



OFFICE OF HAWAIIAN AFFAIRS

BOARD OF TRUSTEES

**TRUSTEE-LEVEL FISCAL POLICIES
PERMITTED INTERACTION GROUP
REPORT**

**Presented to the Board of Trustees
October 2020**

I. INTRODUCTION

The Board of Trustees (BOT) is responsible for setting Office of Hawaiian Affairs (OHA) policy and managing the agency's trust. OHA's Administration is responsible for the operationalization of these policies. Action Item BOT #20-05 was approved at the BOT meeting on September 10, 2020, which was formed to approve the formation of a Permitted Interaction Group (PIG) to "investigate the development of T-Level policies for OHA's Board Governance Framework." The expected end date of the PIG will be on November 3, 2020.

The Trustee (T) - Level PIG Report is a formal, approved document used to manage PIG execution. It documents the actions necessary to define, prepare, integrate, and coordinate the various PIG activities. It is also the gateway to request funding on a PIG and is a major go/no-go decision point. The major purpose is to provide a comprehensive baseline of what has to be achieved by the PIG, how it is to be achieved, who will be involved, how it will be reported and measured, and how information will be communicated. It should be used as a reference for any decision that is made on the PIG to ensure that the management of the PIG is carried out consistently in line with policy and procedures.

II. EXECUTIVE SUMMARY

A. PIG Purpose and Scope

The goal and purpose of the PIG articulates the PIG to OHA's ongoing work and strategic priorities. Development of future policies is recommended to adhere to the scope as agreed to by the PIG team in the identification of the policies outlined here and in the subsequent measures needed to take to maintain the policies. The planning work assures Trustees and Administration staff the ability to maintain and grow its assets for programs related to the betterment of the conditions of Native Hawaiians.

1. Goal/Purpose

There will be the creation of a unified policy framework of OHA BOT T-level fiscal policies that will assist the Trustees in fulfilling their fiduciary duties in alignment with OHA's mission of ensuring the long-term viability of the Native Hawaiian Trust Fund and maintaining the principal while producing large, stable, predictable spending for the betterment of present and future generations of Native Hawaiians.

2. Scope/Definition

OHA will have a central electronic location with all updated comprehensive T-level fiscal processes, policies, and procedures, in the areas of Spending, Debt, Investments, Land Assets, and Economic Development that will be comprehensive and in alignment with one another.

Additionally, to ensure the continuous maintenance of the T-level fiscal policies and procedures framework, a compliance function, internal audit function, and training is recommended for Trustees, Resource Management Committee leadership, Trustee Aides, and Administration.

B. Baseline Current State

The baseline current state of the PIG is the clearly defined starting point for the commencement of the PIG and provides a fixed reference point to measure and compare the PIG's progress against. This allows the PIG team to assess the performance of the PIG over time. The baseline details the requirements of the PIG and seeks to articulate the problem that the PIG is trying to solve. It is highly recommended that the PIG refers to this portion of the report to ensure that the PIG team is actively engaged in meeting these requirements and rectifying the problems identified in the current assessment of the baseline state. The PIG's findings regarding current assessments of the current baseline state are as follows:

- Some T-level financial policies that **exist are in outdated forms, others that are contradictory, and some remain non-existent**

- The lack of a formal financial policy inventory promotes **instability and lack of continuity** causing a continuous need to reinvent responses to recurrent issues
- T-level financial policies and procedures **do not clarify and crystallize strategic intent** for fiscal management
- **Boundaries are undefined** and are often open to interpretation which **creates confusion** on actions the Board and Administration may take
- The existing T-level policies **do not promote long-term and strategic thinking**
- The T-level financial policies **do not manage risks of financial conditions**

C. PIG Benefits and Drivers

Identified benefits that improve policy would make this PIG worthwhile. Identified benefits clearly articulate the core need and reason for the PIG's existence. Tracking the benefits that arise helps PIG members ensure that they are in alignment with OHA's organizational strategies and ensure that PIG controls focus appropriately on achieving these end-goal benefits. These benefits should be considered in the performance of any possible future PIG that may focus on the execution of plans articulated in this PIG.

1. Benefits

- Promote **strategic intent**
- **Protect the assets** of OHA
- **Manage the risk** to the Native Hawaiian Trust Fund
- Promote **consistency** amongst the BOT's financial activities
- Provide a **governance framework** for the BOT's financial decision making
- Articulate **roles and responsibilities** to establish operating standards and behavioral expectations
- Ensure **alignment** with other existing OHA infrastructure
- Ensure **compliance** with federal and state legal requirements and best practices

Drivers are defined as items driving the PIG to complete its work.

