

RESOURCE MANAGEMENT COMMITTEE  
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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 May 22, 2019  
**TIME:** 10:00 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. New Business
  - A. RM #19-07: Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies
- IV. 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](mailto: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](mailto: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 Dan Ahuna  
Chairperson, Committee on Resource Management

Date

OFFICE OF HAWAIIAN AFFAIRS

Action Item  
Committee on Resource Management  
May 22, 2019

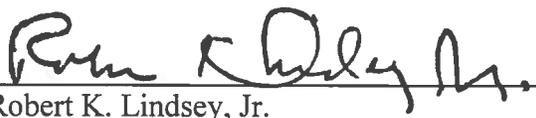
RM #19-07

Action Item: Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

Prepared by:  5/16/19  
Sylvia Hussey, Ed.D. Date  
Ka Pou Nui, Chief Operating Officer

Reviewed by:  5/16/19  
Kamana'opono M. Crabbe, Ph.D. Date  
Ka Pouhana, Chief Executive Officer

Reviewed by:  5/17/19  
Dan Ahuna Date  
Committee on Resource Management, Chair

Reviewed by:  5/17/19  
Robert K. Lindsey, Jr. Date  
Committee on Resource Management, Vice Chair

## RM #19-07

### Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

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#### I. Proposed Action

Administration recommends the Board of Trustees (BOT):

- A. Approve the **Economic Development Policy**, noting that Administration will return with the implementation procedures for Board action;
- B. Approve the **Debt Management Policy**, noting that Administration will return with the implementation procedures for Board action;
- C. Acknowledge the **Spending Policy** language and the existing Native Hawaiian Trust Fund (NHTF) Spending Policy, as Amended, noting Administration will return with a consolidated policy document for Board action; and
- D. Acknowledge the **Investment and Real Estate Policy** language and the existing NHTF Investment and Real Estate Vision, Mission, and Strategy policies, noting Administration will return with consolidated policy document(s) for Board action.

#### II. Issue

Whether the BOT should take action on the four policies associated with the Fiscal Sustainability Plan (FSP): Economic Development, Debt Management, Spending and Investment and Real Estate.

#### III. Background<sup>1</sup> and Context

**Overview.** In 2016 OHA understood the need to become fiscally sustainable. Fiscal sustainability was defined as the ability of a government or government agency to sustain its current rate of spending, revenue and other policies in the long run. To do this, OHA needed to change the way it operated and therefore began implementing the Fiscal Sustainability Plan (“FSP”). To propel OHA’s progress in these efforts, the Committee formed five work groups representing the BOT, OHA Administration, and staff experts to address five main areas that may pose risks to OHA’s fiscal sustainability. The five areas were: spending policy, pension benefits, legal and taxable structure, Department of Hawaiian Home Lands, and real estate investment.

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<sup>1</sup> Source: Fiscal Year 2018-2019 Summary, Next Steps Checklist, May 2019, transmitted via letter dated May 15, 2019 .

#### Disclaimer

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**Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies**

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Each group started by conducting a risk assessment, and analyzing the risks that may prevent OHA from achieving its objectives in each area. The work groups developed suggested action steps to implement the changes in OHA operations, organization, and management reporting needed to address these risks, and discussed the pros and cons of each suggestion. The working groups were

precedent-setting, and marked the first time the Board and the Administrative engaged in intensive collaboration. The participants overwhelmingly endorsed the working group effort as innovative and satisfying. Due to resource constraints the work groups had their last meetings in December 2017, however, it is important to note the important tasks identified by the groups that have not been completed.

In response to the State Auditor, OHA stated that it would “[h]ave the FSP Working Groups continue to: (a) develop and narrow down possible solutions, (b) meet with key stakeholders for input, (3) develop long- and short- terms plans that identify the monetary sources and staffing needs for implementation, and assess the risks of potential challenges and how to address them. More specifically, the Spending policy working group will recommend clearer definitions, purposes, and procedures; specifics for periodic policy review; alignment with budget planning; a maximum cap; and appropriate spending rate. The Spending Policy and Real Estate working groups will discuss improvements to the IPS and consideration of an investment policy that would apply to real estate investments.”

