

PHONE (808) 594-1888
Committee on Resource Management
Trustee John Waihe'e IV, *At-Large* - Chair
Trustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair
Members

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*



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**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, May 25, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477,
Webinar ID: 941 3011 4084

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Nineteenth Supplementary Proclamation dated April 9, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 941 3011 4084

AGENDA

- I. Call to Order
- II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- III. Approval of Minutes
 - A. April 20, 2021
 - B. May 11, 2021
- IV. Unfinished Business – None
- V. New Business
 - A. ACTION ITEM RM #21-06: Approval of FY21 Budget Realignment #3 –
Core (Personnel and Non-Personnel) and Non-Core Budgets†
 - B. Workshop: T-Trustee Level Draft Policies related to Endowment Strategy:
Endowment Investment Policy, Spending Policy, Debt Policy; and
C-CEO Level Draft Policies related to Treasury Management
 - C. Workshop: Preliminary OHA Biennium Budget for the Fiscal Biennium Periods
2021-2022 (FY22) and 2022-2023 (FY23) – pre beneficiary sharing
- VI. Announcements
- VII. Adjournment



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting. Meeting materials will be available to the public 72-hours prior to the meeting and posted to OHA's website at: www.oha.org/rm.

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

*Public Testimony: Public testimony can be submitted to the OHA Board of Trustees either:
(1) in writing emailed at least 24 hours prior to the scheduled meeting, or
(2) as live, oral testimony online during the Public Testimony portion of the virtual meeting.

Public Testimony must be limited to matters listed on the meeting agenda.

Please visit OHA's website for more detailed information on how to submit Public Testimony at:
<https://www.oha.org/how-to-submit-testimony-for-oha-bot-meetings/>.

Persons wishing to provide **written testimony** on items listed on the agenda should submit testimony via **email** to BOTmeetings@oha.org at least **24 hours prior** to the scheduled meeting. Any testimony received after this deadline will be considered 'late' testimony and distributed to the Board members after the scheduled meeting.

Due to COVID- 19, please do not fax, mail, or hand-deliver written testimony.

Persons wishing to provide **oral testimony online** during the virtual meeting must register here first:

https://zoom.us/webinar/register/WN_D-YgEpMeSE-Y8n-kr5ewbA

The registration to provide oral testimony online will remain open until the Public Testimony section on the agenda has concluded. You will need to register prior to this time if you would like to orally testify. Once you have completed your registration, a confirmation email will be sent to you with a link to join the virtual meeting and further instructions on how to provide oral testimony during the virtual meeting.

To provide oral testimony online, you will need:


- (1) a computer or mobile device to connect to the virtual meeting;
- (2) internet access; and
- (3) a microphone to provide oral testimony.

Oral testimony online will be limited to five (5) minutes.

Oral testimony by telephone / landline **will not** be accepted at this time.

Once your oral testimony is completed, please disconnect from the meeting. If you do not log-off on your own, support staff will remove you from the Zoom meeting.

You can continue to view the remainder of the meeting on the livestream or by telephone, as provided at the beginning of this agenda.



Trustee John Waihe'e, IV, Chair
Committee on Resource Management

05/19/2021

Date

May 25, 2021 - Continued

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**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
560 N. NIMITZ HIGHWAY, SUITE 200
(VIRTUAL MEETING - VIA ZOOM WEBINAR)
COMMITTEE ON RESOURCE MANAGEMENT
MINUTES**

April 20, 2021 1:30 p.m.

ATTENDANCE:

Chairperson John Waihe'e, IV
Vice-Chairperson Luana Alapa
Trustee Leina'ala Ahu Isa
Trustee Kaleihikina Akaka
Trustee Dan Ahuna
Trustee Keli'i Akina
Trustee Brendon Kalei'aina Lee
Trustee C. Hulu Lindsey
Trustee Keola Lindsey

ADMINISTRATION STAFF:

Sylvia Hussey, CEO / Administrator / Ka Pouhana
Casey Brown, COO / Ka Pou Nui
Erin Nakama, IT
Everett Ohta, Corporation Counsel
Kalani Fronda, Land Director
Kevin Chak, IT
Raina Gushiken, Corporation Counsel
Ramona Hinck, CFO

LEGAL COUNSEL:

Anna Elento-Sneed, Esq.

GUESTS:

Germaine Meyers
Laura Kamalani-Paikai

BOT STAFF:

Crayn Akina
Melissa Wennihan

I. CALL TO ORDER

Chair Waihe'e calls the Committee on Resource Management meeting for Tuesday, April 20, 2021 to order at **1:30 p.m.**

Chair Waihe'e notes for the record that **PRESENT** are:

MEMBERS			AT CALL TO ORDER (1:30 p.m.)	TIME ARRIVED
CHAIR	JOHN	WAIHE'E, IV	PRESENT	
VICE CHAIR	LUANA	ALAPA	PRESENT	
TRUSTEE	LEINA'ALA	AHU ISA	PRESENT	
TRUSTEE	DAN	AHUNA	PRESENT	
TRUSTEE	KALEIHIKINA	AKAKA	PRESENT	
TRUSTEE	KELI'I	AKINA	PRESENT	
TRUSTEE	BRENDON KALEI'AINA	LEE	PRESENT	
TRUSTEE	CARMEN HULU	LINDSEY	PRESENT	
TRUSTEE	KEOLA	LINDSEY	PRESENT	

At the Call to Order, **NINE (9) Trustees are PRESENT**, thereby constituting a quorum.

II. PUBLIC TESTIMONY on Items Listed on the Agenda*

Chair Waihe'e states for the record –

- *Public testimony should be limited to matters listed on the meeting agenda and will occur during the Public Testimony portion on the agenda.*
- *If you begin to address other issues not on today's meeting agenda, the Chair will call you out of order and direct you to limit your testimony to items listed on the agenda.*
- *Testifier names will be announced, and your microphone will be unmuted when it is your turn to testify.*
- *If you are not audible, you will be muted, and the next testifier will be called.*
- *State your name, organization (if applicable), agenda item(s) you are testifying on and your position (support, oppose or comment) on each of the agenda item(s).*
- *Oral testimony online will be limited to five (5) minutes. A timer will on the screen to count down the five (5) minutes. A chime will sound when you have 30 seconds left and a second chime when your testimony time expires.*
- *Your mic will be automatically muted once you have completed your oral testimony or if your allotted time for testimony expires. I will call on staff to call on the list of testifiers.*

Crayn Akina: Aloha Trustees, Pouhana, and Administration. We have three people signed up and two in queue.

First, we have Laura Kamalani-Paikai.

Laura Kamalani-Paikai: Welina mai ke aloha Chair and Members of the Committee on Resource Management. My name is Laura Kamalani-Paikai. I am here to offer testimony on agenda item V.C. specifically to put a familiar face to the proposed reorganization on which you will deliberate.

On January 28, 2021, I was informed by the CEO that my position at OHA would be eliminated in the reorganization and I was made to understand that if I wish to remain at OHA, I would have to apply for an open and / or new position.

At the time, an intonation was made by the CEO about a particular position, which had my name written all over it, or words to that effect. But the delivery and tone of the CEO's message was so casual that one might think we were discussing something as innocuous - like what type of bread and filling I preferred for my sandwich, instead of a subject with the potential to alter my life in this autumn season of my life.

It's sobering and serious; betrayal was the first assault to my senses, followed by anger, hurt, frustration, resentment. It has taken the greater part of the two months and 23 days since for me to shake off those demoralizing emotions. Eighty-two agonizing days to wrestle with and arrive at the best decision for me.

The documents submitted for your review today are not the same ones presented to me by the CEO in our meeting and the sole severance package offered by the CEO on January 28, 2021 has since expanded to five options for consideration.

Piecemeal rollout of this reorg and the CEO's business as usual, take no prisoners mindset throughout have exacted a toll on my inner man. I never imagined that my 25 years of service to OHA and the Lāhui would end this way; but so be it. I have no desire to stay where I'm not wanted or where I have become surplus to requirements and I have zero energy to compete for a place in the CEO's new pecking order. I'm not sure what your role is with this reorg or it's multi-layered elements. But I pray you will regard all that I have shared today with empathy and Aloha and make it possible for me to leave with dignity and the most generous severance package OHA can offer me. Thank you so much for your time and kind attention.

Chair Waihe'e: Thank you Laura.

Crayn Akina: Next, we have Germaine Meyers.

Germaine Meyers: Before I begin, I just have a point of clarification. I didn't see on the agenda item - employees' contracts. I'm just wondering if I looked at the wrong agenda.

Chair Waihe'e: She was referring to the reorganization, purpose design, application and projected outcomes.

Germaine Meyers: *...and how it relates to her position?*

Chair Waihe'e: Yes.

Germaine Meyers: OK, thank you. Aloha Chair Waihe'e, Vice Chair Alapa, Administration, Trustees, Lāhui. My name is Germaine Meyers and I am an OHA beneficiary for beneficiary advocacy and empowerment. I'm also a Nānākuli Hawaiian homestead lessee.

I come to you today to speak to you about the agenda item regarding the Kaka'ako Makai Properties and the allocation of revenue to specifically, the legacy lands. Trustees, I'm concerned that 60%; more than half - 50% is half of the revenue. This is 60% that is being proposed.

What I'm concerned about is that it does not align with the Strategic Plan that I downloaded from OHA, which is eight pages, half of it being in Hawaiian language. There are specific strategies or specifically eight - two strategies for each related to Housing, Economic Stability, Education and Health regarding the lāhui.

I'm concerned that Legacy Land is taking up much of the revenue from the Kaka'ako lands, or is being proposed to be taking up much of the revenue. I disagree with that. I guess I read it incorrectly with the last time I read the packet from last week and I thought I saw that it was marked out, but I didn't realize it wasn't 0%, it was from 50 to 60%. I didn't see that the red line didn't go through the six, and so I'm deeply concerned that the legacy lands are specific lands.

For example, DLNR Lands that are being leased in Kaua'i; two properties. There's the Wahiawā property on O'ahu, there's Big Island property, Maui property. I'm concerned that if there's for example, \$100 million revenue, you're talking about 60 million dollars going to these specific legacy lands.

Why is that? I'm questioning myself. Why is it that 60% is going towards these lands?

So next my question is, *how did these lands get chosen for these specific purposes?*

I'm living here in Nānākuli and along the West Coast we have the highest concentration of Native Hawaiians in the world if you go all the way up to Kapolei. OHA hasn't taken up land or leased land from DLNR so that we can gather or engage in specific uses that were designated for the lands. Yet this is what's happening with what you're proposing; for more than half of the of the revenues from Kaka'ako to be given towards these specific lands.

So, now my question to myself - *is OHA going to acquire other lands that is going to come under the title of Legacy Lands? Are they going to only serve the needs of certain lāhui members and not all lāhui members?*

Because the strategic plan that I read, the eight pages were just talking about the lāhui members and specifically the well-being of the lāhui members. That's what those strategies were, and those specific outcomes; I counted 26 outcomes.

So now when you're having an economic engine with the Kaka'ako Makai; my support all this time wasn't so that more than half would go towards the legacy land. My support was so that more than half would go towards either grants or towards the outcomes of the specific strategies that were outlined to us.

I'm concerned that OHA has misaligned yourselves with your messaging to us – *What is important to OHA?*

So that's what I'm really, really concerned about, and those are the questions that I'm asking myself.

If you're going to specify for the revenue; *what about managing those properties or improving those properties?* There's nothing related to that.

If you're going to give specific monies towards upkeeping of those Kaka'ako properties, but no, instead it's talking about giving more than half to the legacy lands. I'm just really confused and maybe I'll come back again to another meeting when this again is on the agenda to further elaborate my understanding and thoughts.

I'm really looking forward to the workshop to understand more about what is it that the Administration and OHA is proposing to us.

Mahalo, I see that my time is up. Ke Akua Pū. God bless all of you. Thank you, Chair.

Chair Waihe'e: Thank you Germaine.

III. APPROVAL OF MINUTES

- A. March 23, 2021
- B. March 30, 2021

Trustee Akaka moves to approve the minutes of March 23 and March 30, 2021.

Trustee Hulu Lindsey seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							1:43 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA			X			
KALEIHIKINA	AKAKA	1		X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY		2	X			
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				9	0	0	0

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION CARRIES**.

IV. UNFINISHED BUSINESS

None

V. NEW BUSINESS

A. ACTION ITEM RM #21-04: Approval of a Third Amendment to BOT #12-05 – Kaka’ako Makai Policy Relating to the Allocation of Revenue from Kaka’ako Makai Properties to the Land Legacy Program

Chair Waihe’e turns it over to Ka Pouhana Sylvia Hussey.

Pouhana Hussey: Thank you, Chair Waihe’e. Trustees – this Action Item is being brought forward due to the recommendations from the Permitted Interaction Group in which the Board received last week, as well as discussed.

This was included in the report as part of the Policy recommendations and so Administration has brought forward this action to amend the Kaka’ako Makai Policy and specifically, eliminating the allocation to the grants program. Not because grants are not important anymore, but because of the strategy that is going to replace that and will come forward in the Budget presentation in terms of utilizing the Public Land Trust revenues for our granting programs.

The second change is that we want to increase the Net amount from 50% to 60%. Currently, the 50% net contributes about 1.5 million to our Legacy Land Programs. As the Beneficiary pointed out, in the packet was a presentation of all of our Legacy Land Programs. Among the two largest pieces are Wao Kele o Puna on the Island of Hawai’i and the Wahiawā Lands on O’ahu; the legacy program now that derives revenue from Kaka’ako Makai is about 1.5 million dollars. That represents the 50%. Based on the projections, 60% would add an incremental \$300,000 to the net revenues for the Legacy Land Programs. For alignment, this is strategy 10 in our Endowment. Strategy 10 talks about Direct Land Investments and ‘auamo kuleana regarding our legacy properties. That's the second change that Administration is bringing forward on the Policy.

The third change is to eliminate the sunset date, when the policy was first amended in 2017 there were two-year check-in dates, if you will. So, in 2017, the first check-in date was 2019. In 2019, we came back to the Trustees with another amendment, a second amendment and pushed out the date to 2021. Each time the reason Administration did that is because we were on the cusp of figuring out what was going on with Kaka’ako Makai. With the Trustees’ Permitted Interaction Group, and the directions and discussions there, we feel that it's appropriate to not have a sunset date anymore and just have it be the policy. At the time in the future, when the Trustees deem it necessary and appropriate - we can then come back and change the policy at that time. So that's the third piece that we are changing to take off that sunset date. So that this is the policy, and the long-term Policy implications come back as the Trustees’ work are on-going and as it relates specifically to Kaka’ako Makai.

The last change, there are some ministerial edits; the policy was written in 2012. There are some language changes there that aren't aligned to our current policy nomenclature. So those are some of the edits that we have made as an example. I think the term *Nation* is in there and the Board restated that our vision is to *Raise a beloved Lāhui*. So, those kinds of ministerial edits were made to align to our current language. Administration is open for any questions by Trustees.

Chair Waihe’e asks if there are any questions.

Trustee Akina: Thank you Sylvia for the report. I just want to say that I really commend everyone on the Board who's worked on this, including the PIG members, because these new efficiencies really help us to be in alignment with our strategic direction. I'm also very pleased that we have broadened our focus from "Nation", to building a beloved Lāhui, which is a much broader, more inclusive term. I think it will benefit OHA and the Lāhui itself. I did want to ask Sylvia to comment on one thing for the sake of our Beneficiaries. You did mention that we are removing grants funding from the Kaka'ako Makai revenues and you did mention the alternative would be receiving funding directly from Public Land Trust. I just wanted to give you the opportunity to explain that we are not reducing grants funding.

Pouhana Hussey: Thank you, Trustee for the opportunity to clarify. Currently, our Grants funding is at about \$12 million and what we, Administration, will bring back to the Board during the Biennium Budget process is to move that granting up to \$15 million. It is exactly the number of the Public Land Trust, and that is to associate that every dollar that comes from Public Land Trust at this point goes directly to our granting and to our beneficiaries.

Previously, maybe where we were in Kaka'ako Makai as to having grants benefit at the same time our Kaka'ako Makai Lands came to our portfolio, our Wahiawā Lands came to the portfolio as well. So, we need to be able to have revenue sources that allow us to 'auamo that kuleana as well as our Grant kuleana. So, the philosophy there is not that we're decreasing grants. We are increasing grants - just not from this source. From this source, we are directing the source to our Legacy Lands and we know that we have a large kuleana for those 511 acres and this is one of the ways of funding that strategy and that direction.

Trustee Akina: Thank you very much.

Trustee Lee: Thank you. A couple of things, Sylvia. I understand not doing the sunset of June 30, 2021 since we're doing it right now. I don't know that I agree of not having a sunset at all.

As I recall, the conversation that we had at the table in 2019 was that we don't know who the bodies will be at this table in the future. They won't necessarily know what was going on in the past.

So, I think the logic of *when the Board is ready to do something else, then they'll come back and revisit that*, I think is unreasonable, because we don't know who that board will be.

I think we should have a sunset in. I don't necessarily agree that it needs to be two years anymore, given that we are moving forward with something, but maybe five or even a 10-year sunset. That way it's in the policy and that's not necessarily saying that this isn't a policy, but it forces whoever Administration and the Board is at that time - to come back and look at the policy.

Whereas, if there is nothing in there, there's nothing to make them come back and look at it. I think relying on that *they're going to do that just because they're going to do that*, I'm not willing to take that chance. I think of having a sunset date in, and I'm fine with pushing it out further. I think having a sunset date, which forces Administration and the Board to come back and look at this is something that needs to be in this policy. Thank you, Mr. Chair.

Pouhana Hussey: Trustee Lee, I think what you point out in our policy work is something that in our policy work. Every policy would have a review date, and whether it's three years or five years. In the

normal course of policy work, this policy would have had a review date, at least. So that makes sense to have a review date for this and the language previously was that it is a review date.

However, the practice has been that it acted like a sunset date. If it makes sense to state it in the policy that it is to be reviewed in three years, as you pointed out, you have a policy. You just have a review date, where in practice, what we did was the date, the review date was the sunset date. It makes sense for Administration to frame that as a review date and whatever date makes sense for the Trustees and then implement it as an active policy and review it rather than sunset it.

Trustee Lee: Okay, Yes - I don't see any review date in here. Item D, number three, it says eliminate the review date of June 30, 2021.

Pouhana Hussey: I was looking at the Second Amendment and it reset the review date there. Yes, as a matter of policy and the construct of the policy. That would work, whatever the Trustees feel would be most meaningful for policy work.

Trustee Hulu Lindsey: I would entertain an amendment from Trustee Lee to add a date to my motion. *Trustee Lee, would you like to do that?*

Trustee Lee: When we get there. I think we're still on discussion at the current moment.

Chair Waihe'e: *No one that's made the motion yet, right?*

Trustee Lee: No.

Trustee Keola Lindsey: I did have a couple questions - if that's okay. I think it's great that our grants may potentially increase to \$15 million a year. That \$15.1 million - that's a set amount that we're already getting, right. So, if all of that revenue from Kaka'ako Makai that grants is losing - *what funds within OHA that currently uses the \$15.1 million is going to get cut out?*

Pouhana Hussey: That's where the Biennium Budget comes in, when we bring that before the Board. All of the sources of funding; PLT is one source, the Native Hawaiian Trust Fund dollars, the general funds - all of the different sources will come through the Budget process and then that's where we will show where that funds and sources will go for that.

Trustee Keola Lindsey: My second question is I understand that Legacy Lands is going to be bringing their Biennium Budget, back for '22-'23. *How is the 10% and the \$300,000 increase, how were those numbers chosen?*

Pouhana Hussey: Casey is Kalani on.

Pou Nui Brown: I can follow up.

Pouhana Hussey: I can tell you Trustee, as we thought through what the incremental pieces are, we knew that the amount of current Kaka'ako gross and the net because this is a change on the net side, right? We need to make sure that we cover our costs.

Right now, the net is about \$3 million. So, 50% - there's \$1.5 million going. What the Legacy Land Program has been, is balancing all of that Legacy Land Investments on the \$1.5 million, to the extent that there are more dollars that are needed for projects, land and whatnot. That money will now need to come from the core part of the funding.

As a result, when they bring back the totality of all of the investments, we'll have to see what comes from core and non-core. Right now, increasing it just 10%, a little bit more is helpful to get an additional \$300,000 into the overall Budget. Again, this \$1.5 and the \$1.8 is going to need to cover Wao Kele o Puna and Wahiawā Lands

Pou Nui Brown: E kala mai, just pointing out that Kalani has joined the meeting.

Pouhana Hussey: Thank you. *Kalani do you want to expand on the increase from 50% to 60% for Trustee Keola Lindsey?*

Oh - did we lose him?

Pou Nui Brown: As he's getting set up. Kalani might know that exact answer, I might be able to add a little bit. The reason why the 10% went up is because it has to do with gross versus net. So, when we change something on the net, the absolute dollar amount is one thing, if you change the same amount of percentage on the gross, the absolute dollar is going to be different. So, we found that percentage change in the gross since we're getting rid of the net. We tried to find that percentage increase, that wouldn't heavily change the overall amount that's going to go to the Land Legacy portfolio.

Land Director Fronda: Aloha Trustees, if I could just add there are certain types of projects that are being held, until we can make sure that it's properly funded. In the event of this increase, we do have in our biennium projects that are addressed across the pae 'āina, not only in Kūkaniloko. As you guys know, Kūkaniloko - we once again went forward with a CIP request, which didn't get funded.

In the process, we also have other assets throughout the pae 'āina in: Maui, as well as Hawai'i Island, and also in Maunaloa, that requires this type of funding. With that 10%, we will be able to space it out and be able to fund some of the projects that we have had to delay over time. Thank you.

Trustee Keola Lindsey: Thank you, Mr. Chair. Thank you, Sylvia.

Trustee Akina: With regard to the legacy lands, I recall from our prior discussion as to a sunset date. One of our concerns was the actual cost of maintaining the Legacy Lands, and that we would review the issue of sunset date - once we received from administration some assessment of the cost of the maintenance of the Legacy Lands. I wonder if you have any update for us on that or can tell us when we might be able to take a look at that.

Pouhana Hussey: When the Biennium budgets come before the Board, the projections of what the current state of maintenance and then what is also the projected needs, based on the planning, are accounted for.

To your point Trustee, each property has a different character and nature about it. Each property has different funding agreements with it; we are sub-leased from DLNR, other are large opportunities. There are other properties that we have grant opportunities - and the Legacy Land Program has done a great job of partnering with, for example, the County of Maui to fund the deer fence at Palauea Heiau. The Legacy Land Program is looking at all the different sources and partnering to enable and to fund what we need to do on a short-term, as well as long-term basis.

I will also say that part of that assessment, like all assessments is our portfolio. We have obtained some of these Legacy Lands over time and - *does it make sense to hold these Legacy Lands?* This is where the policy is important for not just Kaka'ako Makai, but just holistically, what is our policy around Legacy Lands and what is the criteria by which we would acquire, hold, maintain and if the portfolio does not align to those policies, then we do we divest ourselves of Legacy Land pieces. So that entire portfolio assessment is what is being done and then it comes forward in recommendations to the Board through the Biennium Budget process.

Trustee Akina: Thank you Sylvia and I do agree that that Portfolio Assessment is very important in terms of making sure that we have the correct balance in our assets.

Trustee Lee: One more question. Sylvia, you mentioned that the language in the new Strategic Plan talks about the *Lāhui* and not a *Nation*. I'm aware of that, so some of these things in here and removing *Nation*, I think makes sense. I just have a question about some of them; by removing, *Proceed in a way that has in mind the transfer of assets to the Nation* (Attachment A-4), and then *Proceed in a way that grow, preserve and protect the assets to the Nation* and then we've crossed out *to the Nation* (Attachment B-6).

Are we now saying that should a Native Hawaiian Nation stand up we have no intention of transferring the assets to that nation?

Pouhana Hussey: So no, that...

Trustee Lee: Ok, enough said. Yeah. That was my only question. Thank you, Sylvia. I'm good. Thanks.

Chair Waihe'e: Thank you, Trustee Lee. *Is there any other discussion, members?*

There is none.

Trustee Hulu Lindsey moves:

To approve a third amendment to BOT #12-05 – Kaka’ako Makai Policy, relating to the allocation of revenue from Kaka’ako Makai properties to the Land Legacy Program at Attachment A, including ministerial edits. Such an amendment includes the following changes:

- A. Eliminate the allocation of the gross revenues from Kaka’ako Makai (KM) to OHA’s Grants program**
- B. Increase the allocation of the net revenues to OHA’s Legacy Land Program (LLP) from 50% to 60%;**
- C. Eliminate the review date of June 30, 2021; and**
- D. Address ministerial edits.**

Trustee Akina seconds the motion.

MAIN MOTION		2:08 p.m.					
TRUSTEE (RM)		1	2	‘AE (YES)	A’OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA’ALA	AHU ISA						
DAN	AHUNA						
KALEIHIKINA	AKAKA						
KELI’I	AKINA		2				
RM VICE CHAIR LUANA	ALAPA						
BRENDON KALEI’ĀINA	LEE						
CARMEN HULU	LINDSEY	1					
KEOLA	LINDSEY						
RM CHAIR JOHN	WAIHE’E						
TOTAL VOTE COUNT							

RM MOTION: [] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe’e asks if there is any discussion.

Trustee Lee moves to amend the motion changing letter C. *from Eliminate the review date of June 30, 2021; to Amend the review date of June 30, 2021 to June 30, 2025.*

Trustee Keola Lindsey seconds the amendment.

Chair Waihe’e asks if there is any discussion.

Trustee Lee: For the benefit for Administration and for the Trustees. The reason of the date of 2025 of four years - I was going to do three years, as suggested by Administration, but as some of you may recall, those of you that were on the Board in 2019, the reason we picked 2021 was it was a non-election year. So that gave any new Trustees that were elected time to review policies and get up to speed on everything before they had to make-a-decision on something like this.

The three years will take us into 2024, which is an election year so that's why I made it four years out, so that it would be the non-election year. Thank you, Mr. Chair.

Trustee Ahu Isa: Just a Point of Clarification; C. Amend the review date - we're replacing eliminate the review date. So, we're going to amend to eliminate the review date. We're not reviewing. We're going to wait to June 30, 2025 to review. *Is that what the amendment is?*

Trustee Lee: By amending the review date of June 30, 2021; that means we will not review in 2021. We are changing that date until four years out to June 30, 2025. So, there will be no review of 2021 because we're changing the date to 2025. *Does that clear that up Trustee Ahu Isa?*

Trustee Ahu Isa: Yeah, I just think it's kind of a long time to review.

Trustee Lee: We're not going to review it during that whole time. That just means on June 30, 2025 we will review this policy. That's all that means. Not that we're going to review it from now until then, just on that date we will review this policy.

Trustee Ahu Isa: Okay, Mahalo.

Chair Waihe'e asks if there is any further discussion.

There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

AMENDMENT							2:14 p.m.
TRUSTEE (RM)		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA			X			
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
RM VICE CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE	1		X			
CARMEN HULU	LINDSEY			X			
KEOLA	LINDSEY		2	X			
RM CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				9	0	0	0

RM MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **AMENDMENT CARRIES**.

Chair Waihe'e calls for a **ROLL CALL VOTE** on the Main Motion, as Amended.

To approve a third amendment to BOT #12-05 – Kaka'ako Makai Policy, relating to the allocation of revenue from Kaka'ako Makai properties to the Land Legacy Program at Attachment A, including ministerial edits. Such an amendment includes the following changes:

- A. Eliminate the allocation of the gross revenues from Kaka'ako Makai (KM) to OHA's Grants program
- B. Increase the allocation of the net revenues to OHA's Legacy Land Program (LLP) from 50% to 60%;
- C. Amend the review date of June 30, 2021 to June 30, 2025; and
- D. Address ministerial edits.

MAIN MOTION, AS AMENDED						2:15 p.m.	
TRUSTEE (RM)		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA			X			
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA		2	X			
RM VICE CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY	1		X			
KEOLA	LINDSEY			X			
RM CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				9	0	0	0

RM MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MAIN MOTION, AS AMENDED CARRIES**.

V. NEW BUSINESS

B. ACTION ITEM RM #21-05: Amendment to the Executive Policy Manual Section, Budget Management Policy

Chair Waihe'e turns it over to Ka Pouhana Sylvia Hussey.

Pouhana Hussey: Thank you Chair Waihe'e. Trustees, this is a continuing policy work to complement Action Item RM #18-12; this was a major piece of policy that required a construction and preparation of the Budget in a certain way.

What Administration is doing is complementing the Budget Construction and Preparation with Budget Management and Evaluation Policy as well, and bringing it to totality.

At the same time, the Board approved the Fiscal Stabilization Policy that replaced the Fiscal Reserve guidelines within the Spending Policy and that Policy was approved, but wasn't brought into the Executive Policy Manual holistically.

So, this adds a Budget Management and Evaluation Policy, and then it incorporates the Fiscal Stabilization Policy into one overall Budget Management and Preparation Management Policy collectively.

Administration does point out that the Fiscal Stabilization, when it was approved back in 2019 - was meant to be a temporary Cash Policy pending the Trustee-Level work of spending as well as the complementary Cash Management policies. So, the Permitted Interaction Group that the Board formed and was reported out in October, had some recommendations for Trustee-Level Policies, Investment Spending. So, Administration recommends that Policy work continue, but in the meantime, putting together all of the Budget Management Policies; so, it's an intermediate step to a longer-term step of the bigger T-level policies.

What you will also see in future Policy Action Items are more C-level policies regarding Cash Management and Treasury Functions. The Authorizations to move Cash around between the accounts to make sure that we have the maximum amount of use of our Cash in investments, as well as operating needs. This is really an aggregation effort as well as a teeing up for future policies that will come back to the Board.