2. Drivers

- OHA has faced continued criticism that its **land management infrastructure is inadequate**, unable to support the agency's growing portfolio, nor any future land involvements, despite an increasing demand to develop its commercial real estate activities. Without **improving its investment framework and processes** to ensure that it meets its fiduciary duties to beneficiaries, the Board will continue to lack adequate investment or financial knowledge to properly oversee its trust investments. Without addressing these issues, OHA's **current real estate portfolio will continue to be unbalanced** if revenues generated from its commercial properties are unable to offset expenses from legacy and programmatic land holdings.
- OHA is particularly susceptible to audits that evaluate OHA's fiscal policies which highlight inefficiencies within its current fiscal processes, policies, and procedures. To avoid repeating these recurrent themes, the BOT should actively ensure that **objectives are aligned and that they proactively seek diverse opportunities to increase revenues** (e.g. real estate, intangibles, etc.) while maintaining their constitutional and statutory obligations.
- The BOT should dedicate itself to preserve the intergenerational equity of its assets **despite turnover of Trustees who have varying levels of fiscal and land management knowledge**.
- In a time of increased economic hardship for our beneficiaries, there is an **increased need to explore financial growth** that will ensure funding for needed programs for our beneficiaries. These economic hardships highlight an increased need to pursue more proactive funding measures such as Public Land Trust (PLT) revenue.
- **Increased compliance** with legal (statutory and regulatory) measures and best practices of similarly situated trusts and other organizations is needed.

- OHA’s **Board Governance Framework and Strategic Plan** provides opportunities for alignment between these financial policies and new measures of governance reform.

D. PIG Stakeholders

PIGs are influenced by many stakeholders. Stakeholders are invested in the PIG as they will be affected by decisions made by the PIG team at any point along the way; their input can directly impact the outcome of the PIG. Stakeholders come with varied interests, perspectives, objectives, and other characteristics that play a role in the PIG’s planning and executing processes. It is usually necessary and expedient to consider all PIG stakeholders during the initiating and planning phases. The key benefit of engaging with stakeholders is that it helps bring understanding to the complex subject matter of the PIG in the most effective way and identifies the actions necessary to satisfy the varied interests, needs, and perspectives of all team members.

1. Internal Stakeholders

- Board of Trustees
- Chief of Staff to the Board of Trustees
- Trustee Aides
- Board Counsel
- Resource Management (leadership and staff)
- Chief Executive Officer
- Chief Operating Officer
- Chief Financial Officer
- Land Director
- Controller
- Investments Manager
- Commercial Property Manager OHA Legal Counsel
- Human Resources

2. External Stakeholders (as determined by the PIG)

- Professional Services (e.g. subject matter experts who are not employees of OHA)
 - Financial consultants (e.g. money managers)
 - Policy consultants
 - Other individuals/firms in selected financial sectors identified through the stakeholder analysis workshops
 - Portfolio governance committees
 - Voluntary Investment Advisory Committees
 - Partners for future public-private partnerships for new economic development and real estate ventures
 - Philanthropy sector advisors
 - Ali‘i Trusts and other Native Hawaiian serving organization
- Beneficiaries

E. Resources

PIG resources are the people, capital, and/or material goods required for the successful execution and completion of the PIG. Commencement of the remaining work on the PIG is dependent on whether the BOT appoints a PIG to execute the work as outlined in this report. Resources for PIGs can be determined at the time of a PIG’s appointment.

F. Communication Agreements

The PIG Communications Agreement facilitates PIG communication and expectations among all team members. The PIG team developed appropriate approaches and planned for communications activities based on the information needs of each stakeholder on this PIG and the needs of PIG members. The Agreements describe how communications are planned, structured, monitored, and controlled. Some of the content from the Agreements can be found below. To ensure successful internal communication, it is recommended that all team members and assigned stakeholders follows the Communications Agreements outlined above to enable an efficient and effective flow of information between the PIG team members and stakeholders assigned to work on the PIG team.

- Status updates are provided to the PIG Manager
- Documents, reports, and action items will be drafted by the PIG Manager and will be forwarded to the PIG Sponsor for approval
- PIG communications include status updates and subsequent reports to both Administration and the Trustees that are members of the PIG

G. Key Milestones

Key milestones provide for subsequent actions that need to be taken at the planning level (BOT) and execution level (Administration) should the Trustees decide to appoint a future PIG.