Even if the working groups are currently inactive, it is essential that the tasks they identified be completed to fulfill this commitment to the Auditor. Given the prospective audit schedule, it is important that significant progress be made within the next six to 12 months. (Note: The Audit Analysis consists of estimates for the timing of potential audits in the future, summaries of the State Auditor’s findings, summaries of the State Auditor’s recommendations for action by the Board and the Administration and OHA’s commitments for action, as stated in the Auditee Response.)

**Working Groups.** The following section describes the objectives of each working group, the short- and long-term tasks identified by each group, the support provided by Spire to the group and what needs to be done (next steps) in order to address the working group tasks. the next steps are presented in table form. Each table has “objectives” that are relatively broad, and specific “items” within the scope of the objective. The tables enable each item to be checked off as it is

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completed. There is also an “objective” check off that can be marked once all items have been completed. (Note: This is not intended as an exhaustive checklist, as other items that need to be completed may be identified during implementation.)

**Real Estate Investment Working Group.** Objective of the working group: To (1) establish a robust real estate management and investment plan, (2) create optimal organizational structures and real estate system and (3) formulate recommendations for proactive action, if necessary.

Short- and long-term tasks identified by the working group:

- Short-term: Hold workshop for trustees re: alternative business forms for real property development  
Long-term: Develop policies that support real estate investment

Work completed by the working group: The group discussed the current state of OHA’s asset management. It also discussed the need for a board workshop to (1) provide the status of current development projects, (2) explain the present and potential obstacles to development, (3) obtain board input about critical issues, such as timeline and governance (use of LLCs, board involvement in project execution).

**Spending Policy Working Group.** Objective of the working group: The purpose of this work group was to review OHA’s Spending Policy (including the Fiscal Reserve Guidelines) and other OHA fiscal policies to identify changes that need to be made to address present and future needs.

Short- and long-term tasks identified by the working group:

- Short-term:
1. Revise spending policy and fiscal reserve guidelines to address audit findings
  2. Determine appropriate spending rate formula to serve OHA objectives
- Long-term:
1. Revise IPS and HDAP to accommodate present and future investment strategies, present to BOT for adoption
  2. Develop spending and debt policies applicable to real estate investments and OHA operations

Work completed by working group: The group researched and discussed policy and legal issues to be considered by OHA, so that it can operate within the State structure while it retains its autonomy, ability to form entities, and manages its funds. These discussions included:

- Potential legislative changes that could be made to provide OHA greater autonomy, based on statutory autonomy and exemptions enjoyed by other semi-autonomous agencies of the State (UH, HCDA, HTDC).
- Methodology for separating the core and non-core functions of OHA and discussion about whether different funding and withdrawal rules should apply to each.

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### Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

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- Analysis of the fiscal reserve the State Auditor's findings concerning it, and how it could be revised to address the audit findings.

**Legal and Taxable Structure Working Group.** Objective of the working group: The objective of the working group was to identify the optimal legal and reporting structure of OHA's business development functions.

Short- and long-term tasks identified by the working group:

Short-term: Refine Decision Matrix and Decision Tree with the assistance of legal counsel, present to the RM Committee/BOT for adoption as decision making tools

Long-term: Develop guidance regarding OHA's role (funder v. intermediary v. direct services) to guide strategic planning and OHA operations (such as for budgeting and spending)

Work completed by the working group: The group discussed OHA's future needs for LLCs or other business forms, defined foundational principles OHA should consider when using business forms, drafted a decision tree and matrix and drafted subsidiary plan guidelines.

**Pension Benefits Working Group.** Objectives of the working group: The purposes of this working group were to verify the accuracy of OHA's pension liability and conduct discussions with Budget and Finance (B&F) and Employee Retirement System (ERS) to adjust any discrepancies and determine if OHA can moderate the pace of future increases.