Trustee Akina: I just wanted to say Congratulations to all of us and our predecessors. It's been about four years that we've been working on aggregating these policies, and it's a major step for us as an institution. It brings us much closer to a PPBS planning system that we can use in our budgeting. I think it's really first rate and I want to thank everyone who's worked on this and believe that this is a great step in our ability to be accountable and to make sure that what we're budgeting for is accomplished. So, kudos to everyone and to you Administration for working on this, as well as the members of the PIG.

Chair Waihe'e asks if there is any further discussion.

There is none.

Trustee Hulu Lindsey moves:

To approve the expansion of the Executive Policy Manual section described in Attachment A:

- (1) New section 3045 Budget Management;**
- (2) New section 3046 Fiscal Stabilization Policy;**
- (3) Relocate and renumber two sections currently located in section 3050 Fiscal to section 3040 Planning, Programming, Budget; and**
- (4) Relocate and renumber five sections currently located in section 3040 Planning, Programming, Budget to new section 3045 Budget Management.**

Vice Chair Alapa seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							2:20 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA			X			
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA		2	X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY	1		X			
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				9	0	0	0

RM MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION CARRIES**.

V. NEW BUSINESS

C. Workshop: Reorganization Purposes, Design, Application and Projected Outcomes

Chair Waihe'e turns it over to Ka Pouhana Sylvia Hussey.

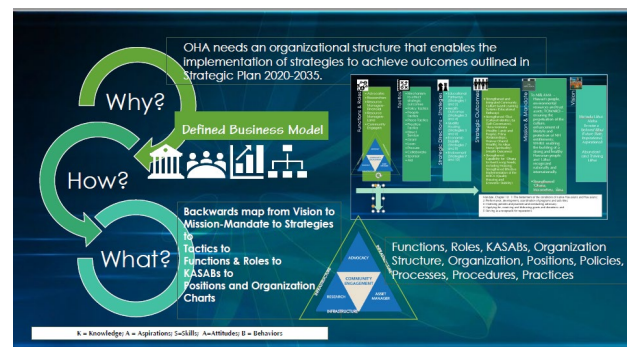
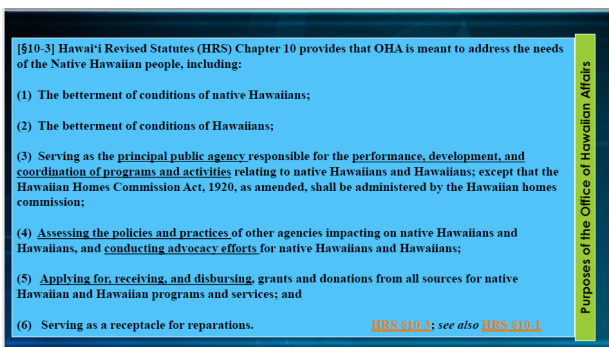
Pouhana Hussey: Thank you Chair Waihe'e. Trustees, this information helps to set broad context. As you can imagine, reorganization for the purposes in alignment takes a lot of work. It's very thoughtful and difficult work. The concept of reorganization has been in our vernacular since October 2019; the specifics and the details have not come forward until September of 2020 as the Board approved the words and the endowment strategies and the forward directional strategies. This follows on the heels of that work to look at the organizational structure in support of the Strategic Plan and more importantly implementing the Strategic Plan.



Pouhana Hussey: So, with that, the first is a Strategic Alignment and we have many guiding documents, but certainly Chapter 10 is our primary guiding document for that.

High level - *Why do we need to go through a reorganization? Why do we need to do what we do?*

Administration has identified that we need an organizational structure that enables us to implement our strategies. One of the difficult parts of reorganization work is that there is a lot of perception that it's being critical of people who have come before - or designs or models or leaders who have come before. Really, that is not the intent; the intent is not to tear down, the intent is to look at what pieces and structures were there. Keeping - maybe tweaking - but really, it's about what is the best structure for the organization so that we can move forward in implementation.



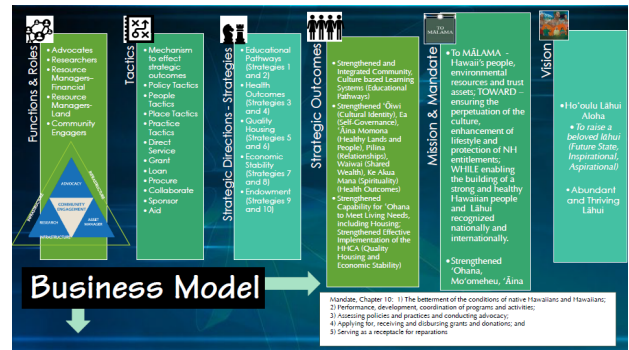
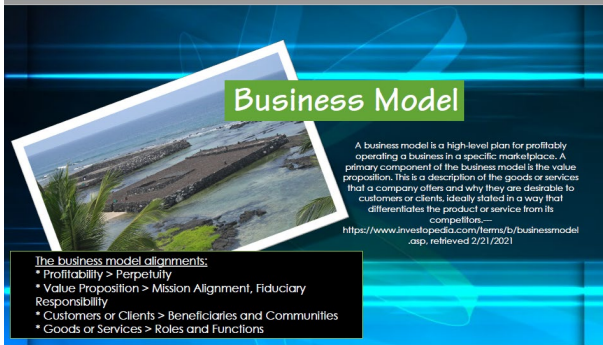
Pouhana Hussey: Administration started by defining a Business Model for OHA. Once that Business Model was established, we back mapped from our Vision - to our Mission and Mandate. All those pieces should look very familiar to Trustees, but trying to put that into our Business Model, backwards map that and then working through that all the way down to Positions.

So, what Administration did was, we started with our Business Model and we took a very commercial business Business Model language. What we did is mapped over what is our Business Model; so instead of profitability, we look at perpetuity, being here in the long term, stewarding our assets for the Lahūi for the long term.

Our value proposition - instead of sales and market and shareholder value, our value proposition is about our mission alignment and our fiduciary responsibility with what we are charged with.

Then again, just nomenclature, instead of *Customers* or *Clients*, we talk about *Beneficiaries* and *Communities* as our Business model. Then of course, *goods* and *services*; our nomenclature is *our roles* and *our functions* that we do.

So, with this Business model, we then map backwards to these concepts. Again, familiar; Vision, that inspirational and aspirational aspect of the organization, what we are to do, and then our strategic outcomes. This is language that should be very familiar to all of us, and then getting more granular, and all the way back to our strategies, our tactics, and then our functions and roles. So, the language around all of that should be familiar with us and that's the basis for reorganization work.



Pouhana Hussey: You then take the functions and roles and then you go left to right instead of right to left. When backwards mapping you go one direction and now, we're going the other direction. Functions and roles are roles that we have called out in our Strategic plan. These again are familiar roles to us.

A new taxonomy or new language that has been introduced in the reorganization is for KASABs.

What knowledge aspiration skills, attitudes and behaviors do we need to develop – demonstrates - in order to fulfill our functions and roles. Which fulfills our strategies and ultimately actualizing a vision that we have.

The organizational structure then takes where you have a number of buckets; and so for Operational purposes, sometimes people refer to this as job families, or other pieces.

Pouhana Hussey: The support - Leadership Management and technical functions are not to be interpreted as the Federal criteria of the Fair Labor Standards Act in which there are assessments for exempt and non-exempt. We use this language just for our own organization. To make sense of the kinds of positions that are associated with each of the functions.

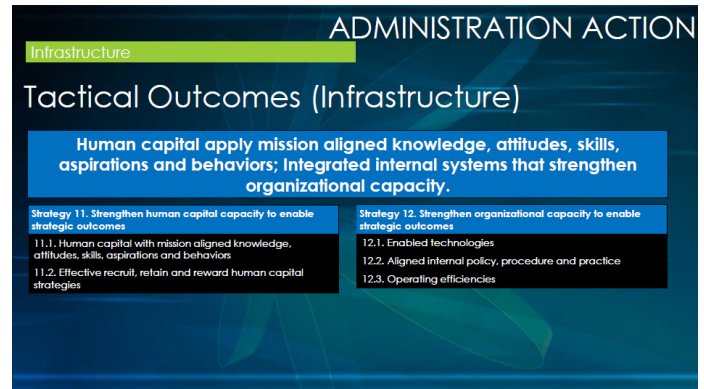
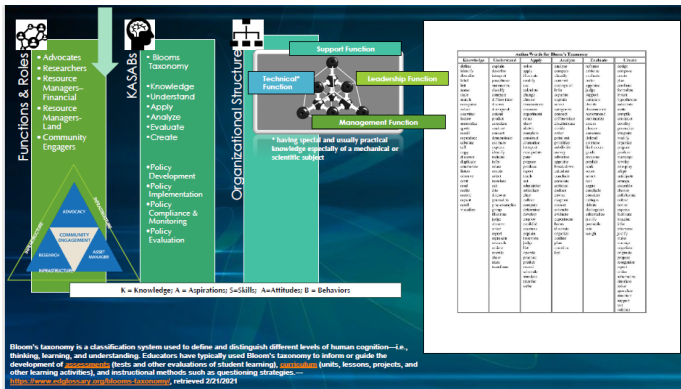
Another nomenclature introduction is that of Bloom's taxonomy, Bloom's Taxonomy is a cognition. It's used in education and yes, I have a left-brain disposition to Education. However, it is a taxonomy that helps classify, learning and thinking. So, the large pieces of knowing, understanding, applying, analyzing, evaluating, and creating demonstrates higher order thinking skills and learning skills, and therefore higher order production.

So, for example, the knowledge skills in the taxonomy. Knowledge skills, if you know something, then you're able to regurgitate it, those kinds of regurgitation of rote memory are because you have acquired knowledge. In order to ably actualize - to create taxonomy, you're going to need to know, understand, apply, evaluate, and then create, which requires a higher order thinking skill, as well as demonstration, knowledge and behavior. So, the introduction of Bloom's Taxonomy is being used to help us identify what do we need our positions to know, to do, how to behave, how to think, how to construct, how to advocate in our roles, and so we introduced this as part of the reorganization work.

We then also know that while the Board approved the strategic directions and outcomes plus the endowment strategy, Administration has a strategy as well and that's internally to strengthen the infrastructure.

Administration has a tactical outcome in two strategies; strengthening the People capital, and then strengthening the Organizational capacity. This is where we talk about enabling technologies, our alignment to policy, procedure, and practice, as well as our operating efficiencies.

Behind the scenes in Tactical implementation work, Administration has these outcomes as well, so to advance the Organization's capability to complete and implement the strategic plan.



Pouhana Hussey: This slide while it says *What* this is also the *Why*.

Why do we need a Reorganization? What is trying to be accomplished?

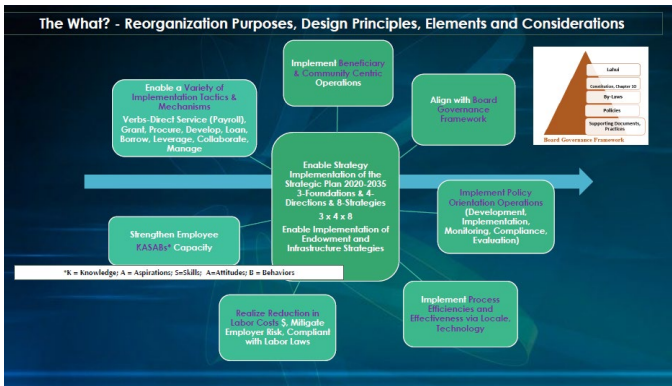
This slide is trying to say that Reorganization is designed to accomplish not just one thing, but multiple things.

Pouhana Hussey: I'll start at the one o'clock aligning with the Board Governance framework. The Board Governance framework is a very critical piece of work that the Board completed to a certain level, but it establishes the Governance structure for the Organization. It provides the kahua for the rest of the Organization. Starting at the one o'clock is an important feature of that - and you'll see that in our Operational org. chart.

If you go around the clock again - the policy orientation - the process efficiencies and effectiveness of locale, physically where are we as well as technology. You will also see there is an objective of realizing a reduction in labor. That is one of the objectives of Reorganization, but also strengthening employee knowledge, skills, and capabilities. That's part of our HR Capital Infrastructure.

We also want to be able to enable a variety of mechanisms there. We can Direct Service, we can Grant, we can Procure, etc. We can lend money, we can borrow. All these verbs or these actions are all different ways that OHA can implement its strategic plan and its tactics. Hopefully, you will see that in the orientation of the Functional Organization Chart.

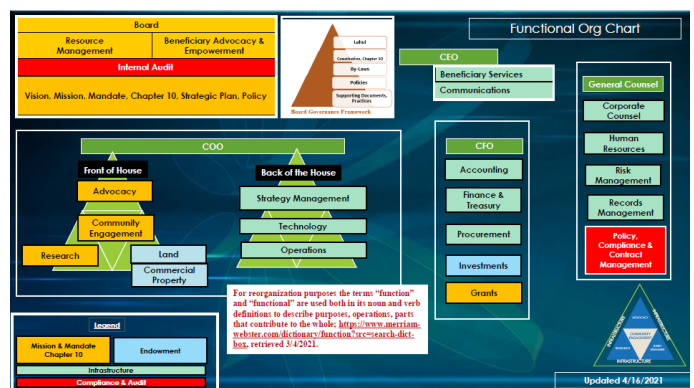
Last, but not least, the Beneficiary and Community "centricness" of OHA, and being very intentional about where we are in our Communities and where we are in servicing Beneficiaries.



Pouhana Hussey: I'm going to pause on this, you have a big 11 by 17 pull out. But the reason to pause here on the organizational chart is administration - when designing or reorganization - looks at the functions that we need in the organization and we'll walk through why these functions appear where they do.

Once the functional design is set, then you start to put in all of the positions that help to support the function. We'll start up in the top left with the Board Governance framework, what you'll see is an internal audit function, which is a very common function in Board work. It also can be resourced internally, or it can be contracted - and it often involves an Audit Committee, and external audit committee members, as an example.

What is being proposed here is an internal audit function, but it is the Board's responsibility to implement that. Administration is just saying that the Functional Organization, while it doesn't impact the Board in the budgets, you will see that we will bring forward resourcing for an internal audit function for the Board to activate. You will see a complimentary Administration Policy and Compliance feature in in our Corp. Counsel area and that is to internally take a look at the alignment of our policies, procedures, and practice - and particularly Contract and Procurement compliance, as well as Grants. Our big process areas that have risk - risk for not having policies, not having procedures and certainly when there is variation in practice; that increases the risk in the environment. If you think about Grants, Procurement and the related contracts that occur, those are our biggest risk areas. This compliance is meant to be an improvement and not punitive. It's meant to strengthen our processes. It's meant to encourage good Contract Management practices. We have the systems now - we need to align the behaviors and the practices around Contract Management. Those are the two red call outs.



Trustee Ahu Isa: Point of Clarification. E kala mai Sylvia, when you're presenting this - *is it my understanding that we don't ask any questions on this until we go into Executive Session?*

Pouhana Hussey: This part is public - if you want to ask about understanding why.

Trustee Ahu Isa: Yeah, I worked in Administration before, like University of Hawai'i, our structures are a little bit different from what you have here. You have:

- Procurement under the CFO, yet you have Records Management, which a lot has to do with Procurement;
- Human Resources under General Counsel;
- *Internal audit, create a position? How many positions?* A whole new department like we did in the DOE, we created the Internal Audit and how many positions and dollar amount, that kind of stuff.

Do we wait until Executive Session is my question?

Pouhana Hussey: I can answer these questions, they do not require Executive Session. I'll start with the internal audit function.

There's a variety of ways to resource that:

- you can resource it with on staff, as DOE has chosen,
- you can resource it completely contracted, you go out for internal audit functions, and you just contract that out.
- Often it is co-sourced; you have on staff and contracts, because you have specialized audits.

So the sourcing of that function is completely up to the Board and the Organization. The accountabilities for the internal function reports directly to the Board. Sometimes administratively, if it is staff, they get put with the CEO - just for HR purposes.

Pouhana Hussey: The functionality of an internal audit is a direct report to the Audit Committee of the Board, and it is a reporting line directly to the Board. The Board would have responsibility for the decisions around hiring, co-sourcing, outsourcing - all of that. Obviously, Administration can help in the process, but that is a definite Board responsibility for that function.

The complementary function to your point is all aspects of Procurement, Accounting, Grants, have Records Management aspects in them. There was an effort for us to align all our record keeping practices. Elizabeth Love, who was our Record Specialist prior to leaving, under Corp. Counsel and Assistant Senior Legal Counsel, Everett Ohta, had an entire project and effort to ensure that all our record keeping was standardized - our processes, identify records, stewards, etc.

- *What kinds of records are we keeping?*
- *Where are we keeping them?*
- *Are we having duplicates?*

She was able to help put in a structure around records. Now, what the next phase for that is then to align electronically; *Where are those records kept?* So, part of the Contract Management function that

the Oracle Fusion project had is that on a go-forward-basis, all our contracts are going to be in one place - all our contracts, the deliverables, and goals.

Contract Management - there needs to be an organizational capability and capacity so that everyone is managing contracts with the best and most effective practices instead of *okay, you do this here* and then *I put my deliverable here*, or somebody attached it to the procurement. That kind of structure is part of work that we need to do to strengthen our internal capacity and reduce risk.

Trustee Ahu Isa: I just thought the CFO - because Contracts Management, you're dealing with many funds. So, I would think it would be under Finance and Treasury within the records, and not under General Counsel. It's just my question; the way it's structured.

Pouhana Hussey: The way it's structured is that under Corp. Counsel, they can give the general overall policy, procedure and then help the unit's implement those procedures and those record practices consistently. We know that everybody will have different record types. They'll have different data types and different levels of communication on the data. We don't want emails to be the record, we want to codify that in Contracts.

Once the contract is codified, we don't need to be keeping five different copies. Everybody keeps a copy of the contract and then nobody keeps up with the consistent update of the contract. So those kinds of processes are meant to be guided centrally and implemented in the unit closest to where it occurs. The compliance process is supposed to help us see the implementation, because once we have variation in input - imitation all over - then we increase the risk of that. Including - we can't find the deliverables, or we can't find the contract amendment, or anything like that. It is meant to standardize policy, procedure, and practice.

Trustee Ahu Isa: I see you have the Internal Audit under Board duties, now we're creating more tasks for the Board of Trustees.

I'm just going to say this to the lāhui, if you're watching this, that we are taking on a lot of responsibility, yet, the Governor has not appointed. I'm not saying we aren't going to get a raise this year, but I think one day to have responsibility that's full time or like the City Council, where we meet every week - which we are - and we should have the State tell us that.

Otherwise, we create our own and we pay our own from the Trust Fund, because it's like we're begging all the time. We're changing our whole reorganization even for the Board of Trustees - whoever is going to run next year, or people that are thinking of it.

I just want to say this openly, that we are a different Board; we're transparent and we're taking on more responsibility. I want that the lāhui to know this. Mahalo Sylvia, for bringing this up.

Trustee Lee: Sylvia, I have some questions about the endowment pieces. So, we have the Land and Commercial properties falling under the COO's house, and then the investments falling under the CFO's house.

Can you explain how those two houses are going to, or if they're going to work together?

Because if it's going to be a true endowment, then those three pieces must work in concert or it's not an endowment.

Pouhana Hussey: So, with that design intention in the back particularly because of the work of the Permitted Interaction Group and working, what this is - it represents currently, as policy changes, the policy of an endowment, then the position and the functions underneath, then we put that together.

So, for example, we are looking; in design work, you also look at what's a function to payroll, and what's the function to contract. In that we would consider; I think we have talked about in the Permitted Interaction Group, the function of an outsourced Chief Investment Officer.

Those concepts should come along with the T-level work that goes on because if the policy is expressed as such, then:

- *How does that policy work? ; and*
- *What kinds of functions do we need to be able to enable that policy?*

That it is listed here is definitely the "as is" condition, but to the extent that it changes based on policy and we implement, then we would change accordingly.

- *What is best to manage and monitor the function?*

Trustee Lee: So, you're saying that they're in the current houses that they're in, because that's how we're currently structured and if-and-when we come up with an endowment policy that states otherwise, then they may change houses to more accurately aligned to said, future policy. *Is that correct?*

Pouhana Hussey: Yes. Much better articulated than when I spoke.

Trustee Lee: Then my question is:

- *Why is it internal?* We don't have a current policy. Well, actually, we do but I won't get into that until we get into Executive Session.
- *Why is internal audit under the Board?* Because currently, we do have internal audits, and it's not under the Board.

Pouhana Hussey: So, for example, Internal Audit in a Publicly Traded Company - the internal audit function, that is in the Board's reporting structure. That it reports to the Audit Committee of the Board. Audit Committees are often composed of external Board members for the Audit Committee. That function is also a function that was recommended in the CLA report as well.

Practically, as a business function, Internal Audit function - in that context - is a direct report to the Board. The compliance function, which is the Administration companion piece of that - to look at all of the deeper processes throughout the organization - is the complimentary of the Board-level Internal Audit.

They would look at similar kinds of things, but definitely, an Internal Audit function would look at Governance; would be much more involved in Governance. When you have a co-source model, you have a hybrid. You will have an Internal Audit function that does Management level audits of the programs. For example, they will do the financial; they will participate with the financial audits, and

then the governance kinds of pieces. It is somewhat complementary, and then they overlap, but the focus is different. Especially, on the administration, making sure that our policies, procedures, and practices are aligned and operating not only optimally, but also consistently in terms of implementation.

Trustee Lee: *So, is it Administration's intent to direct the Board of Trustees to come up with policy, procedure, and process for an Internal Audit to have access?*

The Board of Trustees has no say over the workflow functions of the organization. That all falls under the CEO, our Administrator. If the Internal auditor is going to have a direct report to us, we can't put the work that they need to get done within the workflow that's getting done on a daily basis by staff because we don't have control over that; only the CEO has that.

So, is it your intention to have Trustees - to do that mountainous amount of work versus having the Internal Auditor under our one and only employee, because that one and only employee has a direct report to us?

Pouhana Hussey: Administration's intent of placing the Internal Audit function is to clearly delineate that this is a Board reporting level function. Working together - Internal Audit functions always work closely together with the Administration piece as well.

If the Board chooses to completely outsource the Internal Audit function, it's very common to outsource the Internal Audit function. We would help to write the scope, but the selection would basically be the Board's.

Pouhana Hussey: Implementing the Internal Audit function - the audit plans - one of the first things, for example, Internal Audit does is a Risk Assessment of the Organization. Where in the Organization does it pose most risk and therefore then construct audits around that area.

The same Risk Assessment that an Internal Audit function does is the same Risk Assessment that we have already identified. Our biggest risks at this point; are Grants, Contracts, and the Procurement process. Those three functions - pose to us risk and that's why on our side, we're going to be focusing on that anyway. That the internal auditor agrees with that or if that's something that the Board wants the Internal Auditor to look at something else. The Administration plans to cooperate and support that function to the extent desired.

Trustee Lee: So, short answer is yes. That is your intent for us to come up with all of that.

Pouhana Hussey: If it's there. If you want to put the Internal Audit function Administratively under the CEO, to be able to do that, and then have the Board approve - that can be structured that way as well. So that the function is depicted in the Board, but the implementation of the function to have Administration do that work - that's fine.

Trustee Lee: I'll yield the floor Mr. Chair.

Trustee Ahu Isa: Investment - you have it under the CFO; shouldn't that also answer to the Board of Trustees. I feel that the Chief Investment Officer should answer to the Board, because right now we have a situation where I cannot really talk to them, because we go through you - to talk to them. That person should really report to the Board on a more-timely-basis, than a couple quarters later on the

Investment strategies - instead of to the CFO. It's just a point I'm bringing up, I'm not fighting it or complaining. Thank you.

Pouhana Hussey: I understand.

Pouhana Hussey: There's one more slide I'd like to walk through, the Policy slide. I apologize Trustees that this is a very busy slide, but I wanted to share the reason the sequence of activities is coming to the Trustees.

So, we are in activity one, the Administration has designed the Reorganization. We've applied the principles, we've projected some of the change in plans, we have projected the implementation.

Then we prepared the Budget Management policies and so now we are coming to the Trustees for approval.

This workshop is action two - where the organization - all of that is being reviewed in anticipation of bringing forward an Action Item and a Budget Realignment next week. So, we are in activity two, with the Trustees taking a look at the binders, asking questions, and being advised by Counsel.

The intention is to get a direction as it relates to the reorganization, because then Administration will need to start implementing and implementation is projected to take months to do it. As well as the configuration of the Human Resources - is what also drives the organizational budgets.

Pouhana Hussey: We know that we have a responsibility by Chapter 10 to go out to beneficiaries regarding our Budgets. In order to do that, we would like Budget approvals by the middle of June to allow time for getting the Organization fiscally ready to open up with the new Budgets.

Of course, hopefully this week, or by the end of April, for sure, we will know about our General Funds. Then giving Trustees enough time to review the Budgets, to review all the new Budget planning construction and all of that. So that really puts us to this week in April to be able to have those discussions because when we send out the Budgets, we often send out the Organizational Charts that underlie, the payroll in those Budgets.

It is a sequence effort and along the line is also to take the opportunity - as Trustees are in the Community for Board Meetings. So, we're basically looking at the month of May to share information with Beneficiaries. Set up workshops, set up Zoom calls, to share the information, and get feedback from Beneficiaries, and then come back to the Board in another workshop.

Comprehensively - core, non-core, all the different funds, and then have time for the Board to receive their budget books. Then have a chance to talk with Administration about some of the nuances that are there, or if you don't see certain things, and you thought it was going to be there. That's activity eight, those workshops.

Last year, we had one, but we were prepared to schedule, as many as the Board felt was needed before we bring back the Action Item for the Board. That's why if you backwards map, again, from where Administration would like the Budget approvals, and then you backwards and map, it lands us here because the Reorganization is such a large piece of the forward action. That is a good pause point for Administration.

Trustee Keola Lindsey: I just want to clarify, though, number two on this slide. It says participate in workshop(s), plural. *Are we going to have another workshop like this as we continue to digest the reorg.?*

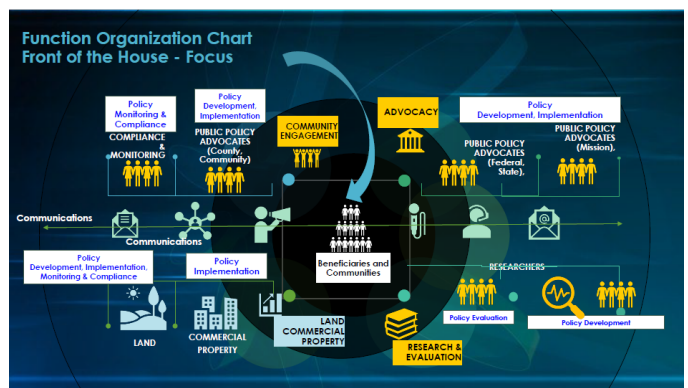
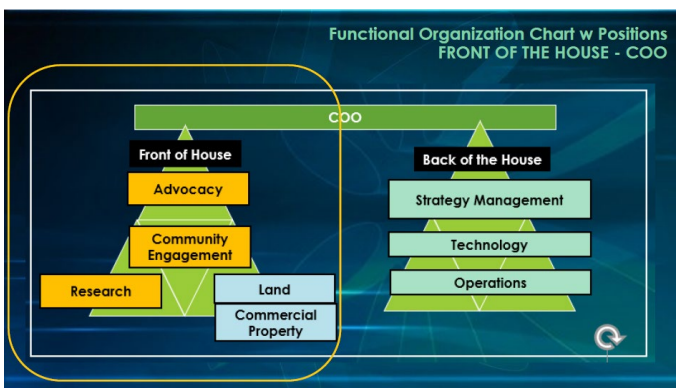
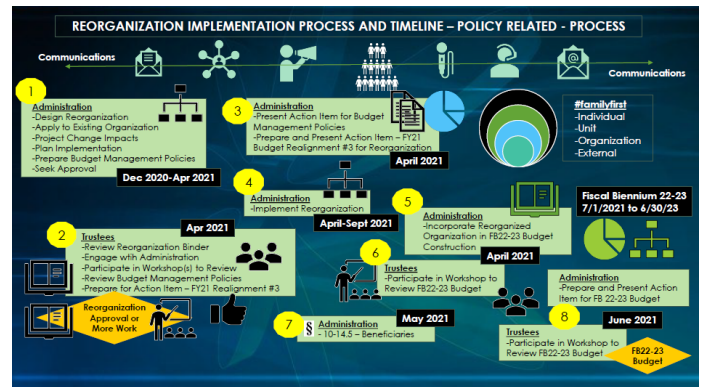
Pouhana Hussey: That depends on you today. If you feel that you need another workshop, that's totally up to you and that's why we put the (s) in the workshop(s).