1. Planning (BOT Actions):

The PIG outlined the subsequent steps that need to be completed by the BOT for the planning of this PIG to be completed. The final PIG Report will be prepared for PIG Chair Lee by October 15, 2020 for presentation before the full BOT at the following meetings:

- **October 22, 2020 (PIG Report presented to the Board of Trustees. There will be no discussion at this time.)**
- **October 29, 2020 (full and free discussion with Board of Trustees on PIG Report)**

H. Risks of Not Continuing with the PIG

Risks are uncertain events or conditions that have a negative or positive effect on a PIG's objectives. PIG members sought to increase the likelihood and impact of positive events and decrease the likelihood and impact of negative events. The PIG team identified potential risks, the probability that the risk event would occur, and the impact of such risks should the risks have come to fruition. Monitoring these high probability, high impact risks ensure that risks are mitigated throughout the work period and that issues that could jeopardize the future of the PIG's schedule, resources, or scope/quality of the work do not come to fruition. Below are three high probability, high impact risks identified by PIG members:

- With a **reorganization** of the Board of Trustees, it will be important that the both the Chief of Staff of the Board of Trustees and the Resource Management leadership and staff remain engaged in the progress of the development of the fiscal policies and procedures since a change in board and/or committee leadership will lead to a "learning curve" for those in potential new positions. This includes ensuring that BOT staff prepare materials for comprehensive BOT workshops to discuss these policies in order to ensure Trustees have the proper tools to make informed decisions on fiscal matters in alignment with their role as fiduciaries and to **secure commitments** from trustees.
- The writing, drafting, and integration of these policies will not be enough to ensure the success of the PIG; **proper internal controls and a compliance monitor will be needed** to ensure that OHA maintains its commitment to a centralized inventory with updated, comprehensive, streamlined T-level fiscal policies and related consistent practices to proactively manage risks.
- **The Board currently does not have the subject-matter expertise needed in investment and fiscal matters.** The Board is obligated to follow The Uniform Prudent Investor Act (UPIA); therefore, the Board must continue to rely on advisory committees that may assist them in evaluating the advice it receives

from its money managers, investment managers, and policy consultants. As portfolio advisors to the BOT, these governing committees must be given the proper deference and necessary consideration.

I. PIG Human Resource Recommended Estimates

The PIG team estimated the processes involved in planning and managing the recommended human resources estimates needed for this PIG. All policies should be developed concurrently using different compositions of teams with the proper subject-matter expertise. Upon completion of the policies and approval of these policies by the BOT, the completion of other deliverables may be executed by Administration. It is recommended that the rest of the deliverables should be developed subsequently using different teams with the proper subject matter expertise.

Human Resources/Contractor/Staff Resource Estimates:

- **PIG Management Deliverables – 6 months** (suggested resource: PIG Manager)
- **T-Level Fiscal Policies – 3 months**
 - Spending Policy – 3 months
 - Debt Policy – 3 months
 - Investment Policies – 3 months
 - Land Assets Policies – 3 months
 - Economic Development Policy – 3 months
- **T-Level Fiscal Policy Procedures – 2 months** (suggested resource: CEO)
 - Spending Policy Procedures – 2 months
 - Debt Policy Procedures – 2 months
 - Investment Policies Procedures – 2 months
 - Land Assets Policies Procedures – 2 months
 - Economic Development Policy Procedures – 2 months
- **T-Level Fiscal Policy Framework – 2 months** (suggested resource: CEO, sub-deliverable owners: CFO and IT)
 - T-Level Fiscal Policy Repository – 2 months
 - Project Portfolio Management framework for T-Level Fiscal Policies and Procedures – 2 months
- **Compliance Function – 2 months** (suggested resource: CEO)
- **Internal Audit Function – 2 months** (suggested resource: CEO)
- **Training Function – 2 months** (suggested resource: CEO, sub-deliverable owners: HR and CC)

J. Quality Metrics

Quality Metrics provide detailed and specific measurements about the PIG and how its deliverables should be measured. Metrics are consulted in the quality assurance process to ensure that the processes used will meet the metrics. The deliverables or processes are measured to determine if the result is acceptable or if corrective action or rework is required. The following are the key metrics that the team believes will define successful T-level fiscal policies:

- One comprehensive and updated **Debt Policy** with complementary implementation procedures compliant with legal requirements and aligned with various debt strategies that address core vs. non-core functions and specify internal processes and responsibilities for obtaining debt approval from the board as well as managing and monitoring approved debt
- Comprehensive and updated **Investment Policies** with complementary implementation procedures developed for securities and real estate that identify realistic investment targets and manage financial assets for active returns, favoring niche opportunities, and differential strategies, including Hawai`i direct investment opportunities

- Comprehensive and updated **Land Asset Policies** with complementary implementation procedures provide for proper allocation of revenues from both its legacy lands and commercial properties to manage commercial real estate primarily for long-term returns from lease rents, create value through asset management, and planning within OHA's Strategic Plan
- One comprehensive and updated **Economic Development Policy** with complementary implementation procedures that have unified objectives to promote opportunities that provide for an increased generation of revenues with due diligence
- One **Spending Policy** with complementary implementation procedures that are in alignment with the Board governance framework and identify core and non-core functions, resolve conflicting spending policy objectives, discuss the need for and role of reserve funds, and resolve comingling of funds

K. Procurement Needs

No procurement need was identified.