Short- and long-term tasks identified by the working group:

Short-term: Formulate legislative proposals for 2018

Long-term: Analyze pension and benefit costs, develop recommendations (as appropriate), present recommendations to Administration and RM Committee/BOT (as appropriate)

Work completed by the working group: The group discussed legislative strategy, provided assessments on the EUTF's ability/inability to quantify OHA obligations and developed initial information requests that were sent to the EUTF.

**DHHL Working Group.** Objectives of the working group: The purposes of this working group were to identify the likely solutions to resolve issues in the Department of Hawaiian Home Lands (DHHL) Memorandum of Agreement (MOA), identify the likely scenarios to refinance the annual cash payment obligation and formulate recommendations for proactive action, if any.

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### Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

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Short- and long-term tasks identified by the working group:

Short-term: Identify deliverables with DHHL, implement recommendations for improved oversight

Long-term: Develop debt policy and standards for incurring long-term obligations

Work completed by working group: Discussed the status of the DHHL and OHA MOA. Since the OHA internal legal opinion stated that nothing could be done regarding the MOU, the working group terminated further discussion. However, the group recommended consideration of a debt policy to prevent future agreements like the MOA.

#### IV. Policy Review and Analysis<sup>2</sup>

**Overview.** During this fiscal year, Spire developed policies concerning the following subjects in response to needs identified by OHA as necessary in mission-critical areas and conducted workshops and other training regarding the policies. The policies were:

- Spending
- Debt Management
- Investment and Commercial Real Estate
- Economic Development
- Fiscal Stabilization

These policy revisions have the following long-term objective of proposing a distinct potential direction for OHA as an organization as it relates to who it is:

- A primary State agency that provides services and programs to Native Hawaiians (HRS Chapter 10-3)
- A semi-autonomous State agency which relies on self-funding (Legislative opinion)
- A State agency to assist Native Hawaiians in the pursuit of sovereignty and self-governance (Act 195).

Copies of the policies, with the exception of Fiscal Stabilization, are found at Attachments 1 to 4.

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<sup>2</sup> Source: Fiscal Year 2018-2019 Summary, Next Steps Checklist, May 2019, transmitted via letter dated May 15, 2019 .

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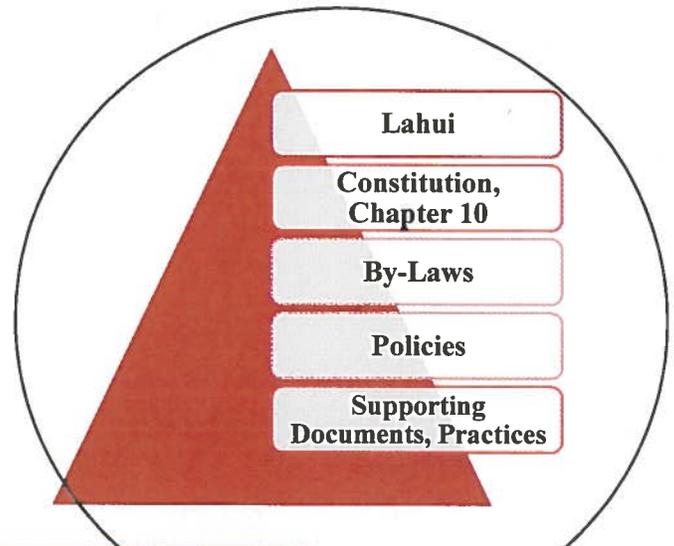
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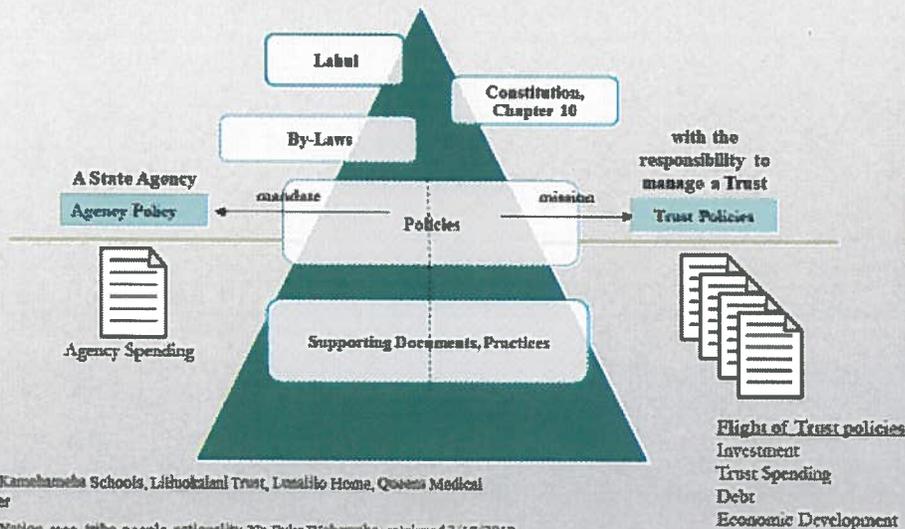
As of February 2018, the BOT placed a moratorium on the use of the Fiscal Reserve<sup>3</sup>