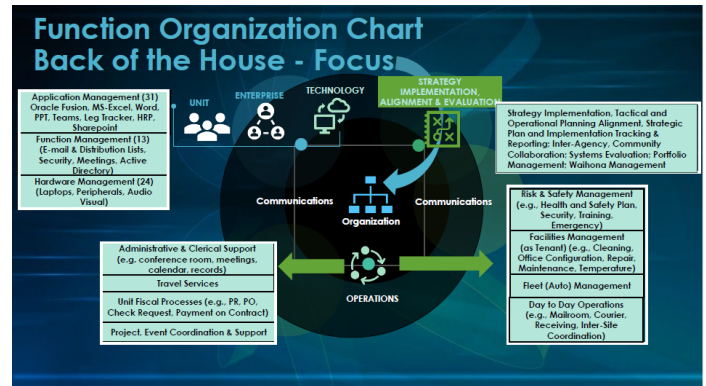
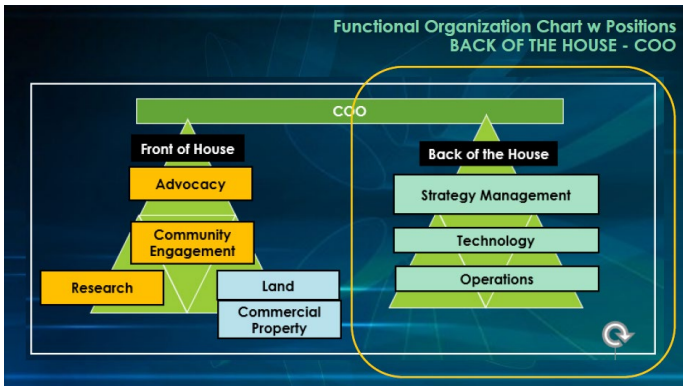
Trustee Lee: I do.

Trustee Keola Lindsey: I second that - I think I also would like another workshop. We're issuing that request now.

Trustee Hulu Lindsey: Yes, I think another workshop is good. This is all very new to the Trustees and we need to understand what our Agency is going to look like. Whether our CEO makes the decisions or not; the Trustees are responsible for the end result of the success of this. So, we need to thoroughly understand how this reorg. affects our Agency and also how it's impacting our employees. That's my mana'o.

Pouhana Hussey: Chair Waihe'e, we have our Counsel online. So, if the Trustees want to go into Executive Session, we have Counsel online - ready for that discussion.





Chair Waihe'e: Okay, members. We have scheduled an Executive Session if that's something you guys want to do. If you feel like you want to discuss matters that are more appropriate in an Executive Session, we can do that.

Trustee Lee: I actually have a question for you, Chair. There are questions I have that can only be asked in Executive Session. But given that, it seems like the sense of the Board is that we want at least another workshop on this. I'm wondering if maybe my questions would be better held off until we have another workshop - and the Trustees have more time to review and digest the binder. I will leave that with the Chair and if the Chair feels that that's more appropriate, then I would be willing to forego Executive Session for today's meeting.

Chair Waihe'e: We could do that; we could do it now and do it again. I mean, I don't know if maybe this committee thinks we've had a full day, or they want to put it off until the next one, that's fine too.

Trustee Hulu Lindsey: I think we should have Executive Session now and hear each other's questions so that we can move forward for the next workshop with the questions that are asked today.

VI. EXECUTIVE SESSION‡

Trustee Hulu Lindsey moves to resolve into Executive Session pursuant to *HRS § 92-5(a)(4)*.

Trustee Akaka seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **Roll Call Vote**.

							3:01 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA			X			
KALEIHIKINA	AKAKA		2	X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY	1		X			
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				9	0	0	0

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION CARRIES**.

The committee resolved into Executive Session at 3:01 p.m. to discuss:

VI. EXECUTIVE SESSION‡

A. WORKSHOP: Reorganization Purposes, Design, Application and Projected Outcomes

Consultation with Board Counsel Robert G. Klein Esq. Corporate Counsel Raina P.B. Gushiken Esq. and OHA Attorney Anna Elento-Sneed, Esq. regarding questions and issues pertaining to the Board's powers, duties, privileges, immunities and liabilities related to reorganization purposes, design, application and projected outcomes, pursuant to HRS § 92-5(a)(4).

The committee returned to Open Session at 4:44 p.m.

VII. ANNOUNCEMENTS

Chair Waihe'e reports that the Committee met in Executive Session to discuss the Reorganization and did not take any action.

VIII. ADJOURNMENT

Trustee Hulu Lindsey moves to adjourn the RM meeting.

Vice Chair Alapa seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							4:46 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA						Departed at 4:30 p.m.
DAN	AHUNA						Departed at 4:06 p.m.
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY	1		X			
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				7	0	0	2

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e adjourns the RM meeting at 4:46 p.m.

Respectfully submitted,

Melissa Wennihan
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management (RM) on May 25, 2021.

Trustee John Waihe'e, IV
Chair
Committee on Resource Management

PHONE (808) 594-1888
Committee on Resource Management
Trustee John Waihe'e IV, *At-Large* - Chair
Trustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair
Members

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*



FAX (808) 594-1865

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, May 25, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477,
Webinar ID: 941 3011 4084

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Nineteenth Supplementary Proclamation dated April 9, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 941 3011 4084

AGENDA

- I. Call to Order
- II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- III. Approval of Minutes
 - A. April 20, 2021
 - B. May 11, 2021
- IV. Unfinished Business – None
- V. New Business
 - A. ACTION ITEM RM #21-06: Approval of FY21 Budget Realignment #3 –
Core (Personnel and Non-Personnel) and Non-Core Budgets†
 - B. Workshop: T-Trustee Level Draft Policies related to Endowment Strategy:
Endowment Investment Policy, Spending Policy, Debt Policy; and
C-CEO Level Draft Policies related to Treasury Management
 - C. Workshop: Preliminary OHA Biennium Budget for the Fiscal Biennium Periods
2021-2022 (FY22) and 2022-2023 (FY23) – pre beneficiary sharing
- VI. Announcements
- VII. Adjournment

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
560 N. NIMITZ HIGHWAY, SUITE 200
(VIRTUAL MEETING - VIA ZOOM WEBINAR)
COMMITTEE ON RESOURCE MANAGEMENT
MINUTES**

May 11, 2021 1:30 p.m.

ATTENDANCE:

Chairperson John Waihe'e, IV
Vice-Chairperson Luana Alapa
Trustee Leina'ala Ahu Isa
Trustee Kaleihikina Akaka
Trustee Keli'i Akina
Trustee Brendon Kalei'aina Lee
Trustee C. Hulu Lindsey
Trustee Keola Lindsey

EXCUSED:

Trustee Dan Ahuna

LEGAL COUNSEL:

Anna Elento-Sneed, Esq.

BOT STAFF:

Crayn Akina
Melissa Wennihan

ADMINISTRATION STAFF:

Sylvia Hussey, CEO / Ka Pouhana / Administrator
Casey Brown, COO / Ka Pou Nui
Daniel Santos, IT
Erin Nakama, IT
Everett Ohta, Corporation Counsel
Kai Mana Peres-David
Raina Gushiken, Corporation Counsel
Ryan Lee, Interim Investment Manager

GUESTS:

Craig Chaikin, Segal Marco Advisor

I. CALL TO ORDER

Chair Waihe'e calls the Committee on Resource Management meeting for Tuesday, May 11, 2021 to order at **1:30 p.m.**

Chair Waihe'e notes for the record that **PRESENT** are:

MEMBERS			AT CALL TO ORDER (1:30 p.m.)	TIME ARRIVED
CHAIR	JOHN	WAIHE'E, IV	PRESENT	
VICE CHAIR	LUANA	ALAPA	PRESENT	
TRUSTEE	LEINA'ALA	AHU ISA	PRESENT	
TRUSTEE	KALEIHIKINA	AKAKA	PRESENT	
TRUSTEE	KELI'I	AKINA	PRESENT	
TRUSTEE	BRENDON KALEI'AINA	LEE	PRESENT	
TRUSTEE	CARMEN HULU	LINDSEY	PRESENT	
TRUSTEE	KEOLA	LINDSEY	PRESENT	

At the Call to Order, **EIGHT (8) Trustees are PRESENT**, thereby constituting a quorum.

EXCUSED from the RM Meeting:

MEMBERS			COMMENT
TRUSTEE	DAN	AHUNA	MEMO RECEIVED – REQUESTING TO BE EXCUSED

Chair Waihe'e would like the record to show that some materials were received more recently than 72 hours ago, and that deadline per practice has been duly waived.

II. PUBLIC TESTIMONY on Items Listed on the Agenda*

None

III. APPROVAL OF MINUTES

A. April 27, 2021

Trustee Lee moves to approve the minutes of April 27, 2021.

Trustee Ahu Isa seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							1:43 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA		2	X			
DAN	AHUNA						EXCUSED
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE	1		X			
CARMEN HULU	LINDSEY			X			
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				8	0	0	1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION CARRIES**.

IV. UNFINISHED BUSINESS

None

V. NEW BUSINESS

**A. Presentation: Office of Hawaiian Affairs, Native Hawaiian Trust Fund,
Final, Analysis of Investment Performance,
Period Ending December 31, 2020,
Segal Marco Advisors – John Marco, Senior Vice President and
Craig Chaikin, CFA, Vice President**

Chair Waihe'e turns it over to Ka Pouhana Sylvia Hussey.

Pouhana Hussey: Thank you Chair, Trustees - we have Craig Chaikin from Segal Marco, and he'll go over the December Analysis. As some of you may remember, our portfolio has preliminary analysis, and then it takes a quarter for all of the Private Equity information to come in and be settled, so Craig is reviewing the December Report. He will also then review the March 31 Flash reports that are available and of course, any questions that you may have on any of the topics.

Craig Chaikin: Thank you, I'm going to share my screen and I apologize when I'm sharing my screen, I can only see about five faces. So, if you do have a question, or want me to stop, feel free just to start yelling at me.

To start off here, just taking a quick look at the markets. I think we had reviewed, the preliminary results with you in either February or March. 2020 ended very, very strongly. What's going to be kind of fun is when we start looking at the March 31st results, that drops off the first quarter of last year, which had very bad returns. We're actually seeing returns for some individual managers up 60, 70, 80 to 90% for that one-year period now, because you added a very strong equity market run since really March 31st of last year.

You see that here reflected in the numbers in the year-to-date column and the one-year columns. U.S. equities up 20%, developed non-U.S. up about 8%, and then Emerging Markets up 18.3%.

Fixed Income had a very good year as well. Your treasuries started off the year very strong and then as markets moved ahead, I guess I'll call it *worked through the pandemic*, we saw all of the other sectors catch up.

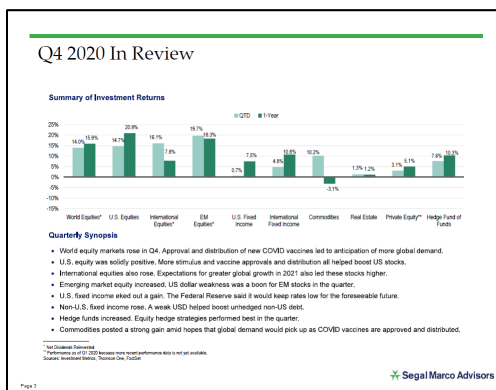
We saw very good returns from Corporate Credit Asset Backed Securities and Mortgage Backed Securities. Certainly, looking down here, 'commodities' was the biggest challenge, mostly due to declines in energy prices or oil prices, which dominates that benchmark.

You do see on the Real Estate side, and that is Direct Real Estate, outside of the properties that you own you don't have a current allocation to that. Certainly, challenging last year as a lot of property valuations were depreciated throughout a good portion of the year income remains strong, predominantly.

Then you do see, Private Equity up about 3% and the Hedge Fund return up 10.3%. Previously we've had some questions about some of the lagging performance that we've seen, and when you look here, and you see the Private Equity returns - just as a group up about 3% for 2020.

You take a look at that top line World Equity up 15.9%. The way that Private Equity is benchmarked in your portfolio is that top line, that MSCI World plus 3%. So, if you think about that the long-term expectation for Private Equity is mid to high double-digit returns. When you have a year like last year that's really looking to get a return of close to 19%, the only place we saw that really was straight equities. We talked about that a little bit last time, that's causing one of the biggest lags that we have seen in the portfolio.

I'm going to stop talking about the market through December once we get to March. I'll catch you up a little bit to what's going on. Certainly, happy to take any questions on that before I look at the portfolio.



Q4 2020 Index Returns

Asset Class	Indices	QTD	YTD	1-Year	3-Year	5-Year	10-Year
World Equity	MSCI World*	13.96	15.90	15.90	10.54	12.19	9.87
U.S. Equity	Russell 3000	14.68	20.89	20.89	14.49	15.43	13.79
Non-U.S. Equity	MSCI EAFE†	16.05	7.82	7.82	4.28	7.45	5.51
Emerging Market Equity	MSCI EM‡	19.70	18.31	18.31	6.17	12.81	3.63
U.S. Fixed Income	Bloomberg Barclays U.S. Aggregate	0.67	7.51	7.51	5.34	4.44	3.84
Non-U.S. Fixed Income	FTSEI Non-U.S. WGBB (Unhedged)	4.82	10.78	10.78	4.63	5.17	1.88
Commodities	Bloomberg Commodity Index	10.19	-3.12	-3.12	-2.53	1.03	-6.50
Real Estate	NFI-OCCE†	1.30	1.19	1.19	4.92	6.21	9.88
Private Equity	Thomson Reuters US Private Equity*	3.09	3.09	5.10	12.2	12.0	13.6
Hedge Funds	HFRF Fund of Funds Composite	7.59	10.34	10.34	4.71	4.46	3.27

*Not Client-Confidential
†Historical figures from 12/31/2019. ‡Original U.S. fixed income index was performance by U.S. Fixed Income Index (2015) and was not available to FTSE by July 31, 2018.
††FTSEI Non-U.S. WGBB (Unhedged) is a U.S. dollar-denominated index of non-U.S. government bonds and is not available to FTSE by July 31, 2018.
†††HFRF Fund of Funds Composite is a U.S. dollar-denominated index of hedge funds and is not available to FTSE by July 31, 2018.
††††Thomson Reuters US Private Equity is a U.S. dollar-denominated index of private equity and is not available to FTSE by July 31, 2018.

Segal Marco Advisors

Craig Chaikin: I see Trustee Lee shaking his head.

Trustee Lee: Craig, you're going to go over a portfolio as of year-end December?

Craig Chaikin: Yes. So, these are the year-end December results I have...

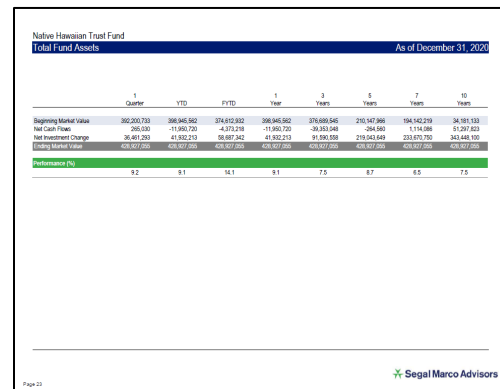
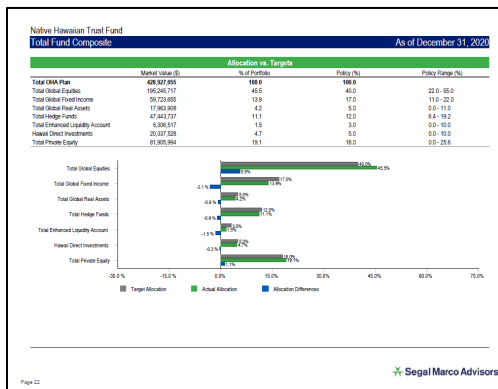
Trustee Lee: Okay. I'll leave it up to the rest of the Trustees, but for myself, I don't really care. Because where we are in the market, this is ancient history. *Right?*

We have current information in front of us and that's what I care about. I probably would have cared more about this in February, not so much in mid-May. If the rest of the Trustees want to hear your report, then I'll leave it up to them. I'll defer to you Chair.

Craig Chaikin: I'll actually be very quick Trustees on this. Looking at the end of the year, we had assets at about \$428.9 million. You can see really due to market returns overweight, to equity, underweight, to fixed income, really the biggest changes.

One of the things that I did want to point out, and it's easiest to see here is what the cash flow has looked like. When you look back over the 10-year history, over 10 years, cash flow has been positive to about \$51 million. When you start taking a look at those 1, 3, 5 year to date numbers, you do see negative returns.

Looking back - and there is a page in the report that I'm not going to cover, but cash flow has been approximately negative by about \$13 million a year over most in the last, I believe, three to five years. So, we have seen that trend, it has continued somewhat. The reason I point that out is because as you're trying to grow assets, it takes longer to grow assets when you are cash flow negative versus cash flow positive.



Trustee Ahu Isa: Craig, I know you're talking but sorry, I agree with Trustee Lee, because we do have a workshop after this and it's going to take quite a bit of time. Since this is a December thing, if we could spend a little more time on the last quarter, if you have results for that.

Craig Chaikin: I just wanted to bring up the cash flow issue because it is something to think about. If you're looking at the assets over time - it will either state flat or slightly decline because you do have to make up the cash outflow plus some on the spending policy.

Trustee Ahu Isa: I understand, Thank you.

Craig Chaikin: The last number I'll cover is year-to-date. Last year, your portfolio ended up 10.7%. As I mentioned there, the big lag really had to do with the Private Equity Returns.

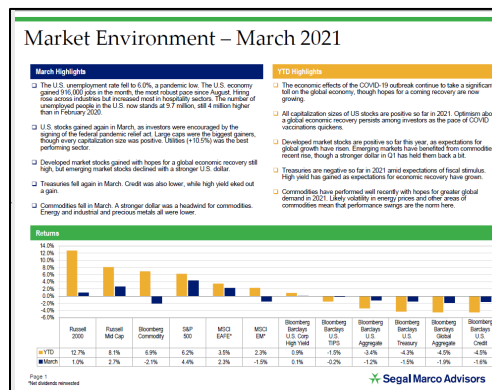
V. NEW BUSINESS

B. Presentation: Office of Hawaiian Affairs, Native Hawaiian Trust Fund, Preliminary, Analysis of Investment Performance, Period Ending March 31, 2021, Segal Marco Advisors – John Marco, Senior Vice President and Craig Chaikin, CFA, Vice President

Craig Chaikin: March. So, the markets continued to rally in the first quarter. The big changes that we've seen from 2020 was that we've seen value come back in favor, and we've seen lower quality do significantly better.

The other big change that we have seen so far in 2021 is a market increase in interest rates. What that has meant is interest rates go up, bond prices go down. So, we have seen negative returns from fixed income really across the board.

The only segment of the fixed income market that is in positive territory year-to-date, is high yield. You will see that reflected when we look at results on the next page.



Craig Chaikin: We don't have April in front of you, but I will say equity markets added anywhere between about 5% and 8% in the month of April. The trend in fixed income continued through April.

I will say May had started off pretty good until the last couple of days when due to some inflationary concerns, some earnings pressures we've seen a pretty significant pullback, especially in technology names. Which had done extremely well last year.

Taking a look at the last quarter, you see assets here increased about \$433.3 million. Quarter to date return 2.6% relative to the benchmark of 2.3. That lagged benchmark takes a look at the last quarter for the MSCI World, for that Private Equity Index, since we don't yet have Private Equity Returns.

The source of outperformance was pretty good returns across the board from the underlying portfolio holdings. You can see Global Equities outperforming by about 40 basis points on the fixed income side, which you do see outperforming by about 1.5%. That has to do with some duration positioning as well as the underlying holdings outperforming their respective benchmarks.

The global rail assets benchmark, you can see the underlying holdings, real assets, natural resources, rates. Those had pretty decent quarters, the benchmark here, again, this one actually worked in your all's favor. The benchmark here is tips, plus 3% tips were negative for the period of the due to the interest rate movements that I was talking about. Performance like that really helped throughout the quarter.

I'm not going to touch on a lot of the other stuff, because we don't have final returns for everything here.

Same thing here with the Hawai'i direct investments.

[illegible][illegible]

Native Hawaiian Trust Fund		As of March 31, 2021	
Asset Allocation		Total Fund	%
	(%)		
Total Public Funds	6,886.18	1.1	
(1) Investment	6,886.18	10.0	
California State General Fund	1,122.00	1.6	
Hawaiian Trust Fund	101.078	0.0	
US Armed Forces Credit Fund	1,000.922	1.4	
Legislative Council Asset Credit Offsets	1,762.380	2.5	
Total Public Funds	8,746.240	12.4	
Commonwealth National Resources: Fisheries	0.00	0.0	
JP Morgan Asset Serv LLC (JP) Fund 1	42.268	0.1	
JP Morgan Asset Serv LLC (JP) Fund 2	81.248	0.1	
Fidelity Investments	1,522.251	0.1	
Commonwealth National Resources	6,940.794	0.1	
Total Hedge Funds	7,066.561	10.3	
Columbia Asset Serv Company	26,217.452	38.2	
PACCC Trust Fund	24,048.400	35.2	
Total Real Estate Assets	5,086.158	7.4	
2009A - 1st Lien CMBS Fund (CMBS2009C)	2,085.108	3.0	
Hawaii Trust Fund	30,135.354	44.1	
CMBS Fund	22,012.074	32.5	
Cash Hedging Transfer		0.0	

Craig Chaikin: That Real Asset Fund 6.1% returns, we saw a resurgence in commodities. That benchmark against tips plus 3% which was somewhat challenged. Then all the Private Equity returns, you can see pretty, much, zeros across the board, because we don't have any of those numbers yet. I would expect some marginal enhancement to that 2.3 once all those numbers do come in.

I'll stop there and happy to take any questions.

[illegible][illegible]

Chair Waihe'e: Members, *are there any questions?*

Trustee Ahu Isa: I have a question about inflation. *Does inflation help the banks or the financial sector?* Or do we not have to worry about it because the Fed's are not going to...

Craig Chaikin: The answer on inflation is really - it depends on how much inflation there is. I think there's a general thought that inflation itself is bad. If you're actually at zero or you're in a deflationary environment, it actually means you are shrinking. There is a certain level of inflation that is good, the Fed has a target of inflation at 2.5%. We haven't really seen it creep into those areas quite yet.

Craig Chaikin: At least from my perspective, it seems like the equity and fixed markets might be a little bit ahead of where inflationary pressures are actually coming into effect. To the comments you made, I think the Fed probably has a pretty good handle on what they want to see and how they might want to manipulate rates to keep inflation under control. GDP ended the first quarter up about 6.4% but as a reminder, our economy actually shrunk by about 2.5% in 2020. We're probably on the front end of that; seeing if there are inflationary pressures and if the market is anything – it is forward looking and does not always get it right.

Trustee Ahu Isa: *When you look at all of our investments, is there anything in there about Bitcoin or something like a Bitcoin? Does any of our, our investments get into that?*

Craig Chaikin: Not specifically, at this stage. It's possible with some of the underlying Private Equity funds or Hedge funds – they may have small allocations to it, but I don't have that offhand in front of me. There is no strategic allocation to cryptocurrency currently.

Trustee Ahu Isa: *Do you know if most of our funds deal with global, like climate change, or is there some way of organizing or classifying our investments into themes? When we look at it, you know what I mean?* The theme-basis instead of just looking at profit.

Craig Chaikin: The way that the report is organized is based on the investment policies, so by Global Equity, Global Fixed income, the Hedge Fund portfolio of Private Equity. Currently, the Trust does not have a specific ESG mandate or specific ESG goals. JP Morgan does have the ability to include funds leaning those directions inside of their mandates. You do also have the option to add ESG options. I guess I would call it on the margin at this stage or even moving forward.

Trustee Ahu Isa: I just the ask that, because the UH Foundation is looking at that. Thank you.

Chair Waihe'e: Thank you. *Are there any other questions, members?*

There are no further questions.

Chair Waihe'e: With that, thank you, Craig.

Craig Chaikin: Thank you all very much.

V. NEW BUSINESS

C. Workshop: FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets†

Chair Waihe'e turns it over to Ka Pouhana Sylvia Hussey.

Pouhana Hussey: Thank you. Trustees, I'm going to pull up the PowerPoint just to give a summary of the Budget Realignment being proposed by Administration and then leave it open for questions on any of that.

The Budget Realignment by Budget Policy - whenever there is a need to reforecast the Budget, a Budget Realignment is done through Budget Adjustments or smaller transfers within the parameters. A Budget Realignment is brought to the Trustees when there are larger items to realign.

At this point, we're 10 months into the Fiscal Year so these are the reasons why we have brought a Realignment. First is from the realignment period in June of 2020, there have been a number of action items that the Trustees have enacted that we need to reflect in the Budgets. There have been transfers of authorities as well as awards for grants and re-awards. So that is among the reasons we need to bring a Budget Realignment to you.

The second is for an unbudgeted item of a Proof of Concept Resource for the Wahiawā Legacy Lands in \$150,000 of requests through the University of Hawai'i at Mānoa's Community Design Center. That is included in the Budget Realignment.

The third realignment is to reallocate Programmatic Sponsorships. As you recall, Board and CEO Sponsorships are on moratorium as a result of the 2018 Action Item. These are programmatic dollars that were approved by the Board in realignment number two, but we're not expended and therefore have the opportunity to be re-awarded in the Budget Realignment process for Fiscal Year 2021.

It is also an opportunity to give some guidance as to Sponsorships and the Ad-hoc Committee's work that was discussed in last week's Policy workshop and that Administration will be working with the Ad-hoc Committee leadership on bringing forward to the Trustees a close out report with the related recommendations.

The reallocation and proposed items here are for a part of the realignment. The third reason is to award additional grants for Iwi Kupuna, 'Ohana Community and COVID-19 grants. The Iwi Kupuna grants came forward to you already so this is recommending an additional award as well as the 'Ohana and Community grants are coming to you next week Tuesday.

You have already received the background information from which to review, and the actual Action Items will be at the Joint meeting next week.

The last item is a reserve for reorganization costs. Like all reserves, it is an estimate - it is not an authorization and so the estimates given what we know at this point is what we are asking the Trustees to reserve.

The actual approvals would be sought in a separate action, as well as the actual funding. Anything that is reserved would need to come out of Fiscal Stabilization Funds by policy. In this Budget Realignment, we're asking for a reserve pending more information on what the actual final amounts would be.

Last but not least, is a non-core alignment for the Native Hawaiian Revolving Loan Fund. The updated budgets as approved by the Administration for Native Americans is a part of this realignment for the Revolving Loan Fund. In highlight, those are the five major pieces of the Budget Realignment, and all of the underlying schedules have the details to that. I'll stop here if there are any questions or if you want to go into some of the detail schedules for any of these items.

Chair Waihe'e: *Are there any questions on this part of the presentation?*

Trustee Hulu Lindsey: I just wanted to alert our CEO that the figures she has up there for Reorganization is different than the figures in our agenda binder today.

Pouhana Hussey: That's correct. Chair Waihe'e and Trustees, when we sent out the initial amount in the folders on Saturday, and then scrubbed and reviewed the numbers and provided some updated schedules. Yes, it is different in terms of the estimates that are made. The current estimates that we are projecting is the \$1,060,000 that's in the updated schedules.

Trustee Lee: *Was that in the slides that were sent out this morning?*

Pouhana Hussey: The \$1,000,060; yes, it was in the memo. Correct.

Trustee Keola Lindsey: The question I have is for the five purposes of the realignment. *Are some of those funds for the five purposes, carrying over from FY20 to FY21? Am I seeing that correctly?*

Pouhana Hussey: To the extent that there are purchase requisitions; those are the committed and purchase orders, which are the encumbered. To the extent that they are in place, that is already being part of the carry over. The items that you are seeing here would be a reservation of authority to carry over.

For example, the sponsorships would be expended before year-end, or committed before year-end. Any of the design elements for the \$150,000 would be committed in a purchase order as well. To the extent that we are asking for this, it is to commit and therefore expend in the future year, but the budget authority is being asked in for FY21.

Trustee Keola Lindsey: *Those processes to confirm the commitments are ongoing right now?*

Pouhana Hussey: Correct. Good question, as an example, any awarding of grants. This Budget Realignment is asking for the authority, but the actual award to the specific grantee would come back in an Action Item to the Trustees. In the Budget Realignment, you'll see an estimate of \$50,000 for Iwi Kupuna and other grants. A separate Action Item will come forward to you as to the specific awarding of that \$50,000. The Budget Realignment is to approve the budget and then the award will come back to you in a separate Action Item.

Trustee Keola Lindsey: *Will those Grant categories be re-solicited and then applications reviewed or is an awardee already in place previously?*

Pouhana Hussey: It would allow to fund further down. As you remember, some of the grantees we couldn't fund 100% of what they asked for because of the constraint on the funds. This would allow for further funding, again, based on quality scoring, and so the grants program have recommendations for that. They also have recommendations that you will see in next week Tuesday's Action Items of moving funds from Lāna'i allocations to Moloka'i allocations as an example, because there were no applications. So, you'll see that in the separate action items coming to you for Tuesday's meeting,

Trustee Lee: To follow up on what Trustee Keola Lindsey was asking. *We're currently in FY2021, correct? So those sponsorship funds, they're lapsing over from FY2020?*

Pouhana Hussey: These are from FY2021.

Trustee Lee: Okay, so we already took care of 2020 back then and reallocated it and everything. We didn't know where we would be with sponsorships for 2021. So, it was budgeted for fiscal 2021 and not that we didn't use it, we're fiscal stabilizing by moving it so that we can encumber it before 2022.

Pouhana Hussey: Right and based on the current practice, as long as the Trustees approve the award, that's sufficient enough to encumber. So, we don't have to contract.

Trustee Lee: That answers my question. Thank you.

Trustee Keola Lindsey: If the funds are approved to go into reserve, but they're not used - *that second action item to approve the use of the reserve doesn't happen? What happens to the funds that go into those?*

Pouhana Hussey: That specific Reorganization Reserve, we note that in the reserve - it's under the Fiscal Stabilization Policy. So Fiscal Stabilization Policy allows for payout of previously reserved or contingent items. So, this reserve would be noted as such, it's a reserve of Budgetary Authority, and when the actual Action Item comes forward to be paid, or to be distributed as we know it, then we will come back with a specific Action Item to pay that out of Fiscal Stabilization. So, the reserve is exactly that, it's a reserve, it's not an authority to spend. It's just a reserve, and it's based on an estimate.

