHA increased its travel needs by 15.3%.
- Only 30-40% of all travelers comply with stated deadlines.
- OHA's 2014 travel needs required approximately 4,000 hours of staff time which exceeds the capacity of the 2 FTE positions currently assigned to this kuleana.
- Last-minute cancellations and change requests cause unnecessary delays in processing other travel requests.
- Other highlights since FY 11 include:
  - OHA's overall travel costs have increased by 56.2%
  - OHA's in-state travel costs have nearly doubled (increased by 92.1%)
  - OHA's out-of-state travel costs have increased by 39.0% and includes requests of increasing complexity (i.e. international travel, multiple stops, etc.)
- OHA's FY 16 and FY 17 core travel budgets represent approximately 2% of the total for which Trustee and Employee travel requests are provided in Table 33 and further detailed on the following slides:
- Conclusions
  - OHA's travel needs continue to increase and requests are increasingly more complex (i.e. international travel, multiple stops, etc.)
  - OHA devotes 2 FTE positions to travel and depends on other positions for support
  - OHA will continue to process travel requests that comply with OHA policies and procedures
  - Administration will soon implement stricter procedures to help control travel costs
  - Administration will soon implement travel suspensions for travelers failing to submit their Statement of Completed Travel (SOCT) and Travel Narratives within the allotted timeframe since this causes delays in processing pCard payments and results in inquiries by the State Procurement Office
- Action Item – Discussions and Questions
  - OHA's Budget, Available Funds and OHA's Spending Limit
  - Total Operating Budget
  - Core Operating Budget
    - Major operational variances (i.e. frequency of KWO)
  - Commercial Property Budget
  - Legacy Property Budget
  - Special Programs Budget
- Conclusions. Administration is:

- Committed to providing recommendations for fiscal discipline to ensure long-term fiscal sustainability
- Committed to supporting funding requests for initiatives and projects that comply with OHA's Strategic Plan and Board directives
- Committed to identifying opportunities for increased revenue sources to help ensure intergenerational equity

Trustee Hulu Lindsey asked if our spending is limited to 5 percent, why is OHA not spending less in operations so as not to exceed the 5 percent because with the Fiscal Reserve, actual spending is 5.9%. Dr. Crabbe responded that greater focus on what the policy allows Fiscal Reserve for is needed. He stated that the goal of Administration is to try to live within the means as outlined in the core operating budget. Trustee Hulu Lindsey added that OHA cannot anticipate everything that will come up in a biennium and that she is worried about what will happen if we do not have Fiscal Reserve when something comes up in the future.

Trustee Ahuna asked what the actual spending rate is for each strategic priority and added that we are all impacted by shortfalls, even those at the Federal level. He is interested in establishing a baseline and believes that would be helpful in planning. Dr. Crabbe responded that the spending rate data is not available, but that staff do commit to maximizing benefits even when other programs come to OHA for funding after losing or reducing their Federal funding. Ms. Iona added that OHA commits 27% of its budget to grants, which she believes is an impressive level, despite falling short of fulfilling all requests for funding.

Trustee Ahu Isa noted that in her first 6 months at OHA, what she sees lacking is that our first and foremost priority should be raising the \$15.1 million in Ceded Lands revenues. Dr. Crabbe responded that Administration has performed a forensic audit on Ceded Lands revenue payments. He added that OHA will prepare suggested legislation to address this. Trustee Ahu Isa suggested that Administration should also show statistics when speaking to legislators and try to lobby them.

Trustee Apoliona noted that at one time, OHA received zero funding from the Legislature, then increased to \$9 million, and now it is at \$15.1 million with the understanding that it was interim and that discussions would continue. She believes OHA needs to have our information when requesting funds and that will help with understanding the needs of Hawaiians.

Ms. Iona added that in recent years, OHA has been more accurate in budgeting, so there has been less money left over for Fiscal Reserve.

Dr. Crabbe stated that as a trust, one of our primary fiduciary duties should be to preserve assets, whether they are financial or land. Going forward, he is trying to position OHA to be more efficient and prudent, including with our land holdings in Kaka'ako Makai.

Trustee Apoliona stated that she believes we need to pay attention to quality and strategy. Decision making will come in to play when funds are tight. Management, control, and balance must come together because we are talking about people.

Mr. Rodney Lee reported that the Board's discussions are a good sign and is a long way since they first started working with OHA in September 2014. He added that strategy is very important to determine the

tradeoffs necessary to achieve long-term goals. The Board will need to identify where OHA's efforts are needed and will benefit the most people. In their work, they often ask to see the plan.

Mr. David Okamoto noted that OHA's spending side is the one variable OHA can change. Changes can be made to the portfolio, but that does not guarantee numbers. Reductions in spending are the surest way to manage funds.

Trustee Akana asked what the rationale is for making Fiscal Reserve in 2016. Ms. Iona noted the funds will be available on July 1, 2015 and that it is only \$2.9 million, which is all that remains in Fiscal Reserve.

Trustee Akana asked why we cannot use lapsed funds to go back into the program area it was originally budgeted for. Ms. Iona responded that would not comply with current Board policy and also presents some logistical challenges. Mr. Lee added there are several considerations: adjustment to the policy, the methodology, and what the real benefit would be, both in dollars and programmatically. He noted that the Federal government has a use it or lose it policy, but that encourages spending everything, and not saving. He believes the policy change being talked about would be to try to encourage savings. He doubted all the necessary changes could be made this Fiscal Year, but could possibly be brought in time for next Fiscal Year. Dr. Crabbe requested that the Trustees table the discussion for now, but allow Administration a few months to work on it, but that would free them up to work on the budget now and the policy change later, including a full discussion.