**Board Governance Framework.** In January 2019, the Board approved the formation of a permitted interaction group (PIG) to: Investigate various elements of governance frameworks and models, including but not limited to cultural, indigenous, native, national and international contexts. In April 2019, the Board approved the PIG's recommendation to approve the five elements of OHA's Board Governance Framework: 1) Identity; 2) Values and Mana; 3) Statutory Basis; 4) Policies; and 5) Supporting Documents and Practices (Operations).

Element 1) Identity is expanded below and illustrates the dual nature of identity and the related impact to policies.



**Element 1: Identity. Ho'oulu Lahui Aloha – To Raise a Beloved Lahui.** A State Agency with the responsibility to manage a Trust, that identifies and operates more similarly to Ali'i Trusts [1] with a Lahui mindset in improving the well-being of our Lahui [2]. Such an identity is rooted in the 'ōlelo no'ēau, *E 'ōpū ali'i*, have the heart of a chief, have the kindness, generosity, and even temper of a chief, 'ōlelo no'ēau 369 [3]. OHA's identity is also place based, that OHA's *kuleana* is to this place of Hawaii.



<sup>3</sup> Moratorium on Fiscal Reserve Spending, RM 18-03 AI.pdf, February 2018

## RM #19-07

### Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

**Economic Development Policy.** 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.

#### Economic Development Policy



- Requires Administration to develop policies for analyzing and selecting economic development projects
- Requires Administration to develop performance standards for staff and consultants, and define permissible and impermissible projects
- Requires the Administration to develop criteria for selecting operating structures (such as LLCs and partnership)

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- Requires Administration to develop performance standards for staff and consultants, and define permissible and impermissible projects
- Requires the Administration to develop criteria for selecting operating structures (such as LLCs and partnership)

It is the policy of the 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.

A lack of due diligence, a lack of standards and a lack of criteria result may occur when there is no clear policy.

Because this is a new policy, implementation procedures are provided to effect this policy’s launch.

#### Debt Management Policy.

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

#### Debt Management Policy



- Defines purpose for debt – Section III
- Defines debt – Section II
- Does not allow debt that is more than needed, and requires the debt to be secured as close to the date of expenditure as possible
- Requires debt to improve net worth or generate value, including cultural value
- Prohibits debt without a repayment solution, requires debt to be taken against an asset only for financial gain, requires due diligence prior to issuing debt
- Requires debt study every two years
- Requires administration to develop procedures to implement policy

## RM #19-07

### Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

#### Revisions to Spending Policy



- Requires the Administration to develop procedures to identify and prioritizing projects and programs as core and non-core
- Differentiates spending from withdrawal
- Requires the Administration to implement cost center budgeting

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an asset only for financial gain, requires due diligence prior to issuing debt

- Requires debt study every two years
- Requires administration to develop procedures to implement policy
- 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.
- 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.
- 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.

A lack of repayment plans and dedication of funds, use of debt to cover operational costs and lack of diligence required to assume debt may occur when there is no clear policy.