Trustee Keola Lindsey: Thank you.

Trustee Ahu Isa: Following up on what Trustee Keola Lindsey said. Number three, Reserve and designate \$1,060,000 for the purpose of addressing re-organization related costs. *So, when you put it in that reserve, and you don't use it, you're just doing this so that we don't lose it? Is that encumbering it in this reserve?*

Pouhana Hussey: In the Fiscal Stabilization, it's realizing that we have a known contingency for that. At a minimum, we have all the accrued vacation that needs to be paid for any separation. That is an obligation that we know, we don't know, what the final will be. So, the reserve is so that it is established there, it is a known, it's the best estimate. Then when we know, then we bring it out and then we can pay it on that reserve.

Trustee Ahu Isa: Okay, so we still don't know what the fringes are. We have to pay for all the fringes. Before the State used to pick it up.

Pouhana Hussey: Right. Part of the Budget FY22-23 workshops that are coming to Trustees next week, will be the estimates of the fringe. We estimate based on 63% in the past, we are running about 53% actual. So, part of projecting into FY22-23 is managing that. We also know because we don't receive general funds, as we did in the past for a million dollars in payroll, the related fringe for that is something that OHA needs to pick up. So good point, Trustee that we do need to account for that element of funding.

Trustee Ahu Isa: Okay, thank you. I just wanted to add that I don't think he will veto that bill. So, we're still going to have more money coming in - the general fund money.

Trustee Lee: Before I add my comments - because I'm sure Sylvia is going to comment about this. That 3 million dollars that they're going to give us Trustee Ahu Isa - was already encumbered for Fiscal Year 2020. So, it's not like we're going to have that money to use going forward. That money - we're in the hole from using that for 2020. So, it's paying us back.

Just real, quick, Sylvia. While I appreciate the detail of this workshop, and the report that we got, I don't appreciate getting it two days before the workshop. I'm not sure about the rest of the Trustees, but I am not a CPA nor am I an accountant. So, it takes me a while to go through this to digest it. So that I understand. So that I come to this workshop, at least, with a base understanding of what we're going to be talking about. So that I can ask intelligent questions.

We never used to get reports or product like this so close to a meeting. To my knowledge, the three years that I've been a Trustee, we've been given at least two weeks to have this type of material to go over and possibly talk with Administration or anything before we came before a Committee or the Board for a workshop. I just wanted to add that in, and that seems to have been a theme so far this year for 2021 and I don't appreciate it.

I don't like that we're getting this two days before we're going to go over it. In my opinion it is unacceptable. So, thank you, Mr. Chair.

Chair Waihe'e: Thank you.

Pouhana Hussey: I agree, Trustee Lee, that is unacceptable. That is not the intent, ever, of Administration. I also want to acknowledge that the reason it is so close is because we're trying to figure out all of the puzzle pieces and all of the moving parts. While it is a workshop versus the actual Action Item, your point is duly noted in terms of providing Trustees with information on critical decisions, whether it's Reorganization, Budget, Budget Realignment - so duly noted. We agree as well.

Trustee Lee: To your point, Sylvia - that today isn't decision making, but the intent and purpose of this workshop is to inform us for that decision making. So, if we're coming to this workshop to inform us but yet we don't know, then it defeats the purpose of the workshop.

Trustee Hulu Lindsey: I'd like to move that we defer Item VI. Executive Session.

Chair Waihe'e: My understanding is that was in case any questions arose where we would require it.

Trustee Ahu Isa: *Is that a motion?*

Trustee Hulu Lindsey: Yes, it was a motion.

Trustee Ahu Isa: I second the motion.

Trustee Lee: We don't need a motion to defer going into Executive Session. If we don't move to go into it, then we just don't go into it, but we don't need to defer Trustee Hulu Lindsey. It's not an action, if this was an Action Item, we would need to defer it but there is no action to go into Executive Session.

But I do have a question. Mr. Chair, about not going into Executive Session. We didn't really go over anything on the Budget. All we were asked is if we have any questions on what we were provided, how the funds for the sponsorships are being rolled over for Kūkaniloko and Iwi Kupuna grants. There was zero discussion about personnel and non-personnel issues. *So, is Administration not going to present anything on that for us to possibly discuss in Executive Session? Is that what Administration is doing or not doing?*

Pouhana Hussey: The workshop was just the workshop and the personnel and non-personnel was just to illustrate that in Budget Realignment, we're realigning both personnel and non-personnel costs at the same time. Any issues regarding Fiscal Biennium 22-23 Budgets would be in the next workshop. We didn't intend to bring any personnel matters, other than the budgetary impacts reflecting all of the changes, and then the reserve for the Reorganization. That was our only intent at this workshop.

Trustee Lee: Okay, so then that being said, and stop me, Sylvia, if you think this needs to be discussed in Executive Session. I believe it was 1.6 million dollars for possible vacation payout for the for the reorg. *So, what happens if we don't go through with that?*

Pouhana Hussey: So, the \$1,060,000 is just the reserve that we're asking for. The decision about how that's spent, what that's comprised of is a subsequent discussion regarding the entire Reorganization that still needs to be brought to the Trustees, along with budget items.

Trustee Lee: Okay, I just want to because this is a big issue. So, I just want to make sure that Administration and the Trustees are on the same page. So, because this is just a workshop, nothing has come forward, and part of the workshop is a possibility of a 1.6 million-dollar-reserve in case we do a reorg.

Pouhana Hussey: \$1,060,000 reserve.

Trustee Lee: I'm sorry, yeah, 1.06 million - sorry.

Pouhana Hussey: It's just a reserve to be recorded. When we bring the action item, it'll be there to do that. Any actions regarding reserves are also brought forward on separate Action Items to un-designate and designate new reserve items. We would bring all of that together as well.

Pouhana Hussey: To the earlier discussion from Trustee Ahu Isa, the Board approved 3 million dollars in reserves from Fiscal Year 20. Depending on whatever happens, Administration will bring forward recommendations for doing what is needed. So that entire discussion of reserve would be a separate discussion as a reserve topic, and the reorganization topics still needs to be brought back to the Trustees for the decisions that are needed.

Trustee Lee: Okay, that being said - I have another quick question that I may or may not ask right now. So, Mr. Chair, in your opinion is the Native Hawaiian Trust, because it feeds into our budget - a part of the privileges and liabilities and so on of the core personnel and non-personnel budgets - I have a question about it, but I do not want to ask it in open session.

Chair Waihe'e: *Can I get some legal advice on what I should do?*

Senior Legal Counsel Gushiken: Good afternoon Chair and Trustees. To the extent that Judge Klein is not on the Zoom meeting, I can be in Executive Session. If there's a question that needs to be addressed in Executive Session, as it relates to the Native Hawaiian Trust Fund and any Budget Realignment issues - in the context of the Budget Realignment issues that were raised by Ka Pouhana this afternoon. It's always better to err on the side of caution, if it will concern liabilities and responsibilities of the Trustees with respect to the Trust. That discussion can be had in Executive Session.

Trustee Lee: In that case Mr. Chair, I move that we go into Executive Session.

VI. EXECUTIVE SESSION‡

Trustee Lee moves to resolve into Executive Session pursuant to *HRS § 92-5(a)(4)*.

Trustee Keola Lindsey seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							2:17 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			2 - X		1 - KANALUA	
DAN	AHUNA						EXCUSED
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			2 - X		1 - KANALUA	
VICE-CHAIR LUANA	ALAPA			2 - X		1 - KANALUA	
BRENDON KALEI'ĀINA	LEE	1		X			
CARMEN HULU	LINDSEY			X			
KEOLA	LINDSEY		2	X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				8	0	0	1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION CARRIES**.

The committee resolved into Executive Session at 2:17 p.m. to discuss:

VI. EXECUTIVE SESSION‡

- A. *Consultation with Board Counsel Robert G. Klein, Esq., regarding questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities related to Core (Personnel and Non-Personnel) and Non-Core Budgets, pursuant to HRS § 92-5(a)(4).*

The committee returned to Open Session at 2:30 p.m.

VII. ANNOUNCEMENTS

Chair Waihe'e reports that the Committee met in Executive Session and consulted with OHA Attorney and Corporation Counsel related to Budget.

VIII. ADJOURNMENT

Trustee Hulu Lindsey moves to adjourn the RM meeting.

Trustee Akaka seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							2:32 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA						EXCUSED
KALEIHIKINA	AKAKA		2	X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY	1		X			
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				8	0	0	1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e adjourns the RM meeting at 2:32 p.m.

Respectfully submitted,

Melissa Wennihan
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management (RM) on May 25, 2021.

Trustee John Waihe'e, IV
Chair
Committee on Resource Management

PHONE (808) 594-1888
Committee on Resource Management
Trustee John Waihe'e IV, *At-Large* - Chair
Trustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair
Members

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*



FAX (808) 594-1865

**STATE OF HAWAII'
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, May 25, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477,
Webinar ID: 941 3011 4084

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Nineteenth Supplementary Proclamation dated April 9, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 941 3011 4084

AGENDA

- I. Call to Order
- II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- III. Approval of Minutes
 - A. April 20, 2021
 - B. May 11, 2021
- IV. Unfinished Business – None
- V. **New Business**
 - A. **ACTION ITEM RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets†**
 - B. Workshop: T-Trustee Level Draft Policies related to Endowment Strategy: Endowment Investment Policy, Spending Policy, Debt Policy; and C-CEO Level Draft Policies related to Treasury Management
 - C. Workshop: Preliminary OHA Biennium Budget for the Fiscal Biennium Periods 2021-2022 (FY22) and 2022-2023 (FY23) – pre beneficiary sharing
- VI. Announcements
- VII. Adjournment


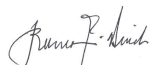


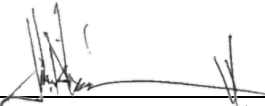


ACTION ITEM

COMMITTEE ON RESOURCE MANAGEMENT May 25, 2021

RM #21-06

Action Item Issue: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

Prepared by:	 Grace Chen 'Aho Hui Mo'ohelu, Budget Analyst	05/21/2021 Date
Reviewed by:	 Ramona G. Hinck Ka Pou Kihi Kanaloa Wai, Chief Financial Officer	05/21/2021 Date
Reviewed by:	 Casey K. Brown Ka Pou Nui, Chief Operating Officer	05/21/2021 Date
Reviewed by:	 Sylvia M. Hussey, Ed.D. Ka Pouhana, Chief Executive Officer	05/21/2021 Date
Reviewed by:	 Ke Kua, Trustee John D. Waihee, IV Luna Ho'omalua o ke Kōmike Resource Management Chair of the Committee on Resource Management	5/21/2021 Date

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

I. PROPOSED ACTIONS

Administration recommends that the Board of Trustees (BOT) approve, the following actions:

A. **Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY 20) and 2020-2021 (FY 21) – Realignment #3**

Motion #1: Approve OHA’s Total Fiscal Budget Realignment #3 for Fiscal Biennium Periods 2019-2020 (FY 20) and 2020-2021 (FY 21) as outlined in ATTACHMENT 1, with the exception of the \$5,000 additional event sponsorship (total \$15,000) for the Prince Lot Hula Festival, an event sponsored by the Moanalua Gardens Foundation.

Motion #2: Approve additional \$5,000 event sponsorship (total \$15,000) for the Prince Lot Hula Festival, sponsored by the Moanalua Gardens Foundation.

B. **Fiscal Stabilization Policy**

Motion #3: Reserve and Designate¹ an amount of **\$1,060,000** in unspent, uncommitted, unencumbered funds from FY 2021, for the purpose of addressing projected reorganization related costs.

II. ACTION ITEM ORGANIZATION

Action Item RM #21-06 is organized in the following manner to support the above recommended actions:

Section III – POLICY BASIS – Budget Management Policies

Section IV – BACKGROUND – Budget Realignments

Section V - FISCAL BIENNIUM 20-21 – Realignment #3 Discussion

Section VI – RECOMMENDED ACTIONS

Section VII – ALTERNATIVE ACTIONS

Section VIII - REFERENCE ACTION ITEMS, WORKSHOP MATERIALS

Section IX – ATTACHMENTS

III. POLICY BASIS – Budget Management Policies

As recently approved by the Board of Trustees (“BOT” or “Board”), Action Item RM #21-05 - Amendment to Executive Policy Manual Section, Budget Management Policy, April 20, 2021²:

A. 3045 BUDGET MANAGEMENT POLICY, 3.45.c. As the biennium budget is prepared and authorized only once every two years, in accordance with the State’s biennium, it may be necessary to update and make adjustments to the budget for various changes that may have occurred since

¹ Designate=specifically identify, plan for, reserve; Trustee authorization and approval, via Action Item, is still needed to activate and disburse the designated or reserved funds.

² 1st Reading, BOT Meeting, April 22, 2021; 2nd Reading, BOT Meeting, April 29, 2021

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

the budget was approved. Significant changes to the budget are made through budget realignments. A budget realignment is generally a reforecasting of the total budget. Budget realignments are prepared by the CEO through the CFO and presented to the BOT for approval.

B. 3046 FISCAL STABILIZATION POLICY. As defined in the new Executive Policy Manual Section 3046 – FISCAL STABILIZATION POLICY: “**Reserve**” means something stored or kept available for future use or need, money or its equivalent kept on hand or set apart usually to meet liabilities. **Reserves.** The Fiscal Stabilization Fund may be used to activate previously designated reserves.

IV. BACKGROUND – Budget Realignments

A. Working Definitions. For budget realignment purposes, the following are working definitions:

- “Expenditure” is when cash is disbursed or an accounting accrual is made to recognize the obligation;
- “Committed” is when a purchase requisition is processed; and
- “Encumbrance” is when a purchase order (and related contract if applicable) is completed and processed.

The total of “expenditure”, “committed” and “encumbrance” is collectively known as (projected) “consumption”. The aggregated, projected “consumption” is compared to the approved budget from the previous period and the amount available for realignment is determined as noted in “Adjustments” column immediately following column titled the Realignment #3 requests in “Proposed Realignment #3”, referencing Tables 2 and 3 on the following pages.

B. FB20-21 Biennium Budget – June 2019

The OHA fiscal biennium (FB) budget is prepared every two years, for the ensuing two years. The current biennium budget covers the periods from July 1, 2019 through June 30, 2020 (FY 20) and July 1, 2020 through June 30, 2021 (FY 21) and was approved by OHA’s Board of Trustees (“BOT” or “Board”) on June 20, 2019 via *Action Item RM #19-09, OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY 20) and 2020-2021 (FY 21)*. By policy, the Board has conditioned and limited Administration’s authority for granting authority and budget adjustments to up to \$25,000 and 5% of the expense category up to \$100,000, respectively. Budget adjustments in excess of the stated limitations and parameters must come to the Board for approval. The process for internally adjusting budgets within Administration parameters is triggered by a Budget Adjustment Request Form. The process of updating the biennium budget in excess of Administration’s authority is referred to internally as a “budget realignment”.

C. FB20-21 Biennium Budget, Realignment #1 – September 2019

Subsequently, on September 25, 2019 via *RM #19-17: Realignment #1 of the OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY 20) and 2020-2021 (FY 21)*, the biennium budget was realigned for the following key elements³: OHA’s Total Operating Budget Realignment #1 for fiscal year 2020; Transfer of \$2,000,000 in cash from the Kaka’ako Makai cash account to the Native Hawaiian Trust Fund for use when needed in realizing OHA’s Total

³ One additional item was listed in Action Item RM #19-17 related to an expense reimbursement for a Trustee.

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Operating Budget Realignment #1; Designation⁴ of \$1,445,000 in unspent, unencumbered funds (fka Fiscal Reserve) from FY 2018, for the specific purposes; and the activation of seven (7) frozen OHA staff positions to implement the related proposed Organizational Charts dated 9/4/19 (e.g., systems office, grants).

D. FB20-21 Biennium Budget, Realignment #2 – June 2020

Since the September 2019 biennium budget realignment #1, several matters triggered Board action and a subsequent need to realign FB20-21 a second time, including the following: 1) Suspension of the Act 37 audit by the State Auditor in late December 2019; 2) Completion of fiscal year ended June 30, 2019 financial audits in March 2020; 3) Related implications of the suspended Act 37 audit and non-receipt of approximately \$3MM in FY21 General Funds appropriations; 4) 2020 OHA Legislative package and related actions up until the recess of the State Legislature in March 2020; 5) COVID-19 and the related disruptions to beneficiaries and OHA operations; 6) COVID-19 and the impacts of the world financial markets on the Native Hawaiian Trust Fund and commercial properties (e.g., Na Lama Kukui, Kaka'ako Makai); 7) Progress of the Board Governance Framework projects; 8) Approval of Strategic Foundations, Directions and Strategies for new Strategic Plan 2020-2035 and related implementation planning; 9) *Action Item BOT #20-3 Approval to Fund COVID-19 Responses*, approved on May 7, 2020 in the amount of \$3MM; and 10) Personnel costs, positions and vacancies. Action Item BOT #20-04⁵ received Trustee approval for Administration's budget realignment recommendations to realign FB20-21 given the above considerations.

E. FB20-21 Biennium Budget, Realignment #3 – May 2021

The fiscal biennium (FB) budget for 2019-2020 (FY20) and 2020-2021 (FY21) was authorized and approved by the Board⁶ and subsequently realigned twice by separate action items⁷. As several Board action items have been approved since Budget Realignment #2 (BR2) in June 2020, Administration brings forward in this Budget Realignment #3 (BR3) action item, information incorporating both Board approved action items (since BR2) and proposed BR3 realignments.

1. **Transfer of FY20 to FY21 Budgetary Authority.** Reflect the Board approved transfer and reallocation of \$2,170,000 in budgetary grant authority from FY20 for the purpose of emergency financial assistance grants to: FY21 for the purpose of COVID-19 grants (\$1,170,000); and FY21 for the purpose of 'Ohana and Community grants (\$1,000,000).⁸

⁴ Designate=specifically identify, plan for, reserve; Trustee authorization and approval still needed to activate the designated or reserved funds.

⁵ OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY20) and 2020-2021 (FY21) - Realignment #2, June 18, 2020.

⁶ Action Item RM #19-09: OHA Biennium Budget for the Fiscal Periods 2019-2020 (FY20) and 2020-2021 (FY21), June 18, 2019

⁷ Action Item RM #19-17: Realignment #1 of the OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY20) and 2020-2021 (FY21), September 25, 2019 and Action Item BOT #20-04: OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY20) and 2020-2021 (FY21) – Realignment #2, June 18, 2020

⁸ Via Action Item BAE-RM #21-01, February 10, 2021

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2. **Emergency Financial Assistance Re-Award.** Reflect the Board approved reallocation of the: FY20 (\$8,332) and FY21 (\$830,000) unspent balance of Contract #3363 in the amount of \$838,332 for the purpose of an aggregated emergency financial assistance grant award; Reclassified FY21 \$135,000 (Board Trustees) and \$70,921 (Kaiaulu) Sponsorships for a total of \$205,921 from 56560 Grants in Aid – Sponsorships to 56510 Grants in Aid – Program Grants for the purpose of an aggregated emergency financial assistance grant award; and Awarded, combined total of \$1,044,253 to and contract with Hawai‘i Community Lending for the purpose of an emergency financial assistance grant award.
3. **Budget Realignment #3 Reallocations.** Reallocate a projected total of \$3,716,092, comprised of \$2,148,717 and \$1,567,375 in projected FY21 unspent, uncommitted and unencumbered personnel and non-personnel, respectively, as further detailed below:
 - a. Transfer budget authority from FY20 to FY21 for emergency financial assistance of \$2,178,332⁹;
 - b. Add grant budgetary authorization of \$496,260 to enable additional awarding for Iwi Kupuna and Reinterment, Homestead, ‘Ohana and Community and COVID-19 community program grants; and reallocate and reduce sponsorships by \$18,500 to reflect actual disbursement activity (net \$477,760); and
 - c. Reserve¹⁰ and designate \$1,060,000 for the purpose of addressing projected re-organization related costs.
4. **Kaka'ako Makai.** Rebalance and reallocate \$16,400 of funds for strategic realignment, with no change in total expenditures.
5. **Nā Lama Kukui.** Rebalance and reallocate \$100,603 of funds for strategic realignment, with no change in total expenditures.
6. **Palauca Culture Preserve.** Reflect updates in the FY 2021 Spending Limit as approved in FY20 Realignment #2.
7. **Wao Kele O Puna Management Fund.** Reflect updates in the FY 2021 Spending Limit as approved in FY20 Realignment #2.
8. **Native Hawaiian Revolving Loan Fund.** Reflect updates in the Native Hawaiian Revolving Loan Fund FY20 and FY21 budgets as approved by the Administration for Native Americans.

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⁹ Action Items BAE-RM #21-01, February 10, 2021 and BAE-RM #21-02, March 30, 2021

¹⁰ “Reserve” means something stored or kept available for future use or need, money or its equivalent kept on hand or set apart usually to meet liabilities; Fiscal Stabilization Policy, SECTION II - DEFINITIONS

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V. FISCAL BIENNIUM 20-21 – Realignment #3 - Discussion

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

A. OHA’s Budget, Available Funds and OHA’s Spending Limit

An *appropriation* is an authorization granted by the OHA Board of Trustees or Hawai‘i State Legislature permitting the agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures for specific purposes. An *appropriation* is usually limited in amount and period of time during which it may be expended. The sources of funding available for spending include the following *appropriations* detailed in **Table 1** below:

Table 1: Sources of Funding

Type	Description	Appropriation Number
Core Operating Budget	General Fund appropriations drawn from the State of Hawai‘i	100
	Public Land Trust Revenues (PLT) received annually from various State Agencies conducting business on PLT lands	901
	Matching Fund appropriations by the State of Hawai‘i but drawn from the Native Hawaiian Trust Fund (NHTF)	910
	A portion of the NHTF, and also includes revenues received from 1) past-due settlements dividend and interest earnings received thereon, 2) twenty (20) percent of gross estimated lease and other revenues generated from OHA-owned Kaka‘ako Makai (KM) parcels allocated for grants, and 3) fifty (50) percent of KM’s net income allocated for OHA’s Land Legacy Program ¹¹	930
Core Operating Budget	One-time cash transfer from Kaka‘ako Makai (KM) Revenues generated from OHA-owned parcels to the Native Hawaiian Trust Fund	930
Fiscal Stabilization Authorizations	Appropriations authorized from the NHTF by OHA’s BOT up to a maximum of \$3 million annually pursuant to the Fiscal Stabilization Policy ¹²	935
Commercial Property	Kaka‘ako Makai (KM) Revenues generated from OHA-owned parcels	938

¹¹ Per BOT approved Action Item RM #19-10, Approval of a second amendment to BOT #12-05 – Kaka‘ako Makai properties to the Land Legacy Program, dated August 21, 2019.

¹² Per BOT approved Action Item RM #19-16 Action Regarding a Fiscal Stabilization Policy including Withdrawal Guidelines and the related Elimination of the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy on September 4, 2019.

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Type	Description	Appropriation Number
	Nā Lama Kukui (NLK) Revenues generated from its investment (formerly known as Gentry Pacific Design Center)	939
Legacy Property	Palauea Cultural Preserve – includes a percentage of all home sales within the development	310
	Wao Kele O Puna Management Fund – includes previously-authorized Board appropriations for current and future programmatic needs	315
Other OHA Programs Budget – <i>Federal</i>	Federal-fund appropriations for the Hālawā Lūluku Interpretive Development (HLID) Project	200
	Federal-fund appropriations for the Native Hawaiian Revolving Loan Fund (NHRLF) Program	202
Other OHA Programs Budget – <i>Other</i>	Hawaiian Projects – includes funds collected from Ka Wai Ola advertisement sales and other miscellaneous income	320
	Repayments from the OHA-DHHL Homesteader Loan Program	902

OHA’s biennium budget is comprised of all five *Sources of Funding* as summarized in **Table 2** below, and is discussed herein, to include the following:

1. Core Operating Budget
2. Fiscal Stabilization Fund
3. Commercial Property Budget
4. Legacy Properties Budget
5. Other OHA Programs Budget, fka Special Programs, renamed to avoid confusion with State of Hawai‘i Special Fund¹³.

¹³ Action Item RM #21-02 Approval to Close Native Hawaiian Rights Fund (Special Fund S-331-z1), March 23, 2021

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Table 2: Spending Limit and Adjustments for OHA's FY 2020 Total Operating Budget

Funding Sources	FY 2020					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	FN
	(a)	(b)	(c)	(d)	(e) = (d - c)	
1. Core Operating Budget						
5% of NHTF Portfolio	\$17,692,555	\$17,692,555	\$17,692,555	\$17,692,555	0	
Public Land Trust Revenues	15,100,000	15,100,000	15,100,000	15,100,000	0	
State of Hawai'i General Funds	3,037,879	3,037,879	3,037,879	3,037,879	0	
Allocation of Kaka'ako Makai (KM) Revenues	1,435,610	1,866,436	2,488,155	2,488,155	0	
<i>Made up of...</i>						
...20% Kaka'ako Makai Gross Revenue (Grant Use)	430,826	861,652	861,652	861,652	0	
...Ka'akao Makai True-up of 10% Allocation for FY13-FY18 (Grants Use)	72,206	72,206	72,206	72,206	0	
...50% Ka'akao Makai FY19 Net Revenue (Legacy Use)	932,578	932,578	1,554,297	1,554,297	0	
Sub-total - Allocation KM Revenues	1,435,610	1,866,436	2,488,155	2,488,155	0	
Cash Transfer from Kaka'ako Makai	0	2,000,000	2,000,000	2,000,000	0	
Sub-total - Core Operating:	\$37,266,044	\$39,696,870	\$40,318,589	\$40,318,589	\$0	
2. Fiscal Stabilization Fund (FSF)						
FY 2020 Designation	\$0	\$1,445,000	\$0	\$0	\$0	[A]
Sub-total – FSF:	\$0	\$1,445,000	\$0	\$0	\$0	
[A] FY2020 Designation is updated to reflect Action Item BOT #20-04, Motion #1: Un-designate \$1,445,000 in unspent, unencumbered funds.						
3. Commercial Property Budget						
Kaka'ako Makai	\$10,878,315	\$10,878,315	\$9,815,035	\$9,815,035	\$0	
Nā Lama Kukui	7,909,481	7,312,817	7,312,817	7,312,817	0	
Sub-total – Commercial:	\$18,787,796	\$18,191,132	\$17,127,852	\$17,127,852	\$0	
4. Legacy Properties Budget						
Palauca Culture Preserve	\$419,339	\$419,339	\$419,339	\$419,339	\$0	
Wao Kele O Puna Management Fund	460,918	460,918	460,918	460,918	\$0	
Sub-total -Legacy Lands:	\$880,257	\$880,257	\$880,257	\$880,257	\$0	
5. Other OHA Programs Budget						
Federal-funded						
Halawa-Luluku Interpretive Development	\$4,099,249	\$4,099,249	\$4,099,249	\$4,099,249	\$0	
Native Hawaiian Revolving Loan Fund	902,005	902,005	902,005	1,029,891	127,886	[B]
Sub-total -Federal:	\$5,001,254	\$5,001,254	\$5,001,254	\$5,129,140	\$127,886	
[B] To reflect updates in the Native Hawaiian Revolving Loan Fund (NHRLF) FY2020 budget as approved by the Administration for Native Americans (ANA).						
Others	367,862	367,862	367,862	367,862	0	
Sub-total – Other OHA:	\$5,369,116	\$5,369,116	\$5,369,116	\$5,497,002	\$127,886	
Total Spending Limit:	\$62,303,213	\$65,582,375	\$63,695,814	\$63,823,700	\$127,886	

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Table 3: Spending Limit and Adjustments for OHA's FY 2021 Total Operating Budget

Funding Sources	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	FN
	(a)	(b)	(c)	(d)	(e) = (d - c)	
1. Core Operating Budget						
a. 5% of NHTF Portfolio	\$17,886,701	\$17,886,701	\$17,886,701	\$17,886,701	\$0	
b. Public Land Trust Revenues	15,100,000	15,100,000	15,100,000	15,100,000	0	
c. State of Hawai'i General Funds	3,037,879	3,037,879	0	0	0	
d. Allocation of Kaka'ako Makai Revenues	1,584,327	1,584,327	2,398,735	2,398,735	0	
<i>Made up of...</i>					0	
(1) 20% Kaka'ako Makai Gross Revenue (Grant Use)	839,657	839,657	883,804	883,804	0	
(2) 50% Ka'akao Makai FY19 Net Revenue (Legacy Use)	744,670	744,670	1,514,931	1,514,931	0	
Sub-total - Allocation KM Revenues	1,584,327	1,584,327	2,398,735	2,398,735	0	
Sub-total - Core Operating:	\$37,608,907	\$37,608,907	\$35,385,436	\$35,385,436	\$0	
2. Fiscal Stabilization Fund (FSF)						
FY20 Designation	\$0	\$0	\$3,000,000	\$3,000,000	\$0	
FY21 Designation	\$0	\$0	1,000,000	1,000,000	0	
Sub-total – FSF:	\$0	\$0	\$4,000,000	\$4,000,000	\$0	
3. Commercial Property Budget						
Kaka'ako Makai	\$11,159,058	\$11,159,058	\$8,307,818	\$8,307,818	\$0	
Nā Lama Kukui	7,357,095	7,357,095	6,663,791	6,663,791	0	
Sub-total – Commercial:	\$18,516,153	\$18,516,153	\$14,971,609	\$14,971,609	\$0	
4. Legacy Properties Budget						
Palauea Culture Preserve	\$324,529	\$324,529	\$349,529	\$349,529	\$0	[A], Table 14
Wao Kele O Puna Management Fund	204,308	204,308	300,388	300,388	0	[A], Table 15
[A] The Spending Limit is updated to include the carryover of FY 20 unspent budget as approved in FY20 Realignment 2						
Sub-total -Legacy Lands:	\$528,837	\$528,837	\$649,917	\$649,917	\$0	
5. Other OHA Programs Budget						
Federal-funded						
Halawa-Luluku Interpretive Development	\$428,199	\$428,199	\$3,372,943	\$3,372,943	\$0	
Native Hawaiian Revolving Loan Fund	919,030	919,030	919,030	1,113,485	194,455	[B] Table 16
[B] To reflect updates in the Native Hawaiian Revolving Loan Fund (NHRLF) FY2021 budget as approved by the Administration for Native Americans (ANA).						
Sub-total -Federal:	\$1,347,229	\$1,347,229	\$4,291,973	\$4,486,428	\$194,455	
Others	195,000	195,000	195,000	195,000	0	
Sub-total – Other OHA:	\$1,542,229	\$1,542,229	\$4,486,973	\$4,681,428	\$194,455	
Total Spending Limit:	\$58,196,126	\$58,196,126	\$59,493,935	\$59,688,390	\$194,455	

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A1. Core Budget: Reflects the primary budget consisting of three budget types: operating, project and capital budgets. Operating budget consists of payroll, operations, and program expenditures. A project budget is made up of planned expenditures for particular deliverables having a beginning, middle and end for a duration of 1 to 2-year period (e.g., professional services, other contractors, software, or hardware). Capital budget consists of significant expenditures to acquire, construct or maintain land, buildings, structures and equipment for the duration of 3 or more years. Core budget includes the following four (4) funding sources:

- ***Withdrawals from the Native Hawaiian Trust Fund*** (NHTF) are limited by the Native Hawaiian Trust Fund Spending Policy. This policy limits the withdrawal to five (5) percent of the NHTF's twenty-quarter (20-quarter) rolling average market value, as defined, to ensure that resources held within the trust are available for future spending.
- ***Public Land Trust*** (PLT) ***Revenues*** are received from the State of Hawai'i and have been set at \$15,100,000 (Act 178, SLH 2006) per year, until further legislative action.
- ***Kaka'ako Makai (KM) Revenues*** are allocated to OHA's Core Budget for grant funding and OHA's FY 20 FY 21 Legacy Property management funding. The Board approved allocation of twenty (20)¹⁴ percent of gross revenue for grant funding and fifty (50) percent of FY 18 and FY 19 net income to OHA's FY 20 FY 21 Legacy Land Program.
- ***Kaka'ako Makai (KM) Cash*** with a one-time cash transfer from the Kaka'ako Makai cash account to the Native Hawaiian Trust Fund for OHA's Core Budget to be used in FY 20 fiscal period.
- ***State of Hawai'i General Fund*** appropriations are determined by the legislature during each Biennium. The State Legislature passed as Act 037(19) an appropriation of \$3,037,879 annually for FY 20 and FY 21¹⁵. To date the State of Hawaii has not released the FY2021 appropriation as it was conditioned by the completion of an Act 37 financial and management audit; and was subsequently suspended by the State Auditor in December 2019. As a result of the suspended audit, the Board authorized the use of the Fiscal Stabilization Fund in the amount of \$3,000,000 (via BR2) to mitigate the conditioned FY21 appropriation.