Trustee Akana asked Mr. Lee how long it would take to work on the policy revision. Mr. Lee responded that PKF would need some time to understand where the funds would lapse or roll over.

Trustee Akana asked in what categories the spending was decreased by \$2.5 million. Ms. Iona responded that off the top of her head, included in the current biennium request is a decrease in the number of issues of *Ka Wai Ola*, cuts in Land Management, reductions in database support. Initially, OHA was over budget \$17 million, so there were many necessary cuts. Trustee Akana noted that many of the Trustees appreciate *Ka Wai Ola* and its ability to let Trustees and OHA communicate with the Hawaiian people. Dr. Crabbe added that they can restore *Ka Wai Ola*, but would need to identify offsets somewhere else in the budget. Trustee Ahu Isa noted that just when she was in Washington, DC, many people shared that they receive and read *Ka Wai Ola*.

Trustee Hulu Lindsey expressed disappointment that Habitat for Humanity on Maui was identified as a grant awardee, but was a victim of the reduction in funds.

#### Recess

Chair Lindsey called a recess at 11:55 am and reconvened the meeting at 1:39 pm.

Trustee Hulu Lindsey asked where the money from Land was cut. Ms. Iona responded that it was cut from anticipated future needs. One example was for Ho'omana on Kaua'i.

Trustee Hulu Lindsey expressed concern of not having a Fiscal Reserve. Trustee Ahu Isa agreed that it would put OHA in a bad position if we were not able to respond to some major event.

Trustee Akana stated that rules are rules, but sometimes they get in the way of common sense. For instance, just because a schedule says they will have a meal at a certain time, does not mean that they will eat that meal. She does not think it is reasonable for the staff to arbitrarily make that determination. She would like Trustees to be consulted. Ms. Iona responded that staff is happy to make adjustments on the back end.

Trustee Waihe'e stated that he has heard that expenses put on a pCard are not paid until we actually pay the bill, incurring interest. He asked if OHA will change the payment schedule to avoid fees. Ms. Iona responded that ultimately OHA tries to avoid finance charges. She noted that OHA can pay the bill, and try to collect and correct on the back end. She also added that making the payment before all documentation has been submitted becomes an auditing problem.

Mr. Kim reported that the primary rule that OHA uses for travel is the cheapest, most direct route. That ensures getting the best possible rate for OHA. Trustee Hulu Lindsey asked what would need to be done to have Trustees handle their own travel booking. Ms. Iona discouraged the Trustees from doing that because travel is centralized to make things easier for compliance. Already there are 9 pCards issued. Dr. Crabbe responded that he would need to consult with several people, including the Board Counsel.

Trustee Apoliona shared that travel used to be done individually, but then was centralized. She does not support decentralizing now.

Trustee Hulu Lindsey stated she has never heard of having the per diem deducted because of meals. Ms. Iona responded that it is in Hawai'i Administrative Rules and all state agencies are supposed to comply. Mr. Kim added that staff will also review the agenda or other supporting documentation to see if meals are provided; and if so, staff will make appropriate deductions. Dr. Crabbe stated that this applies to all employees, including himself, and that he would not want Trustees to think they were being targeted or singled out for enforcement of these rules. Mr. Kim added that one reason for travel centralization is to ensure compliance with applicable law. Mr. Lee added that even if the travel were decentralized, the controls would still need to be in place. He added that decentralizing would require the Trustees decide who would be in charge of compliance if it is not central Travel Services.

Trustee Hulu Lindsey stated she was opposed to using any of the Palauea Culture Preserve money for general purposes because it is supposed to be used by future caretakers of that area.

Trustee Hulu Lindsey asked why the Kaka'ako Makai budget includes a line item for Travel. Ms. Iona responded that those travel funds are to be used only for the Round 4 of community consultation in the Conceptual Master Plan process.

Trustee Hulu Lindsey asked for clarification of what the debt service entails. Mr. Kim responded that it is just under \$1.4 million in FY 16, which includes the principal and interest for both the term loan for the purchase of Na Lama Kukui and the line of credit for the office build out.

Dr. Crabbe shared that he believes this is the most thorough budget he has seen prepared at OHA since he has been here. He looks forward to a renewed commitment to seeing things through the next few years and working with PKF Hawaii.

Trustee Hulu Lindsey noted that the Legislature reviews the Governor's budget and the Council reviews the Mayor's budget. As such, she wanted to put out for consideration that the Chair may want to appoint an ad hoc committee to consider the Administration budget.

Trustee Ahu Isa asked why the travel budget was separated by department. Ms. Iona responded that it has been separated out by area for many years.

Chair Lindsey asked if Administration still prepares the variance report. Dr. Crabbe responded that they do, but they are currently a little behind in reporting, which should be done quarterly.

**IV. BENEFICIARY COMMENTS**

There were no Beneficiary Comments.

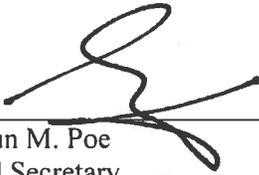
**V. ANNOUNCEMENTS**

Chair Lindsey announced the Moloka'i Community Meeting will be on Wednesday, June 17, at 6:30 pm and the next BOT Meeting (Moloka'i) will be on Thursday, June 18, at 9:00 am.

**VI. ADJOURNMENT**

Having no further business, Chair Lindsey adjourned the meeting at 3:13 pm.

Respectfully Submitted,



Capsun M. Poe  
Board Secretary

As approved by the Board of Trustees on June 25, 2015:



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