Because this is a new policy, implementation procedures are provided to effect this policy's launch.

possible, unless there are practical reasons to issue sooner, in which cases such reasons should be documented and approved by the Board.

- Defines purpose for debt
- Defines debt
- Does not allow debt that is more than needed, and requires the debt to be secured as close to the date of expenditure as possible
- Requires debt to improve net worth or generate value, including cultural value
- Prohibits debt without a repayment solution, requires debt to be taken against

#### Revisions to the Spending Policy

It is the policy of the Board that, in order to prioritize and manage its own spending, OHA must differentiate 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, budgeting and reporting.



Confusion stemming from commingling of public funds and private funds

Public distrust of OHA spending activities

Unstructured spending decisions

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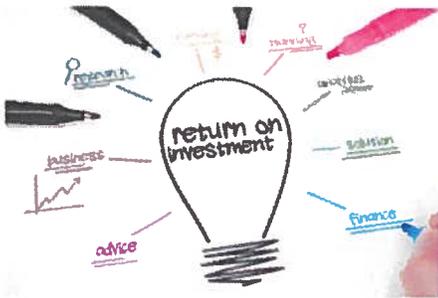
## RM #19-07

### Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

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#### Investment Policy Changes and Real Estate Policy

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- Separates management of commercial real estate from financial securities
- Requires development of a blended rate and regular updating of the rate
- Establishes a real estate advisory committee (HDIP committee)
- Requires the Administration to develop a robust real estate policy
- Requires the Administration to develop criteria for equity investments

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strategic planning

**Investment and Real Estate Policy.** 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.

The existing Native Hawaiian Trust Fund Spending Policy, as amended, will need to be combined, aligned, harmonized and edited to produce a new document for Board action.

**Spending Policy.** It is the policy of the Board that, in order to prioritize and manage its own spending, OHA must differentiate 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, budgeting and reporting.



**OFFICE OF HAWAIIAN AFFAIRS**

**NATIVE HAWAIIAN TRUST FUND  
SPENDING POLICY, AS AMENDED**

Adopted by the Board of Trustees, September 15, 2004  
Amended and adopted by the Board of Trustees on July 6, 2006  
Amended and adopted by the Board of Trustees on May 21, 2009  
Reviewed with no modifications by the Board of Trustees on April 18, 2012  
Amended and adopted by the Board of Trustees on February 27, 2014

**RM #19-07**

Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

It is the policy of the Board that OHA's investment policy be modified to include the following attributes:

- Separates management of commercial real estate from financial securities;
- Requires development of a blended rate and regular updating of the rate;
- Establishes a real estate advisory committee (HDIP committee);
- Requires the Administration to develop a robust real estate policy; and
- Requires the Administration to develop criteria for equity investments.

Without the proposed changes to established policy, applying the same investment strategy to all types of assets, reliance on financial asset performance on building value and making decisions without the correct level of experience poses challenges to the implementation of existing policy.

**Investment Policy Changes and Real Estate Policy**

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 Pūhaha 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.

It is the policy of the Board that OHA's investment policy be modified to include the following attributes:

- A. Separate management of the real estate assets and equity interests from the financial security assets
- B. Maintain an appropriate and achievable blended return goal for financial security assets, real estate assets, and other assets
- C. Consult with an expert real estate advisory committee
- D. Develop a robust real estate plan



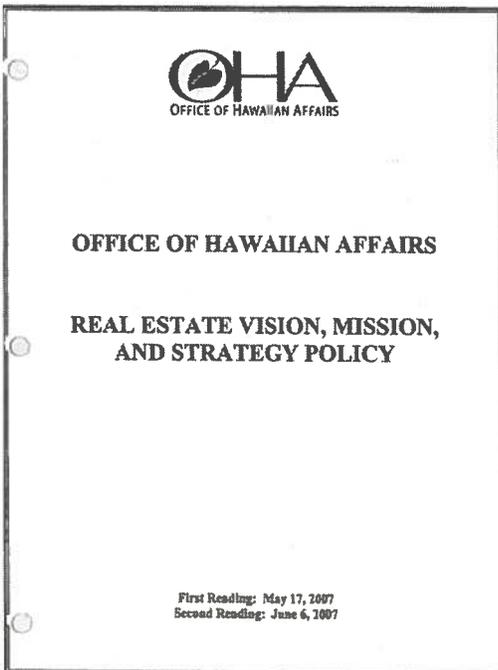
Applying the same investment strategy to all types of assets



Reliance on financial asset performance on building value



Making decisions without the correct level of experience



The existing Real Estate Vision, Mission and Strategy Policy, will need to be combined, aligned, harmonized and edited to produce a new document for Board action.