HB204 SD2 CD1, OHA's Budget Bill for the FY22 and FY23 period, from the 2021 Legislative session, contains \$2,054,400 in education, social services, legal and housing provisos plus an additional \$200,000, for fiscal year 2021-2022 to conduct or contract for a follow-up contract and disbursement review of the CLA – OHA & LLCs Contract and Disbursement Review – Report, dated December 4, 2019 ("CLA Report"); and includes the

¹⁴ The proposed Kaka'ako Makai policy with the two noted changes (e.g., 10% to 20% for grants, 30% to 50% for Land Legacy) was approved by the Board via Action Item RM #19-10 Approval of a second amendment to BOT #12-05 – Kaka'ako Makai Policy relating to the allocation of revenue from OHA's Kaka'ako Makai properties to the Land Legacy Program dated August 21, 2019.

¹⁵ The FY21 General Fund appropriation is conditioned by an Act 37 audit that was suspended by the State Auditor in December 2019.

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substitution of the CLA Report with the Act 37 financial and management audit. On April 21, 2021, prior to the end of the 2021 Legislative session, the State Auditor terminated the Act 37 audit. HB204 SD2 CD1 awaits the Governor's action and the amounts noted above are being incorporated into the drafting of the FB22-23 budget.

Should there be any change to the general fund appropriations and any related conditions, Administration will bring forward appropriate action recommendations for the BOT.

A2. Commercial Property: Reflects the revenues generated on OHA-owned commercial property lands, Kaka'ako Makai and Nā Lama Kukui properties, and is summarized as follows:

- **Kaka'ako Makai (KM) Revenues** are currently estimated at \$4,308,255 for FY 20 and \$4,419,016 for FY 21 from lease revenues. Twenty (20) percent of gross revenue is allocated to OHA's FY 20 and FY 21 Core Budget for grant funding and fifty (50) percent of FY18 and FY19 net income to OHA's FY 20 FY 21 Legacy Land Program.

Table 4: Available Funds for OHA's FY 2020 & FY 2021 for Grants and Legacy Land Program

Kaka'ako Makai Allocation	Approved Budget		Approved Realignment #2		Proposed Realignment #3		Adjustments	
	FY 20	FY 21	FY 20	FY 21	FY 20	FY 21	FY 20	FY 21
	(1)	(2)	(3)	(4)	(5)	(6)	(7) = (5) - (3)	(8) = (6) - (4)
20% of Gross Revenue for Grant Funding	\$861,652	\$839,657	\$861,652	\$883,804	\$861,652	\$883,804	\$0	\$0
50% of FY18 FY19 Net Income for Legacy Land Program	932,578	744,670	1,554,297	1,514,931	1,554,297	1,514,931	0	0
Total	\$1,794,230	\$1,584,327	\$2,415,949	\$2,398,735	\$2,415,949	\$2,398,735	\$0	\$0

- **Nā Lama Kukui (NLK) Revenues** are from lease revenues. Realized surplus is retained for remaining debt service payments incurred from the purchase of the property and its Honolulu office build-out.

A3. Legacy Property: Reflects the funds designated for use on specific legacy property.

- **Palauea Cultural Preserve Revenues** are derived from the sale of homes in an affluent area on Maui. The .05% of each sale has been deposited into an account for which the funds are to be used for the upkeep and long-term stewardship of this historical site.
- **Wao Kele O Puna Management Fund** balances consist of previously authorized Board appropriations for current and future programmatic needs.

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A4. Other OHA Programs Budget¹⁶

- 1. Other OHA Programs Budget - Federal:** Reflects the basic operating budget consisting of payroll, operations, and program expenditures for Federally funded OHA Projects & Programs. The amount of federal funding available each year for these Programs is based on budgets submitted by OHA and approved by the respective grantors.

Funding Sources:

- Hālawā Lūluku Interpretive Development (HLID) Project
- Native Hawaiian Revolving Loan Fund (NHRLF) Program

- 2. Other OHA Programs Budget - Others:** Reflects other OHA programs funded through other sources of income. These amounts are considered other OHA program income and not part of the NHTF. Expenditure of these funds is authorized through BOT approval of the Other OHA Programs Budget. As of May 2021, the approximate available funds for FY 2021, for Other OHA Programs Budget appropriations, are summarized in **Table 5** below.

Funding Sources:

- Hawaiian Projects
 - ✓ Ka Wai Ola advertisement sales
 - ✓ Other miscellaneous income
- Homesteader Loan Program
 - ✓ Repayments received for the OHA-DHHL Homesteader Loan Program

**Table 5: Available Funds for OHA's FY 2020 & FY 2021
Other OHA Programs Budget–Others**

Funding Sources	FY 19	FY 20	FY 21
Beginning Balance	\$129,031	\$142,862	\$0
Hawaiian Projects	76,205	75,000	75,000
Homesteader Loan Program	187,626	150,000	120,000
Sub-total Available Funds:	\$392,862	\$367,862	\$195,000
BOT-Approved Appropriations	-250,000	0	
Proposed Appropriations	0	-367,862	-195,000
Estimated Net Available Funds:	\$142,862	\$0	\$0

¹⁶ Action Item RM #21-02 Approval to Close Native Hawaiian Rights Fund (Special Fund S-331-z1), March 23, 2021

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B. Total Operating Budget Adjustments – FY2020, FY2021

B1. FY2020. The following sections outline and provide explanation on the major adjustments (increases/decreases) to the budget as a result of this realignment. Proposed adjustments to OHA's FY 2020 Total Budget are outlined in **Table 6** below:

Table 6: FY 2020 Approved Total Operating Budget and Realignments

Total Operating Budget	FY 2020					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
	(a)	(b)	(c)	(d)	(e) = (d - c)	
1. Core Operating Budget						
Personnel (including Fringe)	\$16,905,440	\$16,933,809	\$15,699,730	\$15,699,730	\$0	
Non-Personnel	20,360,603	22,401,774	23,710,853	21,532,191	(\$2,178,662)	p. 15
Sub-total – Core Operating:	\$37,266,043	\$39,335,583	\$39,410,583	\$37,231,921	(\$2,178,662)	
2. Fiscal Stabilization Fund						
FY 2020 Designation	0	1,445,000	0	0	0	
Sub-total – Fiscal Stabilization Fund:	\$0	\$1,445,000	\$0	\$0	\$0	
3. Commercial Property Budget						
Kaka'ako Makai	\$2,553,946	\$2,261,175	\$2,261,175	\$2,261,175	\$0	
Nā Lama Kukui	5,853,411	5,950,051	5,950,051	\$5,950,051	0	
Sub-total – Commercial Property:	\$8,407,357	\$8,211,226	\$8,211,226	\$8,211,226	\$0	
5. Legacy Properties Budget						
Palaua Culture Preserve	\$160,380	\$160,380	\$160,380	\$135,380	(\$25,000)	
Wao Kele O Puna Management Fund	256,610	256,610	256,610	256,610	0	
Sub-total – Legacy Properties:	\$416,990	\$416,990	\$416,990	\$391,990	(\$25,000)	
5. Other OHA Programs Budget						
Federal-Funded						
Halawa Luluku Interpretive Development	\$4,099,249	\$4,099,249	\$4,099,249	\$4,099,249	\$0	
Native Hawaiian Revolving Loan Fund	902,005	902,005	902,005	1,029,891	127,886	p. 16
Sub-total – Federal Programs:	\$5,001,254	\$5,001,254	\$5,001,254	\$5,129,140	\$127,886	
Others						
Hi'i'ilei Aloha & Subsidiaries	\$292,862	\$405,000	\$327,000	\$327,000	\$0	
Ho'okele Pono & Subsidiaries	75,000	88,000	166,000	166,000	0	
Sub-total – Others:	\$367,862	\$493,000	\$493,000	\$493,000	\$0	
Sub-total – Other OHA Programs:	\$5,369,116	\$5,494,254	\$5,494,254	\$5,622,140	\$127,886	
Total Operating Budget:	\$51,459,506	\$54,903,053	\$53,533,053	\$51,457,277	(\$2,075,776)	

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

B2. FY20 Core Operating Budget Adjustments.

The core operating budget adjustments reflected in **Table 7a** and due to transferring of \$2,170,000 in FY20 Emergency Financial Assistance Program budgetary authority to FY21; and \$8,662 in FY20 unspent, uncommitted and unencumbered from Contract #3363.

Table 7a: FY 2020 Approved Budget and Realignments Core Budget Comparisons

Core Operating Budget	FY 2020					
	Approved Core Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	
	(a)	(b)	(c)	(d)	(e) = (d - c)	
Personnel & Fringe	\$16,905,440	\$16,933,809	\$15,699,730	\$15,699,730	\$0	
Program	1,351,878	1,484,603	1,128,778	1,128,778	0	
Contracts	4,296,719	5,988,759	5,506,759	5,506,759	0	
Grants	9,660,921	9,660,921	12,189,862	10,011,200	(2,178,662)	
Travel	511,087	571,667	433,667	433,667	0	
Equipment	995,570	1,068,820	1,202,824	1,202,824	0	
Overhead	2,964,382	3,046,958	2,668,917	2,668,917	0	
Debt Service	580,047	580,047	580,047	580,047	0	
Totals:	\$37,266,043	\$39,335,583	\$39,410,583	\$37,231,921	(\$2,178,662)	

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

B3. FY20 Non-Core Operating Budget Adjustment

The non-core operating budget adjustments reflected in **Table 7b** to reflect updates in the Native Hawaiian Revolving Loan Fund (NHRLF) FY2020 budget as approved by the Administration for Native Americans (ANA). There are no other changes to the non-core operating budget.

Table 7b: FY 2020 Approved Budget and Realignments Non-core Budget Comparisons

Other OHA Programs - Federal	FY 2020					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	FN
HLID Project						
Personnel & Fringe	\$312,472	\$312,472	\$312,472	\$312,472	\$0	
Program	8,200	8,200	8,200	8,200	0	
Contracts	3,740,927	3,740,927	3,740,927	3,740,927	0	
Grants	0	0	0	0	0	
Travel	0	0	0	0	0	
Equipment	1,250	1,250	1,250	1,250	0	
Overhead	36,400	36,400	36,400	36,400	0	
Debt Service	0	0	0	0	0	
Sub-total HLID:	\$4,099,249	\$4,099,249	\$4,099,249	\$4,099,249	\$0	
NHRLF Program						
Personnel & Fringe	\$451,776	\$451,776	\$451,776	\$571,468	\$119,692	
Program	100,817	100,817	100,817	89,675	(11,142)	
Contracts	273,288	273,288	273,288	291,626	18,338	
Grants	0	0	0	0	0	
Travel	37,045	37,045	37,045	31,430	(5,615)	
Equipment	2,500	2,500	2,500	2,500	0	
Overhead	36,579	36,579	36,579	43,192	6,613	
Debt Service	0	0	0	0	0	
Sub-total NHRLF:	\$902,005	\$902,005	\$902,005	\$1,029,891	\$127,886	[A]
[A] – To reflect updates in the Native Hawaiian Revolving Loan Fund (NHRLF) FY2020 budget as approved by the Administration for Native Americans (ANA).						
Total Other OHA Programs - Federal	\$5,001,254	\$5,001,254	\$5,001,254	\$5,129,140	\$127,886	

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

B4. FY2021. The following sections outline and provide explanation on the major adjustments (increases/decreases) to the budget as a result of this realignment. Proposed adjustments to OHA's FY 2021 Total Budget are outlined in **Table 8**.

Table 8: FY 2021 Approved Total Operating Budget and Realignments

Total Operating Budget	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
	(a)	(b)	(c)	(d)	(e) = (d - c)	
1. Core Operating Budget¹⁷						
Personnel (includes Fringe @ 63.08%)	\$17,136,197	\$17,136,197	\$16,029,911	\$13,881,194	(\$2,148,717)	p. 21
Non-Personnel	20,074,586	20,074,586	23,309,604	\$24,398,321	1,088,717	p. 22
Sub-total – Core Operating:	\$37,210,783	\$37,210,783	\$39,339,515	\$38,279,515	(\$1,060,000)	
2. Commercial Property Budget						
Kaka'ako Makai	\$2,600,704	\$2,600,704	\$2,607,088	\$2,607,088	\$0	p. 23
Nā Lama Kukui	5,506,460	5,506,460	5,848,644	5,848,644	0	p. 24
Sub-total – Commercial Property:	\$8,107,164	\$8,107,164	\$8,455,732	\$8,455,732	\$0	
3. Legacy Properties Budget						
Palauea Culture Preserve	\$122,180	\$122,180	\$89,730	\$89,730	\$0	p. 25
Wao Kele O Puna Management Fund	204,308	204,308	250,510	250,510	0	p. 26
Sub-total – Legacy Lands:	\$326,488	\$326,488	\$340,240	\$340,240	\$0	
4. Other OHA Programs Budget						
Federal-Funded						
Halawa Luluku Interpretive Development	\$428,199	\$428,199	\$3,372,943	\$3,372,943	\$0	
Native Hawaiian Revolving Loan Fund	919,030	919,030	919,030	1,113,484	194,454	p. 27
Sub-total – Federal:	\$1,347,229	\$1,347,229	\$4,291,973	\$4,486,427	\$194,454	
Others						
Hi'iilei Aloha & Subsidiaries	\$195,000	\$195,000	\$134,000	\$134,000	\$0	
Ho'okele Pono & Subsidiaries	0	0	61,000	61,000	0	
Sub-total – Others:	\$195,000	\$195,000	\$195,000	\$195,000	\$0	
Sub-total – Other OHA Programs:	\$1,542,229	\$1,542,229	\$4,486,973	\$4,681,428	\$194,454	
Total Operating Budget:	\$47,186,664	\$47,186,664	\$52,622,460	\$51,756,914	(\$865,546)	

¹⁷ Core Operating Budget figures reflect support from the Fiscal Stabilization Fund.

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

C. Core Operating Budget Adjustments – FY2021

The Core Budget (CB) consists of payroll, operations, and program expenditures. The proposed adjustments are outlined in **Tables 9a, 9b, 9c and 9d**, and reflect projections for FY 2021.

- FY 2021 has a projected total of \$3,716,092, of unspent, uncommitted, and unencumbered amounts, classified as personnel and non-personnel, \$2,148,717 and \$1,567,375, respectively (**Tables 9a, 9b and 9d**).
- Grants and sponsorships in the proposed Realignment #3 (**Table 9c and ATTACHMENT 4**) increased to \$14,444,592, net adjustments of +\$2,656,092.
- A net decrease of (-\$1,060,000) in expenditures as compared to figures in Approved Realignment #2, which is proposed in BR3 as a reserve for reorganization related costs.

Table 9a: Core Budget FY 2021 Proposed Realignment #3 Adjustments Summary

Core Operating Budget	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
	(a)	(b)	(c)	(d)	(e) = (d - c)	
Personnel	\$17,136,197	\$16,029,911	\$16,029,911	\$13,881,194	(\$2,148,717)	p.21
Non-Personnel	20,074,586	20,400,526	23,309,604	24,398,321	1,088,717	Table 9b
Totals:	\$37,210,783	\$36,430,437	\$39,339,515	\$38,279,515	(\$1,060,000)	

**Table 9b: Core Operating Budget (Non-Personnel)
FY 2021 Proposed Realignment #3 Adjustments Summary**

Core Operating Budget – Non-Personnel	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
	(a)	(b)	(c)	(d)	(e) = (d - c)	
Grants and Sponsorships	\$9,635,921	\$9,635,921	\$11,788,500	\$14,444,592	\$2,656,092	Table 9c
Other than Grants:						
Contracts	3,999,924	3,999,924	5,003,918	4,402,735	(601,183)	
Debt Service	572,163	572,163	572,163	548,637	(23,526)	
Equipment	1,027,036	1,027,036	1,016,286	1,015,114	(1,172)	
Overhead	3,134,555	3,134,555	3,215,155	3,073,374	(141,781)	
Program	1,192,677	1,192,677	1,127,811	795,677	(332,134)	
Travel	512,309	512,309	585,771	118,192	(467,579)	
Subtotal - Other than Grants	\$10,438,664	\$10,438,664	\$11,521,104	\$9,953,729	(\$1,567,375)	
Totals:	\$20,074,585	\$20,074,585	\$23,309,604	\$24,398,321	\$1,088,717	Table 9a

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

The sections following outline and provide explanation of the major adjustments (increases/decreases) to the CB in **Table 9c** because of this realignment.

Table 9c: Core Budget FY 2021 Proposed Realignment #3 Adjustments Summary
Non-Personnel - Grants and Sponsorships. Refer to details in ATTACHMENT 4.

Core Operating Budget – Non-Personnel Grants	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	BAE-RM Action Items	Proposed Realignment #3 Ending Bal	Adjustments
	(a)	(b)	(c)		(d)	(e) = (d - c)
Grants and Sponsorships	\$9,635,921	\$9,635,921	\$11,788,500		\$14,444,592	\$2,656,092
56510 GRANTS IN AID – Program Grants			\$830,000	\$214,253	\$1,044,253	\$214,253
56530 GRANTS IN AID – Community Grants			\$5,094,079	\$1,000,000	\$6,482,356	\$1,388,277
56540 GRANTS IN AID – Level II Grants			\$5,500,000	\$1,170,000	\$6,777,983	\$1,277,983
56560 GRANTS IN AID – Sponsorships			\$364,421	(205,921)	\$140,000	(\$224,421)
Detail			\$11,788,500	\$2,178,332	\$14,444,592	\$2,656,092

Reallocated Programmatic Sponsorships, Refer to ATTACHMENT 4 for details

- A. **Moratorium on BOT and Kaiaulu (fka CEO-initiated) Sponsorships.** On February 27, 2018, the Grants Ad Hoc brought before the OHA BOT Action Item BOT #18-01, *Approval for OHA to impose a moratorium effective February 27, 2018 on the use of Trustee Sponsorship and Allowance Fund (TSAAF) and CEO-initiated Sponsorships*. The Grants Ad Hoc cited the release of the State Auditor’s report 18-03, which “raised an immediate need to prioritize a review of the [TSAAF] and CEO-initiated sponsorship” and voted unanimously to recommend the moratorium and the immediate return of the unused balance of TSAAF funds.³ The OHA BOT passed the moratorium on the use of the TSAAF and CEO-initiated sponsorships at its February 27, 2018 meeting, which was to remain in effect until the Grants Ad Hoc recommended policies and procedures to the BOT on the use of the TSAAF and CEO-initiated sponsorship funds. The Board discussed the Ad Hoc Committee’s work at the May 6, 2021 workshop and anticipates a final report and recommendation from the Ad Hoc committee leadership.
- B. **Programmatic Sponsorships.** Programmatic (or operating unit) sponsorships were not placed on moratorium in 2018; and because of revised plans, formats, additional information, the following 2021 reallocations are recommended: Moanalua Gardens Foundation, Prince Lot Hula Festival for a total of \$15,000 (\$10,000 ‘Ahahui + \$5,000 BR3); Merrie Monarch Festival (\$15,000)¹⁸; Queen Liliuokalani, Keiki Hula Competition (\$15,000); Lunalilo Home Event, Project or Program (\$15,000);

¹⁸ \$26,000 in budget for television and related media buys + \$1,000 for honorarium for Miss Aloha Hula, the recommendation is an additional \$15,000 as there are no ticket sales in 2021 due to virtual format.

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

Iolani Palace Event, Project or Program (\$15,000); and ‘Aha Punana Leo Event, Project or Program (\$15,000). Some of the items were identified as “Legacy Sponsorships” in previous biennium budgets.

The sections following outline and provide explanation of the major adjustments (increases/decreases) to the CB in **Table 9d** because of this realignment.

Table 9d: Core Budget FY 2021 Proposed Realignment #3 Adjustments Summary, by Category

Core Operating Budget	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	
	(a)	(b)	(c)	(d)	(e) = (d - c)	
Contracts	\$3,999,924	\$3,999,924	\$5,003,918	\$4,402,735	(\$601,183)	
Debt Service	572,163	572,163	572,163	548,637	(23,526)	
Equipment	1,027,036	1,027,036	1,016,286	1,015,114	(1,172)	
Grants	9,635,921	9,635,921	11,788,500	14,444,592	2,656,092	
Overhead	3,134,555	3,134,555	3,215,155	3,073,374	(141,781)	
Personnel & Fringe	17,136,197	17,136,197	16,029,911	13,881,194	(2,148,717)	
Program	1,192,677	1,192,677	1,127,811	795,677	(332,134)	
Travel	512,309	512,309	585,771	118,192	(467,579)	
Totals:	\$37,210,782	\$37,210,782	\$39,339,515	\$38,279,515	(\$1,060,000)	

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

C1. Core Personnel Budget Adjustments

Personnel costs includes all expenditures directly related to personnel and comprises of Salaries & Fringe, Student Helper Program, Vacation Payments (including transfer of vacation leave to other State agencies), Employee Continued Education Program and Workers' Compensation Payments. The Core Personnel Budget has been adjusted to reflect estimated needs for FY 2021. Core Personnel Budget Adjustments are summarized in **Table 10**. Due to a higher-than-expected staff turnover leading to unplanned vacant and unfilled positions and also a lower-than-expected fringe rate, estimated needs for FY 2021 resulted in expenditures totaling \$13,881,194, a net decrease of (-\$2,148,717).

Table 10: Core Personnel FY 2021 Proposed Realignment #3 Adjustments Summary

Core Operating Budget Personnel	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
	(a)	(b)	(c)	(d)	(e) = (d - c)	
1. Salaries & Fringe						
OHA Salaries	\$10,323,888	\$10,323,888	\$9,217,602	\$8,941,341	(\$276,261)	
OHA Fringe	6,512,309	6,512,309	6,512,309	4,515,644	(1,996,665)	
Student Helper Program	104,050	104,050	104,050	59,485	(44,565)	
Sub-total (1):	\$16,940,247	\$16,940,247	\$15,833,961	\$13,516,470	(\$2,317,491)	
2. Reserves						
Vacation Payout	150,000	150,000	150,000	300,000	150,000	
Overtime	10,000	10,000	10,000	59,724	49,724	
Worker's Compensation Payments	5,950	5,950	5,950	0	(5,950)	
Continuing Education Program	30,000	30,000	30,000	5,000	(25,000)	
Sub-total (2):	\$195,950	\$195,950	\$195,950	\$364,724	\$168,774	
Total Core Personnel:	\$17,136,197	\$17,136,197	\$16,029,911	\$13,881,194	(\$2,148,717)	p.17

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

C2. Core Non-Personnel Budget Adjustments

The FY 2021 Core Non-Personnel Budget consists of all operational and programmatic costs and has been adjusted to reflect estimated needs through June 30, 2021. OHA's FY 2021 needs are summarized in **Table 11** below.

Most notably, to reflect Item 3 on page 5, the transfer budget authority from FY20 to FY21 for emergency financial assistance of \$2,178,332; add \$496,260 of additional grants awards; and reallocate and reduce sponsorships by \$18,500 to reflect actual disbursement activity; together a net total of \$2,656,092, comprised of:

- \$1,567,375 of the projected FY21 unspent, uncommitted, and unencumbered non-personnel budget is reallocated to support Grants needs.
- to require an additional funding of \$1,088,717 from the projected FY21 unspent, uncommitted, and unencumbered personnel budget.

Table 11. Core Non-Personnel FY 2021 Proposed Realignment #3 Adjustments Summary

Core Operating Budget – Non-Personnel	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
	(a)	(b)	(c)	(d)	(e) = (d - c)	
Grants and Sponsorships	\$9,635,921	\$9,635,921	\$11,788,500	\$14,444,592	\$2,656,092	ATTACHMENT 4, Table 9c
Other than Grants:						
Contracts	3,999,924	3,999,924	5,003,918	4,402,735	(601,183)	
Debt Service	572,163	572,163	572,163	548,637	(23,526)	
Equipment	1,027,036	1,027,036	1,016,286	1,015,114	(1,172)	
Overhead	3,134,555	3,134,555	3,215,155	3,073,374	(141,781)	
Program	1,192,677	1,192,677	1,127,811	795,677	(332,134)	
Travel	512,309	512,309	585,771	118,192	(467,579)	
Subtotal - Other than Grants	\$10,438,664	\$10,438,664	\$11,521,104	\$9,953,729	(\$1,567,375)	
Totals:	\$20,074,585	\$20,074,585	\$23,309,604	\$24,398,321	\$1,088,717	

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

D. Commercial Property Budget Adjustments – FY2021

The Commercial Property Budget consists of Kaka‘ako Makai and Nā Lama Kukui’s revised operational costs to reflect estimated needs through June 30, 2021.

D1. Kaka‘ako Makai

Kaka‘ako Makai’s gross revenues are currently estimated at \$4,419,016 per year from lease revenues. The adjustments, as summarized in **Table 12**, consist of rebalancing and reallocating funds for strategic realignment with no change in total expenditures. Estimated net available funds of \$7,657,493 for FY 2021 is to be retained for contribution to future expenditures on its parcels including expenditures relating to its master planning efforts.

Table 12: Kaka‘ako Makai FY 2021 Proposed Realignment #3 Adjustments Summary

Kaka'ako Makai	FY 2021					
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
Beginning Balance	\$8,324,369	\$8,324,369	\$8,307,818	\$8,307,818	\$0	
Gross Revenue	4,419,016	4,419,016	4,419,016	4,419,016	0	
Less: Allocation to Grants ^[2] (20% KM Gross Revenue)	(839,657)	(839,657)	(883,803)	(883,803)	0	
Less: True-up of 10% Allocation for FY 2013 - 2018			(63,519)	(63,519)	0	
Less: KM 50% of FY19 Net Revenue to Legacy Lands	(744,670)	(744,670)	(1,514,931)	(1,514,931)	0	
Sub-total Available Funds:	\$11,159,058	\$11,159,058	\$10,264,581	\$10,264,581	\$0	
Less: Expenses						
Personnel	283,724	283,724	280,608	280,608	0	
Program	59,475	59,475	18,975	18,575	(400)	
Contracts	665,000	665,000	715,000	715,000	0	
Equipment	945,200	945,200	945,200	929,200	(16,000)	
Overhead	647,305	647,305	647,305	663,705	16,400	
Sub-total Expenditures:	\$2,600,704	\$2,600,704	\$2,607,088	\$2,607,088	\$0	
Estimated Net Available Kaka'ako Makai:	\$8,558,354	\$8,558,354	\$7,657,493	\$7,657,493	\$0	p.17

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D2. Nā Lama Kukui

Nā Lama Kukui's gross revenue is currently estimated at \$5,301,025 from lease revenues, including space occupied by OHA. The adjustments, as summarized in **Table 13**, consist of rebalancing and reallocating funds for strategic realignment with no change in total expenditures. Estimated net available funds of \$815,147 for FY 2021 is to be retained for future debt service payments. Refinancing efforts are in progress noting the balloon payment in FB22-23.

Table 13: Nā Lama Kukui FY 2020 FY 2021 Summary

Nā Lama Kukui	FY 2021					Ref Page(s)
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	
Beginning Balance	\$2,056,070	\$2,056,070	\$1,362,766	\$1,362,766	\$0	
Gross Revenue	5,301,025	5,301,025	5,301,025	5,301,025	0	
Sub-total Available Funds:	\$7,357,095	\$7,357,095	\$6,663,791	\$6,663,791	\$0	
Less: Expenses						
Personnel	0	0	103,884	103,884	0	
Program	380,057	380,057	384,357	384,357	0	
Contracts	559,502	559,502	559,502	660,105	100,603	
Equipment	1,053,578	1,053,578	1,207,578	1,193,975	(13,603)	
Overhead	1,002,371	1,002,371	1,082,371	995,371	(87,000)	
Sub-total Expenditures:	\$2,995,508	\$2,995,508	\$3,337,692	\$3,337,692	\$0	
Debt Service	2,510,952	2,510,952	2,510,952	2,510,952	0	
Total Expenditures:	\$5,506,460	\$5,506,460	\$5,848,644	\$5,848,644	\$0	
Estimated Net Available Nā Lama Kukui:	\$1,850,635	\$1,850,635	\$815,147	\$815,147	\$0	

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

E. Legacy Property Budget Adjustments

The Legacy Property Budget consists of operational costs associated with the long-term stewardship kuleana of these historical sites.

E1. Palauea Culture Preserve

Revised needs through June 30, 2021 are estimated and summarized in **Table 14** for the Palauea Culture Preserve and includes a \$25,000 carryover from FY20 unspent budget in approved in FY20 Realignment #2.

Table 14: Palauea Culture Preserve FY 2021 Proposed Realignment #3 Adjustments Summary

Palauea Culture Preserve	FY 2021				
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments
Beginning Balance	\$258,959	\$258,959	\$258,959	\$258,959	\$0
<i>Add: Unspent Budget FY20</i>			25,000	25,000	0
Gross Revenue	65,570	65,570	65,570	65,570	0
<i>Sub-total Available Funds:</i>	\$324,529	\$324,529	\$349,529	\$349,529	\$0
Less: Expenses					
Program	3,000	3,000	2,500	2,500	0
Contracts	42,000	42,000	42,000	42,000	0
Grants	35,000	35,000	0	0	0
Travel	4,680	4,680	4,680	4,680	0
Equipment	28,500	28,500	31,550	31,550	0
Overhead	9,000	9,000	9,000	9,000	0
<i>Sub-total Expenditures:</i>	\$122,180	\$122,180	\$89,730	\$89,730	\$0
Estimated Net Available:	\$202,349	\$202,349	\$259,799	\$259,799	\$0

E2. Wahiawa Lands, Kukaniloko

Included in BR3 is reallocated resources within the Legacy Land Program (LLP) to fund the design for the Kapuahuawa Complex Proof of Concept Design in the amount of \$150,000. At the request of a beneficiary and after further study and reallocation by the LLP, the amount is included and dedicated to working with the University of Hawaii at Manoa – Community Design Center (UHCDC).

Information provided by Cathi Ho Schar, Director, UHCDC Assistant Professor, School of Architecture: UHCDC is a teaching practice, like a teaching hospital, that gathers multi-disciplinary faculty, full time UHCDC staff, and paid student interns to provide engagement, research, and proof of concept designs for public agencies. UHCDC has current MOAs in place with HPHA, UH, DAGS, PSD, DOD, DLNR, and have also worked with DOE, SFCA, and OP. Many of our past appropriations have been \$250-350K for 18-24 months of work, but we do projects at all scales and budget ranges. The proposed \$150K funding would cover the cost of

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

faculty supervision, project management, a student team, materials, and subconsultants as needed. The work is directed and supervised as it would be in a typical practice, the only difference being that we are often able to integrate projects into courses as a value add, and that students and new graduates are doing much of the work. State agencies find that UHCDC can provide nimble planning and design services that can gather stakeholders, reach out to communities, program, design, and visualize scenarios that help with CIP justification, decision-making, RFPs, or grant proposals.

E3. Wao Kele O Puna Management Fund

Included in OHA's Biennium Budget, BOT #15-02 approved on June 25, 2015, was the establishment of the Wao Kele O Puna (WKOP) Management Fund to include previously authorized Board appropriations for current and future programmatic needs.

Revised needs through June 30, 2021 are estimated and summarized in **Table 15** for the Wao Kele O Puna and includes a \$97,946 carryover from FY20 unspent budget as approved in FY20 Realignment #2. An assessment of the continuing plans for Wao Kele O Puna, including future funding, will be addressed in OHA's fiscal biennium budget for 2022-2023.

Table 15: Wao Kele O Puna FY 2021 Proposed Realignment #3 Adjustments Summary

Wao Kele O Puna	FY 2021				
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Approved Realignment #3	Adjustments
Beginning Balance	\$204,308	\$204,308	\$204,308	\$204,308	0
<i>Add: Unspent Budget FY19</i>	0	0	(1,866)	(1,866)	0
<i>Add: Unspent Budget FY20</i>	0	0	97,946	97,946	0
<i>Sub-total Available Balance:</i>	\$204,308	\$204,308	\$300,388	\$300,388	0
Less: Expenses					
Program	9,550	9,550	4,550	4,550	0
Contracts	80,000	80,000	93,500	93,500	0
Grants	10,000	10,000	0	0	0
Travel	8,160	8,160	8,160	8,160	0
Equipment	95,798	95,798	144,300	144,300	0
Overhead	800	800	0	0	0
<i>Sub-total Expenditures:</i>	\$204,308	\$204,308	\$250,510	\$250,510	0
Estimated Net Available:	\$0	\$0	\$49,878	\$49,878	0

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

F. Other OHA Programs Budget Adjustments

OHA's Other OHA Programs Budget reflects budgets for other programs funded through non-trust-fund sources, including federal funds and other fund sources.

F1. Federal-funded

OHA's Other Programs – Federal-funded budget requests are summarized in **Table 16** below and reflect updates in the Native Hawaiian Revolving Loan Fund (NHRLF) FY2021 budget as approved by the Administration for Native Americans (ANA).

**Table 16: Other OHA Programs Budget – Federal-funded
FY 2021 Proposed Realignment #3 Adjustments Summary**

Other OHA Programs - Federal	FY 2021					Ref Page(s)
	Approved Budget	Approved Realignment #1	Approved Realignment #2	Proposed Realignment #3	Adjustments	
HLID Project						
Contracts	\$63,860	\$63,860	\$3,098,860	\$3,098,860	\$0	
Debt Service	0	0	0	0	0	
Equipment	1,250	1,250	600	600	0	
Grants	0	0	0	0	0	
Overhead	36,119	36,119	26,509	26,509	0	
Personnel & Fringe	318,770	318,770	242,474	242,474	0	
Program	8,200	8,200	4,500	4,500	0	
Travel				0	0	
Sub-total HLID:	\$428,199	\$428,199	\$3,372,943	\$3,372,943	\$0	
NHRLF						
Contracts	276,099	276,099	276,099	300,397	24,298	
Debt Service	0	0	0	0	0	
Equipment	0	0	0	0	0	
Grants	0	0	0	0	0	
Overhead	39,083	39,083	39,083	47,096	8,013	
Personnel & Fringe	460,812	460,812	460,812	641,347	180,535	
Program	105,991	105,991	105,991	93,334	(12,657)	
Travel	37,045	37,045	37,045	31,310	(5,735)	
Sub-total NHRLF:	\$919,030	\$919,030	\$919,030	\$1,113,484	\$194,454	
Other OHA Programs - Federal	\$1,347,229	\$1,347,229	\$4,291,973	\$4,486,427	\$194,454	

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

F2. Other Programs

OHA's Other Programs – Others budget requests are summarized in **Table 17** below,

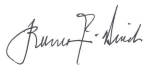
The \$61,000 adjustment represents reclassified costs related to Board authorized (in May 2019) dissolution and winddown activities for Hi'ikualono LLC, Ho'okele Pono LLC and Ho'okipaipai LLC based on projections for FY21; and a six-month no cost extension for the Youth Build program operated by Hi'ilei Aloha LLC.

**Table 17: Other OHA Programs – Others
FY 2021 Proposed Realignment #3 Adjustments Summary**

Other OHA Programs Budget - Others	FY 2021				
	Approved Budget	Approved Realignment #2	Proposed Realignment #3	Adjustments	Ref Page(s)
Beginning Balance	\$0	\$0	\$0	\$0	
Ka Wai Ola Revenues	75,000	75,000	75,000	0	
Homesteader Loan Repayments	120,000	120,000	120,000	0	
Sub-total Available Funds:	\$195,000	\$195,000	\$195,000	\$0	
Less: Expenses					
Hi'ilei Aloha & Subsidiaries	195,000	134,000	134,000	0	
Ho'okele Pono & Subsidiaries	0	61,000	61,000	0	
Sub-total Expenditures:	\$195,000	\$195,000	\$195,000	\$0	
Estimated Net Available Special Programs Budget Other:	\$0	\$0	\$0	\$0	

G. Chief Financial Officer Certification

The following is the certification by the Chief Financial Officer that the funds are available to effect the realignment actions:



Ramona G Hinck

Chief Financial Officer

Date: 05/21/2021

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

VI. RECOMMENDED ACTIONS

Administration recommends that the Board of Trustees (BOT) approve, the following actions:

A. Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY 20) and 2020-2021 (FY 21) – Realignment #3

Motion #1: Approve OHA’s Total Fiscal Budget Realignment #3 for Fiscal Biennium Periods 2019-2020 (FY 20) and 2020-2021 (FY 21) as outlined in ATTACHMENT 1, with the exception of the \$5,000 additional event sponsorship (total \$15,000) for the Prince Lot Hula Festival, an event sponsored by the Moanalua Gardens Foundation.

Motion #2: Approve additional \$5,000 event sponsorship (total \$15,000) for the Prince Lot Hula Festival, sponsored by the Moanalua Gardens Foundation.

B. Fiscal Stabilization Policy

Motion #3: Reserve and Designate¹⁹ an amount of **\$1,060,000** in unspent, uncommitted, unencumbered funds from FY 2021, for the purpose of addressing projected reorganization related costs.

VII. ALTERNATIVE ACTIONS

- A. Amend the recommended action.
- B. Do not approve the recommended action.

VIII. REFERENCE ACTION ITEMS, WORKSHOP MATERIALS

The following budget related and grants related action items listed below set context for BR3:

- A. Action Item BAE-RM #21-06-01:** Approve the Awarding of ‘Ohana and Community Based Grants, Island of O‘ahu for a total of \$392,500 for Solicitation No. 21-05-01, Released March 2021, May 18, 2021
- B. Action Item BAE-RM #21-06-02:** Approve the Awarding of ‘Ohana and Community Based Grants, Island of Hawai‘i for a total of \$436,117 for Solicitation No. 21-05-02, Released March 2021, May 18, 2021
- C. Action Item BAE-RM #21-06-03:** Approve the Awarding of ‘Ohana and Community Based Grants, Island of Maui for a total of \$251,493 for Solicitation No. 21-05-03, Released March 2021, May 18, 2021
- D. Action Item BAE-RM #21-06-04:** Approve the Awarding of ‘Ohana and Community Based Grants, Island of Kaua‘i for a total of \$126,899 for Solicitation No. 21-05-04, Released March 2021, May 18, 2021

¹⁹ Designate=specifically identify, plan for, reserve; Trustee authorization and approval, via Action Item, is still needed to activate and disburse the designated or specified funds.

Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

- E. Action Item BAE-RM #21-06-05:** Approve the Awarding of ‘Ohana and Community Based Grants, Islands of Moloka‘i and Lāna‘i for a total of \$36,475 and \$4,724, Solicitations No. 21-05-05 and 21-05-06, respectively, Released March 2021, May 18, 2021
- F. Action Item BAE-RM #21-05:** Approve the Awarding of Homestead Grants for a total of \$250,000 for Solicitation No. 21-03, Released February 2021; and an Additional Award Amount, April 27, 2021
- G. Action Item BAE-RM #21-04:** Approve the Awarding of Iwi Kupuna and Reinternment Grants for a Total of \$144,079 from Solicitation No. 21-02, Released February 2021; and an Additional Award Amount, April 27, 2021
- H. Action Item BAE-RM #21-03:** Approve the Awarding and Reallocation of ‘Ahahui Grants for a total of \$200,000 from Solicitation No. 21-01, Released February 2021, April 27, 2021
- I. Action Item BAE-RM #21-02:** Approval to Reallocate the FY20 and FY21 Unspent Balance of Contract #3363 in the Amount of \$838,332; and Reclassify FY21 Unencumbered Sponsorships of \$205,921; for the Combined Purpose to Award a Grant of \$1,044,253 for Emergency Financial Assistance to Hawai‘i Community Lending, March 30, 2021
- J. Action Item BAE-RM #21-01:** Approval to Reallocate \$2,170,000 in COVID-19 Emergency Financial Assistance Program Grant Authorization to \$1,170,000 to COVID-19 Impact Grants and \$1,000,000 to ‘Ohana and Community Program Grants, February 10, 2021
- K. Action Item BOT #20-04:** OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY20) and 2020-2021 (FY21) – Realignment #2, June 18, 2020
- L. Action Item BOT #20-03:** Approval to Fund Responses to COVID-19, May 7, 2020
- M. Action Item RM #19-17:** Realignment #1 of the OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY20) and 2020-2021 (FY21), September 25, 2021
- N. Action Item RM #19-09:** OHA Biennium Budget for the Fiscal Biennium Periods 2019-2020 (FY20) and 2020-2021 (FY21), June 18, 2019
- O. May 11, 2021 Workshop Materials, Committee on Resource Management:** Memos dated May 7, 2021 and May 10, 2021 and related materials distributed.

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Action Item RM #21-06: Approval of FY21 Budget Realignment #3 – Core (Personnel and Non-Personnel) and Non-Core Budgets

IX. ATTACHMENTS

- A. ATTACHMENT 1** - 2019-2020 (FY20) Core and Non-Core Budgets and 2020-2021 (FY21) Core and Non-Core Budgets – Realignment #3 – 1 page
- B. ATTACHMENT 2** - 2019-2020 (FY20) Core and Non-Core Budgets – Original Budget to Realignment #1, Realignment #1 to Realignment #2 and Realignment #2 to Realignment #3 – 3 pages
- C. ATTACHMENT 3** - 2020-2021 (FY21) Core and Non-Core Budgets – Original Budget to Realignment #1, Realignment #1 to Realignment #2 and Realignment #2 to Realignment #3 – 2 pages
- D. ATTACHMENT 4** – FY21 Mission Aligned & Strategic Beneficiary and Community Investments via Grants, Contracts and Sponsorships – 4 pages

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**OFFICE OF HAWAIIAN AFFAIRS
FY 2020 AND FY 2021 BUDGET REALIGNMENT #3**

ATTACHMENT 1
FY20, FY21

ATTACHMENT 1

2019-2020 (FY20) Core and Non-Core Budgets and 2020-2021 (FY21) Core and Non-Core Budgets – Realignment #3

Table 1. FY 2020 REALIGNMENT #3 (May 2021)

FY 2020 PROPOSED REALIGNMENT #3	FTE	Core	Fiscal Stabilization Fund	Commercial Property		Legacy Property		Other OHA		FY 2020
				Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	Others	Total Operating Budget
Personnel & Fringe	179	\$ 15,699,730	\$ -	\$ 285,390	\$ 77,875	\$ -	\$ -	\$ 883,940	\$ -	\$ 16,946,935
Program		1,128,778	-	81,475	368,276	2,700	4,550	97,875	-	1,683,654
Contracts		5,506,759	-	810,000	560,560	80,000	73,500	4,032,553	-	11,063,372
Grants		10,011,200	-	-	-	-	10,000	-	-	10,021,200
Travel		433,667	-	-	-	4,680	8,160	31,430	-	477,937
Equipment		1,202,824	-	439,500	1,305,178	39,000	159,600	3,750	-	3,149,852
Overhead		2,668,917	-	644,810	1,087,183	9,000	800	79,592	-	4,490,302
Debt Service		580,047	-	-	2,550,979	-	-	-	-	3,131,026
Sub-total:		\$ 37,231,921	\$ -	\$ 2,261,175	\$ 5,950,051	\$ 135,380	\$ 256,610	\$ 5,129,140	\$ -	\$ 50,964,277
Other - LLC		125,138	-	-	-	-	-	-	367,862	493,000
Totals:		\$ 37,357,059	\$ -	\$ 2,261,175	\$ 5,950,051	\$ 135,380	\$ 256,610	\$ 5,129,140	\$ 367,862	\$ 51,457,277

Table 2. FY 2021 REALIGNMENT #3 (May 2021)

FY 2021 PROPOSED REALIGNMENT #3	FTE	Core	Fiscal Stabilization Fund	Commercial Property		Legacy Property		Other OHA		FY 2021
				Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	Others	Total Operating Budget
Contracts		4,402,735	-	715,000	660,105	42,000	93,500	3,399,257	-	9,312,597
Debt Service		548,637	-	-	2,510,952	-	-	0	-	3,059,589
Equipment		1,015,114	-	929,200	1,193,975	31,550	144,300	600	-	3,314,739
Grants		14,444,592	-	-	-	-	-	0	-	14,444,592
Overhead		3,073,374	-	663,705	995,371	9,000	-	73,605	-	4,815,055
Personnel & Fringe	179	13,881,194	-	280,608	103,884	-	-	883,821	-	15,149,507
Program		795,677	-	18,575	384,357	2,500	4,550	97,834	-	1,303,493
Travel		118,192	-	-	-	4,680	8,160	31,310	-	162,342
Sub-total 1:		38,279,515	-	2,607,088	5,848,644	89,730	250,510	4,486,427	-	51,561,914
Other - LLC			-	-	-	-	-	-	195,000	195,000
Subtotal 2:		-	-	-	-	-	-	-	195,000	195,000
Totals (1 +2) :		\$ 38,279,515	\$ -	\$ 2,607,088	\$ 5,848,644	\$ 89,730	\$ 250,510	\$ 4,486,427	\$ 195,000	\$ 51,756,914

**OFFICE OF HAWAIIAN AFFAIRS
FY 2020 BUDGET REALIGNMENT #3**

ATTACHMENT 2
FY20

ATTACHMENT 2

2019-2020 (FY20) Core and Non-Core Budgets – Original Budget to Realignment #1, Realignment #1 to Realignment #2 and Realignment #2 to Realignment #3

A. FY 2020 TOTAL OPERATING BUDGET (June 2019)

FY 2020 APPROVED BUDGET	FTE	Core	Commercial Property Budget		Legacy Property Budget		Special Programs Budget		FY 2020
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	Total Operating Budget
Personnel & Fringe	179	\$ 16,905,440	\$ 278,161	\$ -	\$ -	\$ -	\$ 764,248	\$ -	\$ 17,947,849
Program		1,351,878	81,475	368,276	3,000	9,550	109,017	-	1,923,196
Contracts		4,296,719	610,000	535,015	75,000	70,000	4,014,215	-	9,600,949
Grants		9,660,921	-	-	25,000	10,000	-	-	9,695,921
Travel		511,087	-	-	4,680	8,160	37,045	-	560,972
Equipment		995,570	939,500	1,311,958	43,500	158,100	3,750	-	3,452,378
Overhead		2,964,382	644,810	1,087,183	9,200	800	72,979	-	4,779,354
Debt Service		580,047	-	2,550,979	-	-	-	-	3,131,026
Other - LLC		-	-	-	-	-	-	367,862	367,862
Totals (A):		\$ 37,266,043	\$ 2,553,946	\$ 5,853,411	\$ 160,380	\$ 256,610	\$ 5,001,254	\$ 367,862	\$ 51,459,507

B. FY 2020 REALIGNMENT #1 (September 2019)

FY 2020 APPROVED REALIGNMENT #1	FTE	Core	Commercial Property Budget		Legacy Property Budget		Special Programs Budget		FY 2020
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	Total Operating Budget
Personnel & Fringe	179	\$ 16,933,809	\$ 285,390	\$ 77,875	\$ -	\$ -	\$ 764,248	\$ -	\$ 18,061,322
Program		1,484,603	81,475	368,276	2,700	4,550	109,017	-	2,050,621
Contracts		5,988,759	810,000	560,560	80,000	73,500	4,014,215	-	11,527,034
Grants		9,660,921	-	-	-	10,000	0	-	9,670,921
Travel		571,667	-	-	4,680	8,160	37,045	-	621,552
Equipment		1,068,820	439,500	1,305,178	39,000	159,600	3,750	-	3,015,848
Overhead		3,046,958	644,810	1,087,183	9,000	800	72,979	-	4,861,730
Debt Service		580,047	-	2,550,979	-	-	-	-	3,131,026
Sub-total:		39,335,583	2,261,175	5,950,051	135,380	256,610	5,001,254	-	52,940,053
Other - LLC		125,138	-	-	-	-	-	367,862	493,000
Totals (B):		\$ 39,460,721	\$ 2,261,175	\$ 5,950,051	\$ 135,380	\$ 256,610	\$ 5,001,254	\$ 367,862	\$ 53,433,053
Difference (C) = (B - A):		\$ 2,194,678	\$ (292,771)	\$ 96,640	\$ (25,000)	\$ -	\$ -	\$ -	\$ 1,973,546

**OFFICE OF HAWAIIAN AFFAIRS
FY 2020 BUDGET REALIGNMENT #3**

ATTACHMENT 2
FY20

B. FY 2020 REALIGNMENT #1 (September 2019)

FY 2020 APPROVED REALIGNMENT #1	FTE	Core	Commercial Property Budget		Legacy Property Budget		Special Programs Budget		FY 2020
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	Total Operating Budget
Personnel & Fringe	179	\$ 16,933,809	\$ 285,390	\$ 77,875	\$ -	\$ -	\$ 764,248	\$ -	\$ 18,061,322
Program		1,484,603	81,475	368,276	2,700	4,550	109,017	-	2,050,621
Contracts		5,988,759	810,000	560,560	80,000	73,500	4,014,215	-	11,527,034
Grants		9,660,921	-	-	-	10,000	0	-	9,670,921
Travel		571,667	-	-	4,680	8,160	37,045	-	621,552
Equipment		1,068,820	439,500	1,305,178	39,000	159,600	3,750	-	3,015,848
Overhead		3,046,958	644,810	1,087,183	9,000	800	72,979	-	4,861,730
Debt Service		580,047	-	2,550,979	-	-	-	-	3,131,026
Sub-total:		39,335,583	2,261,175	5,950,051	135,380	256,610	5,001,254	-	52,940,053
Other - LLC		125,138	-	-	-	-	-	367,862	493,000
Totals (A):		\$ 39,460,721	\$ 2,261,175	\$ 5,950,051	\$ 135,380	\$ 256,610	\$ 5,001,254	\$ 367,862	\$ 53,433,053

C. FY 2020 REALIGNMENT #2 (June 2020)

FY 2020 APPROVED REALIGNMENT #2	FTE	Core	Commercial Property Budget		Legacy Property Budget		Special Programs Budget		FY 2020
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	Total Operating Budget
Personnel & Fringe	179	\$ 15,699,730	\$ 285,390	\$ 77,875	\$ -	\$ -	\$ -	\$ -	\$ 17,297,074
Program		1,128,778	81,475	368,276	2,700	4,550	37,045	-	1,978,649
Contracts		5,506,759	810,000	560,560	80,000	73,500	3,750	-	7,516,569
Grants		12,189,862	-	-	-	10,000	72,979	-	9,743,900
Travel		433,667	-	-	4,680	8,160	0	-	584,507
Equipment		1,202,824	439,500	1,305,178	39,000	159,600	0	-	3,012,098
Overhead		2,668,917	644,810	1,087,183	9,000	800	5,001,254	-	9,790,005
Debt Service		580,047	-	2,550,979	-	-	-	-	3,131,026
Sub-total:		39,410,583	2,261,175	5,950,051	135,380	256,610	5,115,028	-	53,053,827
Other - LLC		125,138	-	-	-	-	-	367,862	493,000
Totals (B):		\$ 39,535,721	\$ 2,261,175	\$ 5,950,051	\$ 135,380	\$ 256,610	\$ 5,115,028	\$ 367,862	\$ 53,546,827
Difference (C) = (B - A):		\$ 75,000	\$ -	\$ -	\$ -	\$ -	\$ 113,774	\$ -	\$ 113,774

**OFFICE OF HAWAIIAN AFFAIRS
FY 2020 BUDGET REALIGNMENT #3**

ATTACHMENT 2
FY20

C1. FY 2020 REALIGNMENT #2 (5.20.21 Updated) (June 2020)

FY 2020 APPROVED REALIGNMENT #2	FTE	Core	Commercial Property		Legacy Property		Other OHA		FY 2020
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded [a]	Others	Total Operating Budget
Personnel & Fringe	179	\$ 15,699,730	\$ 285,390	\$ 77,875	\$ -	\$ -	\$ 764,248	\$ -	\$ 17,297,074
Program		1,128,778	81,475	368,276	2,700	4,550	109,017	-	1,978,649
Contracts		5,506,759	810,000	560,560	80,000	73,500	4,014,215	-	7,516,569
Grants		12,189,862	-	-	-	10,000	0	-	9,743,900
Travel		433,667	-	-	4,680	8,160	37,045	-	584,507
Equipment		1,202,824	439,500	1,305,178	39,000	159,600	3,750	-	3,012,098
Overhead		2,668,917	644,810	1,087,183	9,000	800	72,979	-	9,790,005
Debt Service		580,047	-	2,550,979	-	-	-	-	3,131,026
Sub-total:		39,410,583	2,261,175	5,950,051	135,380	256,610	5,001,254	-	53,053,827
Other - LLC		125,138	-	-	-	-	-	367,862	493,000
Totals (A):	\$	\$ 39,535,721	\$ 2,261,175	\$ 5,950,051	\$ 135,380	\$ 256,610	\$ 5,001,254	\$ 367,862	\$ 53,546,827

[a] Typo error in previous printed version's Federal Funded figures and shown corrected.

D. FY 2020 REALIGNMENT #3 (May 2021)

FY 2020 PROPOSED REALIGNMENT #3	FTE	Core	Commercial Property		Legacy Property		Other OHA		FY 2020
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded [b]	Others	Total Operating Budget
Personnel & Fringe	179	\$ 15,699,730	\$ 285,390	\$ 77,875	\$ -	\$ -	\$ 883,940	\$ -	\$ 16,946,935
Program		1,128,778	81,475	368,276	2,700	4,550	97,875	-	1,683,654
Contracts		5,506,759	810,000	560,560	80,000	73,500	4,032,553	-	11,063,372
Grants		10,011,200	-	-	-	10,000	0	-	10,021,200
Travel		433,667	-	-	4,680	8,160	31,430	-	477,937
Equipment		1,202,824	439,500	1,305,178	39,000	159,600	3,750	-	3,149,852
Overhead		2,668,917	644,810	1,087,183	9,000	800	79,592	-	4,490,302
Debt Service		580,047	-	2,550,979	-	-	-	-	3,131,026
Sub-total:		37,231,921	2,261,175	5,950,051	135,380	256,610	5,129,140	-	50,964,277
Other - LLC		125,138	-	-	-	-	-	367,862	493,000
Totals (B):	\$	\$ 37,357,059	\$ 2,261,175	\$ 5,950,051	\$ 135,380	\$ 256,610	\$ 5,129,140	\$ 367,862	\$ 51,457,277

[b] - Previous printed version of "Federal Funded" column updated to show approved ANA budget.