**RM #19-07**

Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

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The existing Native Hawaiian Trust Fund Investment Policy Statement will need to be combined, aligned, harmonized and edited to produce a new document for Board action.



**OFFICE OF HAWAIIAN AFFAIRS**

**NATIVE HAWAIIAN TRUST FUND  
INVESTMENT POLICY STATEMENT**

Adopted by the Board of Trustees, August 24, 2017  
Effective October 1, 2017

**IV. Certification of Funding Availability**

N/A – no funding required for action item.

**V. Recommended Action(s)**

Administration recommends the Board of Trustees (BOT):

- A. Approve the **Economic Development Policy**, noting that Administration will return with the implementation procedures for Board action;
- B. Approve the **Debt Management Policy**, noting that Administration will return with the implementation procedures for Board action;
- C. Acknowledge the **Spending Policy** language and the existing Native Hawaiian Trust Fund (NHTF) Spending Policy, as Amended, noting Administration will return with a consolidated policy document for Board action; and
- D. Acknowledge the **Investment and Real Estate Policy** language and the existing NHTF Investment and Real Estate Vision, Mission, and Strategy policies, noting Administration will return with consolidated policy document(s) for Board action.

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Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

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**VI. Alternatives**

Take no action.

**VII. Time Frame**

This action shall be effective immediately upon approval by the BOT.

**VIII. Attachments**

1. Economic Development Policy
2. Debt Management Policy
3. Spending Policy
4. Investment and Real Estate Policy

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## 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.

### II. POLICY

It is the policy of the 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.

### III. 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.

### IV. 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:

1. 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.
2. Performance standards for OHA staff and external consultants, managers, or advisors.
3. Permissible/impermissible projects, if any.
4. 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.

**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. 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.

## 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.

### II. POLICY

It is the policy of the 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.

#### 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:

1. 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.
2. 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.
3. 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.

**III. 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.

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.

**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

1. 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
2. Performance standards for OHA staff and external consultants, managers, or advisors
3. 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.

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## **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.

### **II. POLICY**

It is the policy of the Board that, in order to prioritize and manage its own spending, OHA must differentiate 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, budgeting and reporting.

### **III. 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.

### **IV. 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:

1. Procedures for defining whether programs and projects are core and non-core programs.
2. Procedures for prioritizing programs and projects based on their classification of core and non-core.
3. Procedures for implementing and prioritizing programs and projects based on their classification of core and non-core.
4. 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.

## INVESTMENT AND 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.

### II. POLICY

It is the policy of the Board that OHA’s investment policy be modified to include the following attributes:

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

The Board’s first directive 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 directive 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 directive 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 directive is for OHA to 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.

**III. 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.

**IV. 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:
  - 1. Debt and spending policies.
  - 2. Investment objectives and priorities.
  - 3. Economic and cultural objectives, including methods for balancing these objectives.
  - 4. Performance standards for OHA staff and external consultants, managers, or advisors.

5. Asset allocation guidelines and portfolio composition targets, if appropriate.
  6. Liquidity pool and capital budget.
  7. Real estate standards and valuation criteria.
  8. Permissible/impermissible forms of ownership.
  9. Permissible investments.
  10. Prohibited investments.
  11. Return expectations and leverage guidelines, if any.
  12. Portfolio reporting requirements to the BOT.
  13. Approval process and standards for implementing real estate involvements.
  14. Acquisition standards.
  15. Confidentiality.
  16. 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 Paia 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.