Difference (C) = (B - A):	\$	(2,178,662)	\$	-	\$	-	\$	-	\$	127,886	\$	-	\$	(2,089,551)
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**OFFICE OF HAWAIIAN AFFAIRS
FY2021 BUDGET REALIGNMENT #3**

ATTACHMENT 3
FY21

ATTACHMENT 3

2020-2021 (FY21) Core and Non-Core Budgets

Original Budget to Realignment #1, Realignment #1 to Realignment #2, and Realignment #2 to Realignment #3

A. FY 2021 TOTAL OPERATING BUDGET (June 2019)

FY 2021 APPROVED BUDGET	FTE	Core	Commercial Property Budget		Legacy Property Budget		Special Programs Budget		FY 2021
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	Total Operating Budget
Personnel & Fringe	179	\$ 17,136,197	\$ 283,724	\$ -	\$ -	\$ -	\$ 779,582	\$ -	\$ 18,199,503
Program		1,192,677	59,475	380,057	3,000	9,550	114,191	-	1,758,950
Contracts		3,999,924	665,000	559,502	42,000	80,000	339,959	-	5,686,385
Grants		9,635,921	-	-	35,000	10,000	-	-	9,680,921
Travel		512,309	-	-	4,680	8,160	37,045	-	562,194
Equipment		1,027,036	945,200	1,053,578	28,500	95,798	1,250	-	3,151,362
Overhead		3,134,555	647,305	1,002,371	9,000	800	75,202	-	4,869,233
Debt Service		572,163	-	2,510,952	-	-	-	-	3,083,115
Other - LLC		-	-	-	-	-	-	195,000	195,000
Totals:		\$ 37,210,783	\$ 2,600,704	\$ 5,506,460	\$ 122,180	\$ 204,308	\$ 1,347,229	\$ 195,000	\$ 47,186,664

B. FY 2021 REALIGNMENT #1 (NO CHANGE) (September 2019)

C. FY 2021 REALIGNMENT #2 (5.20.21 Updated) (June 2020)

FY 2021 APPROVED REALIGNMENT #2	FTE	Core	Commercial Property		Legacy Property		Other OHA		FY 2021
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	OHA Funded	Total Operating Budget
Personnel & Fringe	179	16,029,911	\$ 280,608	\$ 103,884	\$ -	\$ -	\$ 703,286	\$ -	\$ 17,117,689
Program		1,127,811	18,975	384,357	2,500	4,550	110,491	-	1,648,684
Contracts		5,003,918	715,000	559,502	42,000	93,500	3,374,959	-	9,788,879
Grants [a]		11,788,500	-	-	-	-	0	-	11,788,500
Travel		585,771	-	-	4,680	8,160	37,045	-	635,656
Equipment		1,016,286	945,200	1,207,578	31,550	144,300	600	-	3,345,514
Overhead		3,215,155	647,305	1,082,371	9,000	-	65,592	-	5,019,423
Debt Service		572,163	-	2,510,952	-	-	-	-	3,083,115
Sub-total 1:		39,339,515	2,607,088	5,848,644	89,730	250,510	4,291,973	-	52,427,460
Other - LLC			-	-	-		-	195,000	195,000
Subtotal 2:		-	-	-	-	-	-	195,000	195,000
Totals (1 +2) :		\$ 39,339,515	\$ 2,607,088	\$ 5,848,644	\$ 89,730	\$ 250,510	\$ 4,291,973	\$ 195,000	\$ 52,622,460
Difference:		\$ 2,128,732	\$ 6,384	\$ 342,184	\$ (32,450)	\$ 46,202	\$ 2,944,744	\$ -	\$ 5,435,796

[a] Math error of \$5,000 in previous printed version's Grants figure and shown corrected.

**OFFICE OF HAWAIIAN AFFAIRS
FY2021 BUDGET REALIGNMENT #3**

ATTACHMENT 3
FY21

C1. FY 2021 REALIGNMENT #2 (5.12.21 Updated, Sequence Reordering) (June 2020)

FY 2021 APPROVED REALIGNMENT #2	FTE	Core	Commercial Property		Legacy Property		Other OHA		FY 2021
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	Others	Total Operating Budget
Contracts		5,003,918	715,000	559,502	42,000	93,500	3,374,959	-	9,788,879
Debt Service		572,163	-	2,510,952	-	-	-	-	3,083,115
Equipment		1,016,286	945,200	1,207,578	31,550	144,300	600	-	3,345,514
Grants		11,788,500	-	-	-	-	0	-	11,788,500
Overhead		3,215,155	647,305	1,082,371	9,000	-	65,592	-	5,019,423
Personnel & Fringe	179	16,029,911	280,608	103,884	-	-	703,286	-	17,117,689
Program		1,127,811	18,975	384,357	2,500	4,550	110,491	-	1,648,684
Travel		585,771	-	-	4,680	8,160	37,045	-	635,656
Sub-total 1:		39,339,515	2,607,088	5,848,644	89,730	250,510	4,291,973	-	52,427,460
Other - LLC			-	-	-		-	195,000	195,000
Subtotal 2:		-	-	-	-	-	-	195,000	195,000
Totals (1 +2) :		\$ 39,339,515	\$ 2,607,088	\$ 5,848,644	\$ 89,730	\$ 250,510	\$ 4,291,973	\$ 195,000	\$ 52,622,460

D. FY 2021 BUDGET REALIGNMENT #3 (May 2021)

FY 2021 PROPOSED REALIGNMENT #3	FTE	Core	Commercial Property		Legacy Property		Other OHA		FY 2021
			Kaka'ako Makai	Nā Lama Kukui	Palauea Culture Preserve	WKOP Mgmt Fund	Federal Funded	Others	Total Operating Budget
Contracts		4,402,735	715,000	660,105	42,000	93,500	3,399,257	-	9,312,597
Debt Service		548,637	-	2,510,952	-	-	0	-	3,059,589
Equipment		1,015,114	929,200	1,193,975	31,550	144,300	600	-	3,314,739
Grants		14,444,592	-	-	-	-	0	-	14,444,592
Overhead		3,073,374	663,705	995,371	9,000	-	73,605	-	4,815,055
Personnel & Fringe	179	13,881,194	280,608	103,884	-	-	883,821	-	15,149,507
Program		795,677	18,575	384,357	2,500	4,550	97,834	-	1,303,493
Travel		118,192	-	-	4,680	8,160	31,310	-	162,342
Sub-total 1:		38,279,515	2,607,088	5,848,644	89,730	250,510	4,486,427	-	51,561,914
Other - LLC			-	-	-		-	195,000	195,000
Subtotal 2:		-	-	-	-	-	-	195,000	195,000
Totals (1 +2) :		\$ 38,279,515	\$ 2,607,088	\$ 5,848,644	\$ 89,730	\$ 250,510	\$ 4,486,427	\$ 195,000	\$ 51,756,914
Difference:		\$ (1,060,000)	\$ -	\$ -	\$ -	\$ -	\$ 194,454	\$ -	\$ (865,546)

FY21 Mission Aligned & Strategic Beneficiary and Community Investments via Grants, Contracts and Sponsorships
Various Programs

A. SUMMARY

		FY21 Realignment #2			FY21 Budget Realignment #3					
Category	Initial Approved Total	Realign #2 Addition	FN	Approved Realignment #2	BAE-RM #21-01	BAE-RM #21-01	BAE-RM #21-03, 04,	Realign #3 Adjustments	Realign #3 Request	Proposed (Post) Realignment #3
	(1)	(2)		(3) = (1) + (2)	(4)	(5)	(6)	(7)	(8) = (4+5+6+7)	(9) = (3) + (8)
GRANTS CATEGORY										
56510 GRANTS IN AID - PROGRAM GRANTS	\$ 830,000	\$ -		\$ 830,000	\$ -	\$ 214,253	\$ -	\$ -	\$ 214,253	\$ 1,044,253
56530 GRANTS IN AID - COMMUNITY GRANTS	\$ 3,700,000	\$ 1,394,079		\$ 5,094,079	\$ 1,000,000	\$ -	\$ -	\$ 388,277	\$ 1,388,277	\$ 6,482,356
56540 GRANTS IN AID - LEVEL II GRANTS	\$ 4,750,000	\$ 750,000		\$ 5,500,000	\$ 1,170,000	\$ -	\$ -	\$ 107,983	\$ 1,277,983	\$ 6,777,983
56560 GRANTS IN AID - SPONSORSHIPS	\$ 339,421	\$ 25,000		\$ 364,421	\$ -	\$ (205,921)	\$ -	\$ (18,500)	\$ (224,421)	\$ 140,000
	\$ 9,619,421	\$ 2,169,079		\$ 11,788,500	\$ 2,170,000	\$ 8,332	\$ -	\$ 477,760	\$ 2,656,092	\$ 14,444,592
CONTRACTS CATEGORY										
Legal Proviso - Professional Services	\$ 1,048,000	\$ 250,000		\$ 1,298,000						\$ 1,298,000
	\$ 10,667,421	\$ 2,419,079		\$ 13,086,500						\$ 15,742,592
PROGRAM CATEGORY										
Media Buy	\$ 149,000			\$ 149,000						\$ 149,000
Contract - Ka Wai Ola - Production & Delivery	\$ 356,664			\$ 356,664						\$ 356,664
	\$ 505,664			\$ 505,664						\$ 505,664
	\$ 11,173,085	\$ 2,419,079		\$ 13,592,164						\$ 16,248,256

FY21 Mission Aligned & Strategic Beneficiary and Community Investments via Grants, Contracts and Sponsorships
Various Programs
B. Classification I - Beneficiary and Community Investments via Grants Subject to HRS 10-17 Process

		FY21 Realignment #2		FY21 Budget Realignment #3							
GRANTS Description	Initial Approved Total	Realign #2 Addition	FN	Approved Realignment #2	FN	BAE-RM #21-01	BAE-RM #21-01	BAE-RM #21-03, 04, 05	Realign #3 Adjustments	Realign #3 Request	Proposed (Post) Realignment #3
	(1)	(2)		(3) = (1) + (2)		(4)	(5)	(6)	(7)	(8) = (4+5+6+7)	(9) = (3) + (8)
Account: 56510 Program A. Social Services	\$ 830,000	\$ -		\$ 830,000			\$ 214,253			\$ 214,253	\$ 1,044,253
Account: 56530 Community A. Education - Higher Education											
	\$ 500,000	\$ -		\$ 500,000						0	\$ 500,000
B. Culture	\$ 500,000	\$ -		\$ 500,000						-	\$ 500,000
C. Health	\$ 500,000	\$ -		\$ 500,000						-	\$ 500,000
D. Education	\$ 500,000	\$ -		\$ 500,000						-	\$ 500,000
E. Housing	\$ 500,000	\$ -		\$ 500,000						-	\$ 500,000
F. Income	\$ 500,000	\$ -		\$ 500,000						-	\$ 500,000
G. Land	\$ 500,000	\$ -		\$ 500,000						-	\$ 500,000
Sub-total:	\$ 3,000,000	\$ -		\$ 3,000,000		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000
H. 'Ahahui	\$ 200,000	\$ -		\$ 200,000	(i)			\$ (51,314)	\$ (11,035)	\$ (62,349)	\$ 137,651
Total 56530 Community	\$ 3,700,000	\$ -		\$ 3,700,000		\$ -	\$ -	\$ (51,314)	\$ (11,035)	\$ (62,349)	\$ 3,637,651
Account: 56540 Level II											
A. Kulia	\$ 250,000	\$ 250,000	[a]	\$ 500,000						-	\$ 500,000
B. Charter Schools	\$ 730,000	\$ -		\$ 730,000						-	\$ 730,000
B. Charter Schools	\$ 770,000	\$ -		\$ 770,000						-	\$ 770,000
	\$ 1,750,000	\$ 250,000		\$ 2,000,000						\$ -	\$ 2,000,000
C. DHHL	\$ 3,000,000	\$ -		\$ 3,000,000						\$ -	\$ 3,000,000
Total 56540 Level II	\$ 4,750,000	\$ 250,000		\$ 5,000,000		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000,000
Account:56550 Sponsorships											
A. BOT	\$ 135,000	\$ -		\$ 135,000			\$ (135,000)			(135,000)	\$ -
B. Kaiaulu (fka CEO)	\$ 70,921	\$ -		\$ 70,921			\$ (70,921)			(70,921)	\$ -
Total 56550 Sponsorships	\$ 205,921	\$ -		\$ 205,921		\$ -	\$ (205,921)	\$ -	\$ -	\$ (205,921)	\$ -
Sub-total:	\$ 9,485,921	\$ 250,000		\$ 9,735,921		\$ -	\$ 8,332	\$ (51,314)	\$ (11,035)	\$ (54,017)	\$ 9,681,904
FY21 Grants Recommendations - Via Competitive Process											
A. COVID-19 Responses	\$ -	\$ 500,000	[c]	\$ 500,000		\$ 1,170,000			\$ 107,983	\$ 1,277,983	\$ 1,777,983
B. Homestead Community Grants	\$ -	\$ 250,000	[d]	\$ 250,000				\$ 28,095	\$ 21,905	\$ 50,000	\$ 300,000
C. Charter School Major Repairs & Maintenance	\$ -	\$ 500,000	[e]	\$ 500,000						\$ -	\$ 500,000
D. Iwi Kupuna Repatriation and Reinternment Community Grants	\$ -	\$ 144,079	[f]	\$ 144,079				\$ 23,219	\$ 50,000	\$ 73,219	\$ 217,298
E. NH Teacher Education & Professional Development	\$ -	\$ 250,000	[g]	\$ 250,000							\$ 250,000
F. Community & 'Ohana Based Program Grants	\$ -	\$ 250,000	[h]	\$ 250,000		\$ 1,000,000			\$ 327,407	\$ 1,327,407	\$ 1,577,407
	\$ -	\$ 1,894,079		\$ 1,894,079		\$ 2,170,000	\$ -	\$ 51,314	\$ 507,295	\$ 2,728,609	\$ 4,622,688
Total - Grants	\$ 9,485,921	\$ 2,144,079		\$ 11,630,000		\$ 2,170,000	\$ 8,332	\$ -	\$ 496,260	\$ 2,674,592	\$ 14,304,592

Footnotes:
[a] - To increase Kulia grants amount to pilot amount of \$500,000.
[b] - Pending Ad Hoc Committee on Grants and Sponsorships recommendation and Board action.
[c] - To provide additional beneficiary supports as a result of the impacts of COVID-19 (e.g., food, living and household items, testing, economic recovery investments); final recommendation and approval to be presented to the Board based on assessment.
[d] - To provide homestead community grant opportunities to strengthen homestead beneficiaries, families and communities.
[e] - To strengthen and improve Hawaiian focused charter school learning environment(s) via facilities repair, maintenance, replacement.
[f] - To support community based iwi kupuna repatriation and reinternment efforts.
[g] - To increase Native Hawaiian teacher recruitment and retention in kaiapuni and Hawaiian focused charter schools.
[h] - To support 'ohana-based programming that strengthen Native Hawaiian well-being, including physical, spiritual, mental and emotional health. Note: includes programming that promote prevention and intervention to address mental, physical, and substance abuse issues.
(i) - Corrected to \$200,000, prior version \$250,000.

FY21 Mission Aligned & Strategic Beneficiary and Community Investments via Grants, Contracts and Sponsorships
Various Programs

C. Classification III - Beneficiary and Community Investments via Sponsorships

		FY21 Realignment #2			FY21 Budget Realignment #3											
Grants Description - Sponsorships	Initial Approved Total	Realign #2 Addition	FN	Approved Realignment #2	FN	BAE-RM #21-01		BAE-RM #21-01		BAE-RM #21-03, 04,		Realign #3 Adjustments	FN	Realign #3 Request		Proposed (Post) Realignment #3
	(1)	(2)		(3) = (1) + (2)		(4)		(5)		(6)		(7)		(8) = (4+5+6+7)		(9) = (3) + (8)
Community Engagement																
A. Coalition Building	\$ 20,000			\$ 20,000								\$ (20,000)		\$ (20,000)		\$ -
B. Association of Hawaiian Civic Clubs	\$ 10,000			\$ 10,000								\$ (10,000)		\$ (10,000)		\$ -
C. Council for Native Hawaiian Advancement	\$ 10,000			\$ 10,000								\$ -		\$ -		\$ 10,000
D. Onipa`a Celebration	\$ 5,000			\$ 5,000								\$ -		\$ -		\$ 5,000
Total - Community Engagement	\$ 45,000	\$ -		\$ 45,000		-		-		-		\$ (30,000)		\$ (30,000)		\$ 15,000
Advocacy																
A. NH Congressional Fellowship	\$ 50,000			\$ 50,000								\$ (50,000)		\$ (50,000)		\$ -
B. Papahanaumokuakea MNM	\$ 15,000			\$ 15,000								\$ (10,000)		\$ (10,000)		\$ 5,000
C. Alaska Federation of Natives	\$ 5,000			\$ 5,000										\$ -		\$ 5,000
D. National Congress of American Indians	\$ 5,000			\$ 5,000										\$ -		\$ 5,000
E. National Indian Education Association	\$ 5,000			\$ 5,000										\$ -		\$ 5,000
F. National Museum of the American Indians	\$ 5,000			\$ 5,000								\$ (5,000)		\$ (5,000)		\$ -
G. Pacific Day - NZ Embassy	\$ 3,500			\$ 3,500	(b)							\$ (3,500)		\$ (3,500)		\$ -
Total - Advocacy	\$ 88,500	\$ -		\$ 88,500								\$ (68,500)		\$ (68,500)		\$ 20,000
Community Engagement																
H. Nā Mamo Makamae o Ka Po'e Hawai'i: Living Treasures of the Hawaiian People recognizes individuals and groups in Hawai'i and on the continent who have contributed to the preservation and perpetuation of Hawaiian cultural and artistic traditions and properties (2017,2019)	\$ -	\$ 15,000	[a]	\$ 15,000								(15,000)		\$ (15,000)		\$ -
H-1: Sovereign Council of the Hawaiian Homestead Associations, Homestead Summit, December 2020												10,000	(c)	\$ 10,000		\$ 10,000
H-2: Native Hawaiian Chamber of Commerce, O'o Awards, December 2020												5,000	(c)	\$ 5,000		\$ 5,000
I. Moanalua Gardens Foundation/Prince Lot Hula Festival		\$ 10,000		\$ 10,000								5,000	(c)	\$ 5,000		\$ 15,000
J. Merrie Monarch Festival	\$ -			\$ -								15,000	(c)	\$ 15,000		\$ 15,000
K. Queen Liliuokalani Keiki Hula Competition	\$ -			\$ -								15,000	(c)	\$ 15,000		\$ 15,000
L. Lunalilo Home Event, Project, Program	\$ -			\$ -								15,000	(c)	\$ 15,000		\$ 15,000
M. Iolani Palace Event, Project, Program	\$ -			\$ -								15,000	(c)	\$ 15,000		\$ 15,000
N. 'Aha Punana Leo Event, Project, Program	\$ -	\$ -		\$ -								15,000	(c)	\$ 15,000		\$ 15,000
Grand Total - Sponsorships	\$ 133,500	\$ 25,000		\$ 158,500		\$ -		\$ -		\$ -		\$ (18,500)		\$ (18,500)		\$ 140,000

[a] - Biennial recognition of living treasures
(b) - Corrected to \$3500, prior version \$3000.
(c) - Represents a reallocation of Board approved programmatic sponsorships from Budget Realignment #2 (June 2020), that were not subject to the February 2018 imposed moratorium. The proposed reallocation is a mixture of previously designated "Legacy Sponsorships" that used to be presented as a line item and approved by the Board; a recognition of needs and proposed new line items aligned to the draft Strategic Granting Policy introduced in the May 6, 2021 Board workshop.

FY21 Mission Aligned & Strategic Beneficiary and Community Investments via Grants, Contracts and Sponsorships
Various Programs
[D, Classification II - Beneficiary and Community Investments via Procurement Subject to HRS 103D](#)

		FY21 Realignment #2			FY21 Budget Realignment #3										
Description	Initial Approved Total	Realign #2 Addition	FN	Approved Realignment #2	BAE-RM #21-01		BAE-RM #21-01		BAE-RM #21-03, 04, --		Realign #3 Adjustments		Realign #3 Request		Proposed (Post) Realignment #3
	(1)	(2)		(3) = (1) + (2)	(4)		(5)		(6)		(7)		(8) = (4+5+6+7)		(9) = (3) + (8)
CONTRACTS															
A. Legal Proviso - Professional Services	\$ 1,048,000	\$ 250,000	[a]	\$ 1,298,000									\$ -		\$ 1,298,000
B. Media Buy/Contract - Media buyer contract includes Merrie Monarch \$25k, KS Song Contest \$10k, Hokus \$10k, civic engagement \$20k, advocacy initiatives \$20k + New Strategic Plan \$39k	\$ 124,000	\$ -		\$ 124,000									\$ -		\$ 124,000
PROGRAMS															
C. Media Buy/Contract - Keiki Hula	\$ 25,000	\$ -		\$ 25,000									\$ -		\$ 25,000
E. Contract - Ka Wai Ola - Production & Delivery	\$ 356,664	\$ -		\$ 356,664									\$ -		\$ 356,664
Grand Total - Contracts	\$ 1,553,664	\$ 250,000		\$ 1,803,664	\$ -		\$ -		\$ -		\$ -		\$ -		\$ 1,803,664

Footnotes:
[a] - Increase beneficiary and issue (e.g., water, land, iwi kupuna) supports

PHONE (808) 594-1888
Committee on Resource Management
Trustee John Waihe'e IV, *At-Large* - Chair
Trustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair
Members

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*



FAX (808) 594-1865

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, May 25, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477,
Webinar ID: 941 3011 4084

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Nineteenth Supplementary Proclamation dated April 9, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 941 3011 4084

AGENDA

- I. Call to Order
- II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- III. Approval of Minutes
 - A. April 20, 2021
 - B. May 11, 2021
- IV. Unfinished Business – None
- V. **New Business**
 - A. ACTION ITEM RM #21-06: Approval of FY21 Budget Realignment #3 –
Core (Personnel and Non-Personnel) and Non-Core Budgets†
 - B. Workshop: T-Trustee Level Draft Policies related to Endowment Strategy:
Endowment Investment Policy, Spending Policy, Debt Policy; and
C-CEO Level Draft Policies related to Treasury Management
 - C. Workshop: Preliminary OHA Biennium Budget for the Fiscal Biennium Periods
2021-2022 (FY22) and 2022-2023 (FY23) – pre beneficiary sharing
- VI. Announcements
- VII. Adjournment



OFFICE OF HAWAIIAN AFFAIRS

Interoffice Memorandum

Date: May 21, 2021

To:

Ke Kauhuhu Carmen Hulu Lindsey
Ke Kua Leina‘ala Ahu Isa
Ke Kua Dan Ahuna
Ke Kua Kaleihikina Akaka
Ke Kua Keli‘i Akina

Ke Kua Luana Alapa
Ke Kua Brendon Kalei`āina Lee
Ke Kua Keola Lindsey
Ke Kua John Waihe‘e IV

From: Sylvia M. Hussey, Ed.D., Ka Pouhana, Chief Executive Officer 

cc: Casey K. Brown, Ka Pou Nui, Chief Operating Officer
Ramona G. Hinck, Ka Pou Kihi Kanaloa Wai, Chief Financial Officer
Ryan H. Lee, Pou Kako`o Mahele Kumupa’a Kūikawā, Interim
Investment Manager

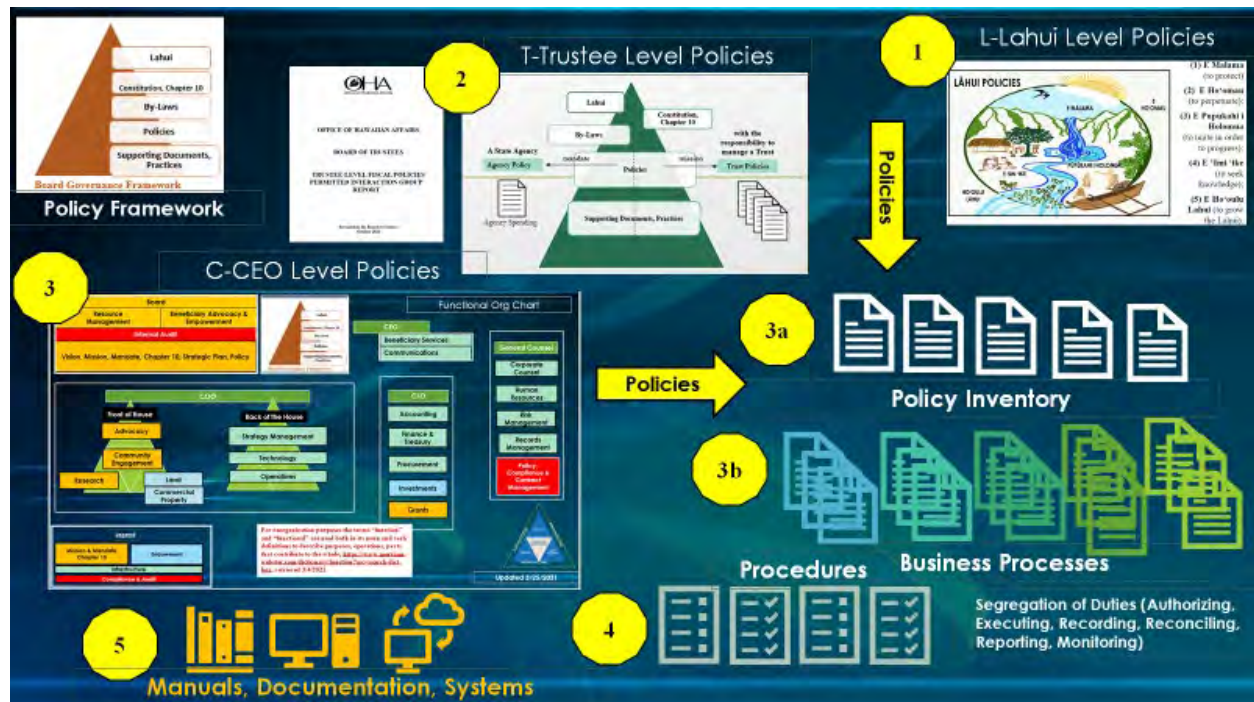
Subject: Workshop: T-Trustee Level Draft Policies related to Endowment Strategy:
Endowment Investment Policy, Spending Policy, Debt Policy; and C-CEO Level
Draft Policies related to Treasury Management – Transmittal Memo

Attachments: (A) – Trustee-Level Fiscal Policies Permitted Interaction Group Report, October 2020; (B) – OHA Policies (draft) Summary Points; (C) T-Level DRAFT Endowment Investment Policy; (D) – T-Level DRAFT Endowment Spending Policy; (E) – T-Level DRAFT Debt Management Policy; (F) – C-Level Treasury Management Policies; (G) – Current Fiscal Policies; and (H) – Debt Management Policy and Implementation Procedures - 2019

I. Purpose and Background

The purpose of this memo is to transmit to the Board of Trustees (BOT) workshop materials agendized as follows for the Tuesday, May 25, 2021 Committee on Resource Management meeting: Workshop: T-Trustee Level Draft Policies related to Endowment Strategy: Endowment Investment Policy, Spending Policy, Debt Policy; and C-CEO Level Draft Policies related to Treasury Management.

At the May 6, 2021 Board meeting, a proposed OHA Policy Framework was presented by Administration and discussed. The figure on the next page illustrates the proposed policy framework.



II. Trustee Level Fiscal Policies Permitted Interaction Group Report, October 2020

Attachment A is the Trustee-Level Fiscal Policies Permitted Interaction Group (PIG) Report as delivered to the BOT in October 2020. Consistent with the recommendations from the Land and Commercial Property (LCP) PIG report delivered in April 2021¹:

E. Recommendations re: Other Fiscal Policies

The following recommendations are made by the Permitted Interaction Group:

1. Acknowledge the distribution of the Permitted Interaction Group re: the investigation of the development of specified T-Level Trustee policies for OHA's Board Governance Framework report at the October 22, 2020 Board meeting, with no discussion or action needed at the October 29, 2020 Board meeting (Appendix F); and
2. Direct Administration to utilize the report to bring policy recommendations forward to the Board.

Because of the LCP PIG report recommendation, Administration utilized the report to bring forward the draft policies in the workshop.

¹ Action Item BOT #21-04: Accept the Report of the Land and Commercial Property Permitted Interaction Group, April 15, 2021

III. Workshop Materials: Attachments B to F

Administration recommends that the Trustees focus on the following Attachments for the workshop:

- Attachment B – the workshop discussion information and prompt document that Administration will facilitate the discussion from;
- Attachment C - T-Level DRAFT Endowment Investment Policy;
- Attachment D – T-Level DRAFT Endowment Spending Policy;
- Attachment E - T-Level DRAFT Debt Management Policy; and
- Attachment F - C-Level Treasury Management Policies.

All discussion prompts are contained at the bottom of each slide in Attachment B.

IV. Reference Materials: Attachment G - Current Fiscal Policies

Attachment G presents the following current fiscal policies:

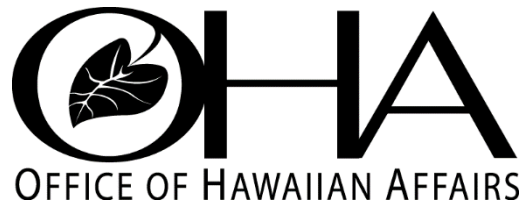
1. Native Hawaiian Trust Fund Investment Policy Statement, 2017;
2. Native Hawaiian Trust Fund Spending Policy, 2014, noting the Fiscal Reserve Withdrawal Guidelines have been eliminated and replaced with the Fiscal Stabilization Fund Policy, 2019;
3. Real Estate Vision, Mission and Strategy, 2007 – Under review by the April 2021 BOT authorized Land and Commercial Property Permitted Interaction Group (PIG);
4. Kaka‘ako Makai Policy, 2012, noting the policy has since been amended with the 3rd amendment most recently approved in April 2021; and
5. Committee on Land Property and Property Guidelines, 2014 - Under review by the April 2021 BOT authorized Land and Commercial Property Permitted Interaction Group (PIG).

V. Reference Material: Attachment H – Debt Management Policy Related Actions – 2019

Attachment H documents the Board action as a result of related work by Administration and Board staff for the Debt Management Policy approved in May 2019, followed by the implementation procedures in September 2019.

VI. Conclusion

As always, please feel free to contact Administration with any questions or additional information needed before the workshop.



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.

Workshop re: T-Trustee Level Draft Policies related to Endowment Strategy, Endowment Investment Policy, Spending Policy, Debt Policy; and C-CEO Level Draft Policies related to Treasury Management

Committee on Resource Management
Tuesday, May 25, 2021

T-Trustee Level: Endowment Investment Policy

(highlights)

- Combine Hawaii Real Estate and Financial Assets into one investment policy.
- Adopt an investment policy model that is easier to understand and implement.
- Change the current investment program structure from Manager-of-Managers to traditional Endowment Model – select the best managers for each asset class.
- Update the strategic asset allocation along the line of endowment peers. Increase exposure to equities and alpha strategies to improve the expected long-term return.
- Describes the role of Hawaii Real Estate – what type of properties are included and excluded in the endowment.
- Given the legacy issues, Hawaii Commercial Real Estate does not have a target asset allocation, but OHA needs to weigh into considerations when evaluating any other capital investments.

Key Questions:

- Should OHA Trustees delegate investment manager selection? e.g. Investment Advisory Committee?
- Hawaii Real Estate exposure in the Endowment? What is the max level? How does OHA manage this risk?

Trustees will need to accept risk with having a large HIRE exposure.

T-Trustee Level: Spending Policy

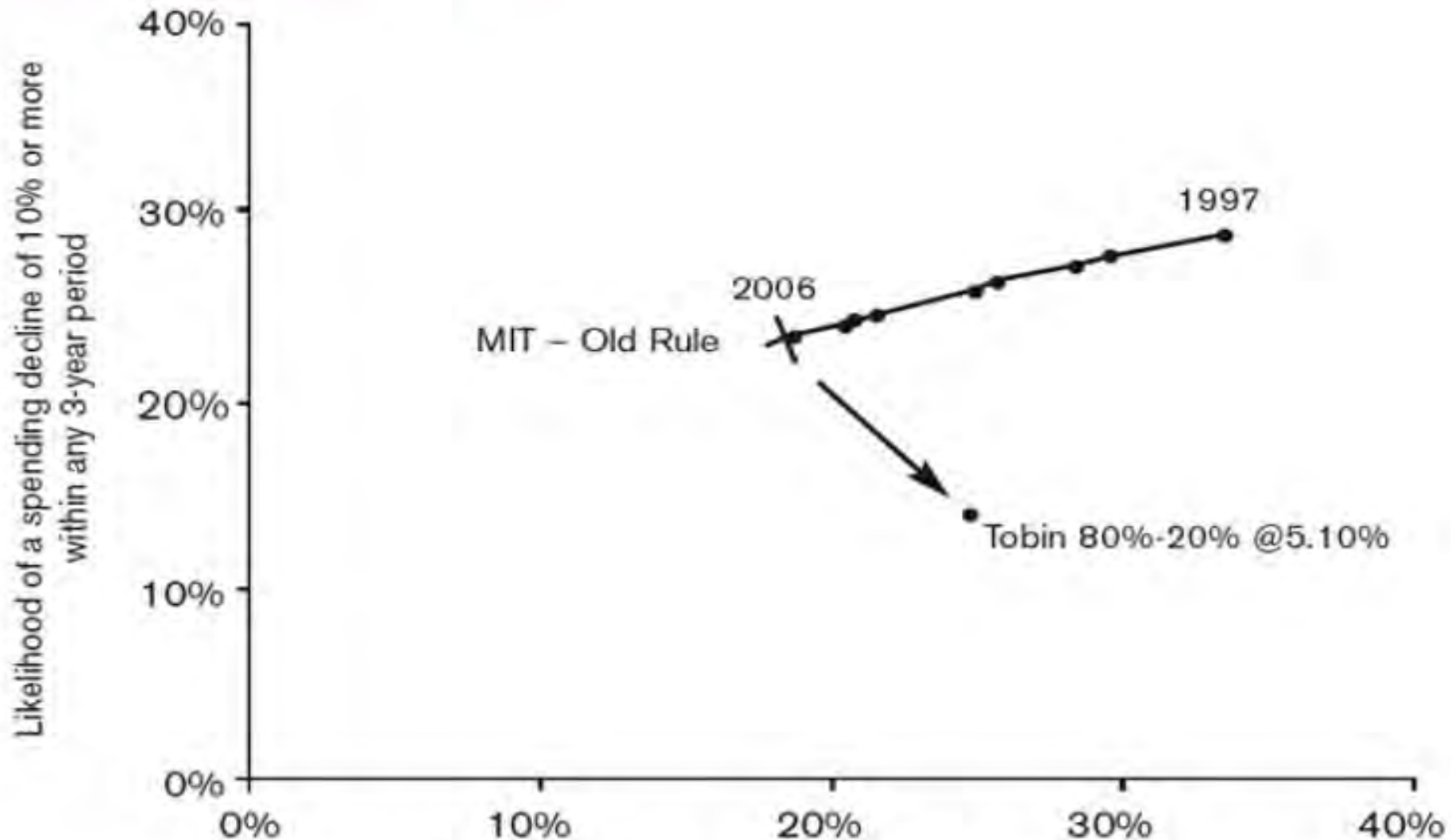
3

- Goal – clarify and update Endowment spending policy
- Describes and determines the annual flow of funds from the Endowment to the Operating budget.
- Hybrid Spending model:
 - Financial Assets – 20 quarter Moving Average
 - Hawaii Commercial Real Estate – Net Cash Flow
 - Why not spend on market value? – HIRE cannot generate sufficient net income to contribute its share of 5% rolling market average spend. Can lead to Financial assets contributing more, which could hurt long-term results. Need more frequent appraisals to determine market value. OHA can update spend policy when we have more data points.

Key Questions:

- There are alternatives to the moving average spending rule that provide better smoothing and spending decline risk. Eg. Tobin Spending rule - (NEXT PAGE). Many of our peers use the moving average for simplicity.
- Do we need to add one-time exemptions? Fiscal Stabilization Policy and a Line of Credit helps with this.

Results of Applying the Tobin Rule



4

Distribution =
80% x
(Distribution in
Prior Year,
Increased by
Inflation)
+
20% x
(5.1% x Market
Value of
Endowment)

T-Trustee Level: Debt Policy

Goal – Create an Enterprise Debt Policy for OHA that is synchronized with OHA’s Spend Policy and Endowment Fund Investment Policy Statement.

- Two main uses of Debt:
 - Endowment – Hawaii Commercial Real Estate financing and Financial Assets portfolio leverage
 - Organization - Mission/Program-related debt
- Proposed Guidelines:
 - Debt to Endowment Value - no more than 20%
 - Debt Service to Operations: no more than 8%

Key Questions:

- What is OHA’s credit rating? This helps with identifying key ratios and guidelines
- Endowment Fund Value – requires more frequent real estate appraisals to monitor thus favoring a more conservative ratio.

C-CEO Level: Treasury Management Policies

Covers the Treasury functions of the Resource Management Paia

- Delegation of Authority to CEO, CFO
- Assigns roles and responsibilities, authorizations, and guidelines
- Policies for Treasury functions:
 - Banking
 - Cash management
 - Investment management
 - Debt management
 - Relationship management.

Key Questions:

- Authorization/Approval amounts – need guidance, for example:
 - Disbursements >\$1,000,000 , need 2nd signature authorization by Chair
 - Cash Transfers, Draws from NHTF > \$1,000,000 – Administration>RM Chair>Board Chair
 - Rebalancing of NHTF – Administration>RM Chair>Board Chair

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY

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THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND**STATEMENT OF INVESTMENT OBJECTIVES AND POLICY****Section 1. Introduction and Purpose****1.1 Introduction**

The Investment Policy Statement governs the investment of assets held in the Office of Hawaiian Affairs Native Hawaiian Trust Fund (the "Endowment Fund" or "Fund") which comprises of both Financial Assets and Hawai'i Commercial Real Estate. This statement represents the Office of Hawaiian Affairs Board of Trustees' (BOT) philosophy regarding the investment of the Endowment Fund's assets and is effective until modified. It is also intended that the investment policies be sufficiently specific to be meaningful, but adequately flexible to be practicable.

1.2 The Trust

The Office of Hawaiian Affairs (OHA) mission is to malama (protect) Hawai'i's people and environmental resources and the Trust Fund's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle, and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally. The overall goal is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA's mission.

1.3 Purpose of the Investment Policy Statement.

In keeping with the fiduciary requirements and obligations of all parties involved in managing the Endowment Fund under existing Federal and State laws, the purposes of this Policy Statement (the "Statement") is to document the investment management process by:

- a. Identifying the key roles and responsibilities relating to the ongoing management of the Endowment Fund
- b. Setting forth an investment structure for the Endowment assets
- c. Establishing formalized criteria to measure, monitor, and evaluate the Fund's performance results regularly
- d. Encouraging effective communication among all fiduciaries, including external parties engaged to execute investment strategies

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY

Section 2. General Objectives

2.1 Financial Objectives

- a. To provide permanent funding for OHA's programs. This objective addresses the need to ensure intergenerational equity by providing the same level of program support in the future as it provides today.
- b. To maintain the purchasing power of the Endowment after spending and inflation. The objective of preserving purchasing power emphasizes the need to take a long-term perspective in formulating spending and investment policies. Long-term perspective means investing for periods of 10 years plus.
- c. To provide a predictable and stable source of income for OHA's programs. This objective is achieved through the spending policy.
- d. To provide a maximum level of return consistent with prudent risk levels. This objective assumes the construction of a global, equity-oriented, diversified portfolio coupled with active risk management.

2.2 Spending Policy

The annual amount withdrawn from the Fund shall constitute no more than five percent (5%) annually of the Financial Assets market value and the current year Net Cash Flow of Hawai'i Commercial Real Estate portfolio. The calculation of the maximum withdrawal amounts is outlined in the Endowment Spending Policy.

- a. For Financial Assets – Rolling 20 quarter market average
- b. For Hawai'i Real Estate – Current year Net Cash Flow

2.3 Investment Objectives

- a. Spending Requirement: Based upon the long-term spending policy, the Endowment must attain an average annual real total return of 5% over the long term (CPI +5% objective). The real total return is adjusted for inflation by the Consumer Price Index. Using the historical average inflation rate of 2.0% implies a nominal total return hurdle of 7% to meet the spending requirement.
- b. Policy Benchmark: The investment performance of the Fund will also be evaluated, on a risk-adjusted basis, against an investable blend of market indices. Over the long-term, the Fund's diversification is expected to generate risk-adjusted returns that meet or exceed those of blended market indices. This comparison is useful in evaluating how successfully the underlying strategies have been implemented and the effectiveness of tactical departures from the strategic asset allocation.

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY

- c. The investment performance of the Fund will also be evaluated against a secondary policy benchmark consisting of a 70% equity and 30% bond blend of market indices. This comparison is useful in evaluating the effectiveness of an active management program versus a passive management approach.
- d. It is recognized that the investment objective stated above may be difficult to attain over every five years but should be attainable over a series of five- and ten-year periods.

Section 3. Investment Philosophy and Structure

3.1 Investment Philosophy

The investment of the Endowment Fund is based on a set of beliefs and practices:

- a. Invest for the long-term
 - 1. Preserve capital for use by future generations
 - 2. Focus on asset allocation as the primary determinant of return
 - 3. Avoid short-term speculative activity
 - 4. Accept illiquidity if justified by higher alpha
 - 5. Bias towards equity investments
- b. Build a well-diversified portfolio
 - 1. Limit risk by combining uncorrelated strategies
 - 2. Maintain meaningful exposure to major capital markets
 - 3. Build concentrated positions where the conviction is high
 - 4. Tilt towards value strategies
 - 5. Employ fundamental research-driven and bottom-up strategies
- c. Take advantage of global market inefficiencies
 - 1. Invest primarily with active managers
 - 2. Use indexed and enhanced indexed strategies where appropriate
 - 3. Incorporate investment ideas sourced through OHA Staff and Investment Consultant
 - 4. Focus resources on inefficient markets (e.g., venture capital, hedge funds, emerging markets)
 - 5. Manage the portfolio exposures actively in response to changing market conditions
- d. **Hawai'i Real Estate**
 - 1. Consistent with OHA's Mission, values, goals, and resources
 - 2. Generate sufficient economic returns to support spending contribution
 - 3. It is expected that Hawai'i Real Estate will remain a substantial portion of the Endowment given OHA's legacy and identity as a Native Hawaiian

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND**STATEMENT OF INVESTMENT OBJECTIVES AND POLICY**

organization.

3.2 Investment Management Structure

- a. The Endowment is invested with external investment managers. External investment management firms are selected based on factors including, but not limited to the following:
 1. Experience of key personnel and succession plan where appropriate
 2. Consistency in investment approach
 3. Effectiveness of decision-making process
 4. Assets under management and plans for managing future capacity
 5. Organizational structure including administration, back-office support, risk management, and reporting
 6. Firm's ethical and financial viability
 7. Performance record
 8. Fees
 9. Structural fit within the Endowment Fund
- b. The Endowment may also be invested internally in passive equity and bond indices through cash market securities or derivative instruments.
- c. Equities, (including public and private global equity) Real Assets, Absolute Return, and Fixed Income will primarily be managed separately. In the interest of diversification, the equity portion of the portfolio will be placed with managers who have distinct and different investment philosophies. The investment managers have the discretion to manage the assets in their portfolios to best achieve the investment objectives and requirements outlined in this policy statement and their investment guidelines.
- d. Hawai'i Real Estate represents OHA's directly owned Commercial Real Estate holdings that are economically focused.

Section 4. Roles and Responsibilities

Key responsibilities in the oversight and management of the Endowment Fund are as follows:

- a. Trustees. The Trustees shall carry out their fiduciary responsibility for the Endowment Fund by:
 1. Setting broad direction and policy, including approving asset allocation targets and ranges, Benchmarks, Spending Policy, and other guidelines for management.
 2. Ensuring the Endowment Fund management is appropriately resourced.
 3. Monitoring and evaluating overall investment results, taking into account the effect of fees and expenses.

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4. Delegate authority to the CEO to manage the Endowment Fund due to the necessary high level of knowledge and expertise required. This includes appointing the custodian, consultant, investment managers, and Investment Advisory Committee (IAC) members, and hiring and terminating external investment managers.
 5. Trustees are responsible for obtaining and maintaining the necessary training and education required to carry out his/her duties at OHA. Trustees may be required to travel to industry conferences and participate in educational forums as opportunities arise.
- b. Management
1. For Financial Assets, OHA chooses to utilize external investment managers. Internal management shall formulate and implement the overall strategy, select and monitor external investment managers, monitor the portfolio's risk and return, and rebalance the asset allocation within approved guidelines. Internal management will also leverage the expertise of OHA's Investment Advisory Committee and external investment consultant.
 2. For Hawai'i Commercial Real Estate, OHA chooses to utilize internal management of the assets. Management shall formulate and implement an overall strategy incorporating both economic and cultural focus. Internal management will also leverage the expertise of OHA's Real Estate Advisory Committee and external real estate consultant.
 3. For investment accounting, custody, and performance measurement, OHA shall utilize a Master Custodian Bank overseen by the Chief Financial Officer who will also be responsible for real property valuations and the transfer of funds to affect investments and fund OHA's Operations.
 4. Throughout the Endowment, management shall undertake prudent due diligence when making new investment decisions and document research and analysis.
 5. The investment staff should receive the necessary training and education required to carry out its duties. It may be necessary for investment staff to travel to industry conferences and participate in educational forums as opportunities arise.
 6. The duties of the CEO, OHA staff, Investment Advisory Committee, and Investment Consultant will be further outlined in the OHA Native Hawaiian Trust Fund Operational Procedures.

Section 5. Asset Allocation and Guidelines**5.1 Portfolio Composition and Asset Allocation**

To achieve its investment objective, the Endowment Fund will be divided into three broad categories: Capital Appreciation, Capital Preservation, and Hawai'i Real Estate. These three categories may be broken into more specific capital market asset classes as defined in the Strategic Asset Allocation.

- a. Capital Appreciation: The purpose is to provide the capital growth that will enable the

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Endowment to meet its spending requirements, while at the same time preserving the purchasing power of the Endowment Fund for future generations. The strategy consists of an integrated blend of global developed and emerging markets equity, real assets, and opportunistic investments (eg. Credit). It is recognized that these strategies entail the assumption of greater market variability and risk.

- b. Capital Preservation: The purpose is to provide liquidity in support of spending and capital commitments; a deflation hedge; and to reduce the overall volatility of the Endowment. Two broad strategies are employed in the Capital Preservation allocation – absolute return and fixed-income investments.
- c. Hawai‘i Real Estate: The purpose is to create financially viable Hawai‘i Commercial Real Estate holdings while also protecting and preserving Hawai‘i lands and their cultural significance. OHA’s Hawai‘i Commercial Real Estate portfolio will seek to generate a total return (Income and Capital Appreciation) to meet its spending requirements while also preserving the purchasing power for future generations. OHA will make capital investments to enhance, maintain, and protect existing improvements on its Hawai‘i Real Estate holdings and consider real estate acquisitions where compelling and for strategic reasons. OHA will favor the sale of the building improvements while maintaining ownership of the underlying land, but will also consider land sales for residential use, non-strategic areas, or for community benefit.
- d. There is no specific asset allocation to Hawai‘i Commercial Real Estate, however, asset allocation concerns will weigh into consideration when evaluating any other capital investments.
- e. The policy portfolio is structured using long-term targets and ranges. The target asset allocation reflects the long-term risk and return objective of the Endowment and establishes a normative allocation against which shorter-term asset allocation decisions can be gauged. Ranges allow for tactical shifts among asset classes in response to the changing dynamics in capital markets. Wider ranges facilitate rebalancing and the active management of risk at the total portfolio level.

5.2 Strategic Asset Allocation (draft, update with new proposal)

Asset Class Portfolios	Maximum	Minimum	Long-term Target	Policy Benchmark Index
Capital Appreciation				
Developed Markets Equities	55%	22%	45%	MSCI ACWI(net)
Global Real Assets	11%	0%	5%	Blended BM
Private Equity & Venture	25%	0%	15%	MSCI ACWI +3%
Opportunistic	10%	0%	5%	

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Total Capital Appreciation			70%	Blended BM
Capital Preservation				
Absolute Return	25%	5%	18%	3-Month T-Bills + 4%
US Fixed Income	25%	8%	12%	Bloomberg US Aggregate
Total Capital Preservation	50%	12%	30%	Blended BM
Hawai'i Real Estate (Total Return)				
Hawai'i Real Estate				CPI +5%

5.3 Rebalancing

OHA rebalances its Financial Assets to maintain its allocation within defined ranges. The primary purpose of rebalancing is to ensure that the Fund's actual asset allocation does not drift too far from the strategic asset allocation.

Section 6. Risk Management6.1 Risk Management Policy

- a. Risk management policy is designed to ensure that there are risk control measures in place to identify, monitor, and manage the level of risks and to balance the long-term expected risk and return objectives of the Endowment investment portfolio. The purpose of this policy is not to eliminate risks, but to understand the risks through the implementation of disciplined processes and procedures.
- b. Risk is managed primarily through diversification. The Endowment Fund will be diversified both by asset class (e.g., developed and emerging markets equities, real assets, opportunistic investments, absolute return, bonds, and cash equivalents) and within asset classes (e.g., within equities by country, economic sector, industry, quality, and size). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Endowment.

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- c. Derivatives may be used to adjust exposures within or across the portfolio to improve the risk/return profile and rebalance the Financial Assets portfolio.
- d. Aggregate portfolio risk is managed to minimize uncompensated, unanticipated, and inappropriate risks. Both quantitative measures and qualitative judgment will be used in assessing and managing risk.

6.2 Risk Guidelines

- a. The Endowment Fund will be monitored quarterly for adherence to the following risk guidelines. A breach in a guideline triggers a written notification from the internal staff to the CEO. It is recognized that market conditions and/or illiquidity of the underlying securities may preclude an immediate rebalancing of the portfolio. Risk control exception reporting will be provided to the BOT as part of its quarterly investment performance report which specifies the actions, if any, needed to bring the Endowment Fund into compliance.
- b. Concentration: Maximum portfolio weights:
 - 1. 10% in single manager (excluding Fixed Income)
 - 2. 25% in individual countries outside the U.S.
 - 3. 30% in one market sector
- c. Liquidity:
 - 1. Quarterly: 25% of the Endowment's Financial Assets convertible to cash
 - 2. Annually: 40% of the Endowment's Financial Assets convertible to cash
 - 3. Unfunded capital commitments plus current exposure to private investments limited to one half (50%) of the Endowment's Financial Assets

Section 7. Investment Guidelines**7.1 Guidelines for Capital Appreciation**

- a. Includes growth-oriented strategies which are managed in an integrated manner to meet the long-term spending objectives of the Endowment and sustain the portfolio in perpetuity.
- b. The objective is to outperform, net of fees, a representative risk-adjusted blend of market indices that reflect the strategic asset allocation of the Capital Appreciation portfolio. Also, performance on each sub-category will be monitored against the average return of a universe of active managers and/or fund-of-funds. The performance will be monitored regularly and evaluated over rolling five- and ten-year periods.
- c. In recognition of the increasing correlation among asset classes, the Capital Appreciation strategies represent a market-oriented mix of global developed and emerging markets equity, real estate, commodities, venture capital, private equity, and opportunistic investments such as credit

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securities. (Note: Hawaii Direct Investments (other than HIRE) can be included as part of the Private Equity allocation rather than a dedicated allocation)

- d. Strategies will be broadly diversified by country, economic sector, industry, number of holdings, number of managers, and other investment characteristics. To achieve its investment objective, the Capital Appreciation strategies may contain a mix of actively and passively managed strategies. Direct and derivative investments, commingled funds, private limited partnerships, and fund-of-funds may be used.
- e. The investment managers employed will have broad discretion on decisions related to individual country and security selection, security size and quality, number of industries and holdings, proxy voting, current income levels, turnover. The usual standards of fiduciary prudence set forth in this policy statement and individual investment management agreements and guidelines apply.
- f. If allowed under their investment guidelines, managers may at their discretion hold investment reserves of either cash equivalents or bonds. Derivatives may be used to manage certain exposures such as currency or market risk if so, specified under individual investment manager guidelines.

7.2 Guidelines for the Capital Preservation

- a. The Capital Preservation strategies provide liquidity to meet current spending needs and stability to protect capital in down markets.
- b. The objective for the Capital Preservation strategies is to outperform, net of commissions and fees, a blend of market indices that reflect the strategic asset allocation of the Fund. The performance will be monitored regularly and evaluated over rolling five and ten-year periods.
- c. The Absolute Return strategy will favor investments with a low correlation to broad equity markets. Implementation will be made through direct investments, limited partnerships, or fund-of-funds.
- d. The Fixed Income strategy may contain money market instruments, domestic and foreign government bonds, and other high-quality investment vehicles with risk/return characteristics consistent with the investment objectives of the Capital Preservation Fund. Derivatives may be used to manage certain exposures if so, specified under individual investment manager guidelines.
- e. Fixed income managers are expected to employ active management techniques, including maturity, sector, and quality considerations. The implementation may also be achieved through passive indices, commingled funds, limited partnerships, and fund-of-funds.

7.3 Guidelines for Hawai'i Real Estate

- a. Hawai'i Real Estate strategies seek to create financially viable properties owned by OHA focusing on total return to return to meet current spending needs.
- b. The objective for Hawai'i Real Estate strategies is to outperform, net of commissions and fees, a blend of real estate indices that reflect the holdings of the Fund. The performance will be monitored regularly and evaluated over rolling five and ten-year periods.

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- c. All direct investments should demonstrate the ability to generate current income and capital gains consistent with the asset class benchmark index and Fund's long-term objective.
- d. Only economical Hawai'i Real Estate Property is included in the Endowment.
- e. OHA may finance the real estate acquisition or development with a mortgage. The property may be pledged as collateral under a non-recourse structure to OHA. Any amount of recourse back to OHA, including an OHA guarantee, will be considered a use of capital and therefore be subjected to the OHA's Debt Policy.
- f. The market valuation of corporate real estate is determined by biennium(annual?) appraisals conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Before the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

7.4 Guidelines for Transactions

- a. As a general guideline that should apply to all assets managed, transactions should be entered into based on best execution, which is interpreted normally to mean best-realized price.

7.5 Prohibited Investments (OHA's ESG Goals?)

- a. While fiscal goals are of central importance, due consideration shall be given to the degree of corporate responsibility exercised by the companies in which investments are made.
- b. Direct investment in tobacco companies is prohibited.
- c. Direct investment in coal companies whose principal business is the mining of coal for energy is prohibited.

7.6 Derivatives Policy

Derivatives policy applies to all investments except for those permitted in external investment funds.

- a. Investments in derivatives shall not create a leverage effect on portfolio returns and must be consistent with the asset class they are in.
- b. OHA staff will be required to report periodically (at least annually) to the BOT on their use of derivatives for any purpose and to assure compliance with this Policy.

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND**STATEMENT OF INVESTMENT OBJECTIVES AND POLICY****Section 8. Monitoring of Objectives and Results****8.1 Monitoring of Objectives and Results**

- a. All objectives and policies are in effect until modified. The Resource Management Committee with advice from the CEO will review these periodically for their continued appropriateness. It is anticipated that changes to the asset allocation targets and ranges will be made infrequently.
- b. The Endowment portfolio will be monitored continually for consistency in investment philosophy; return relative to objectives; and investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility.
- c. Internal staff will review individual managers as needed to confirm that performance expectations remain in place, and make recommendations, as needed.
- d. The performance and portfolio activity will be reviewed at least annually by the Board of Trustees and with the Resource Committee every quarter. Results will be evaluated over longer time frames including the inception period, rolling five- and ten-year periods, and complete market cycles.

Section 9. Standards of Care**9.1 Board of Trustees and OHA Staff**

The standard of care applied to the BOT and OHA internal staff assigned to the Endowment Fund shall be the "prudent person" standard, defined as follows: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The BOT may rely upon the expert advice and counsel of its external providers to satisfy the "prudent person" standard provided the BOT has established adequate controls and fulfills its oversight responsibilities regarding the external providers as outlined in this Statement.

9.2 Code of Ethics

Trustees, officers, and employees shall abide by the Standard of Conducts established under Chapter 84 of the Hawai'i Revised Statutes and the code of ethics stated in the OHA Bylaws and, where appropriate, the OHA Employee Handbook and the BOT Executive Policy Manual. The main points of the code are:

- a. Trustees and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of their investment program, or that could impair their ability to make impartial decisions.
- b. Trustees and employees shall conduct themselves so as to avoid even the appearance of any illegal

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND**STATEMENT OF INVESTMENT OBJECTIVES AND POLICY**

or unethical conduct and shall at all times do their utmost to carry out their duties with courtesy and in a professional manner.

- c. Trustees and employees should exclude themselves from discussions and/or votes the results of which would or could affect that person's immediate family, or any other entity in which that person has an ownership or other financial interest.
- d. Trustees and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.
- e. Trustees and employees shall disclose before the discussion of the issue any conflict or possible conflicts of interest and shall recuse himself/herself from participating in any discussion, vote, or decision making on the matter.

9.3 External Providers

The standard of care applied to all external providers shall be as set forth in the agreement. Investments shall be managed with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".

Appendix. Definitions

Add Definitions here

THE OFFICE OF HAWAIIAN AFFAIRS
ENDOWMENT SPENDING POLICY

I. PURPOSE

The purpose of the Endowment Spending Policy is to establish guidelines to meet the long-term viability of the Office of Hawaiian Affairs (OHA) Native Hawaiian Trust Funds ("Endowment"). The Endowment Spending Policy determines the annual flow of funds from the Endowment to the operating budget.

II. OBJECTIVE

The primary objective of OHA's Endowment Spending Policy is to achieve a proper balance between the present and future needs of the organization. A well-designed spending policy balances the two principal goals of Endowment management:

1. Providing a stable flow of funds to meet the operating needs over the short-term to provide resources to this generation.
2. Maintaining the purchasing power of the Endowment over the long term, ensuring OHA will be able to provide adequate resources to future generations.

III. SPENDING POLICY

Consistent with the overall investment goals of the Endowment, the following spending rates, and distribution rules are set forward using a hybrid spending methodology.

- A. The formula for determining annual spending withdrawals and the mechanics of its implementation are as follows:
 1. Financial Assets – up to five percent (5%) the average market value of the previous 20 quarters
 - Plus*
 2. Hawaii Commercial Real Estate – Current Net Cash Flow
- B. Funds available from other sources such as Ceded Land Revenues and State of Hawaii General Funds are not included in this spending formula.
- C. The Endowment Portfolio will make quarterly distributions on its stated spending policy.
- D. The Board of Trustees determines the upper threshold for the development of a biennium budget (up to 5%), which is revisited during the supplemental year to correct any upward or downward adjustments in accordance with the actual spending policy formula. During the development of a biennium budget, only the first fiscal year can utilize actual figures with the second year requiring the OHA Administration to "estimate" the market value of the upcoming four quarters based upon financial projections.

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ENDOWMENT SPENDING POLICY**

IV. POLICY REVIEW

- A. The Endowment Spending Policy will be reviewed at least every two years or as recommended by the Chair of the Resource Management Committee.
- B. Modifications to the Endowment Spending Policy must meet requirements as provided by the then-current By-Laws. Any modification or exceptions to OHA's Spending Policy shall require six (6) votes and two (2) readings at the Board of Trustees level and require external due diligence to be conducted.

DRAFT - FOR DISCUSSION PURPOSES ONLY

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ENDOWMENT SPENDING POLICY**

Appendix: DEFINITIONS.

To further clarify the spending policy, the following definitions are used:

- A. **Native Hawaiian Trust Fund (NHTF)** is defined as all Public Land Trust revenue emanating from 5(f) funds that are subject to OHA's Native Hawaiian Trust Fund investment policy.
- B. **The Endowment Fund.** Includes all investment assets of OHA, on a fully consolidated basis including Financial Assets and Hawaii Commercial Real Estate. The Endowment Fund excludes OHA's operating assets, operating cash, assets of support subsidiaries, and conservation lands. The Endowment Fund also excludes furniture, fixtures, equipment, assets indirectly used by OHA-sponsored programs, operating reserve funds, and other reserve funds that may be established from time to time.
- C. **Net Cash Flow** – Net cash flow can be determined using the formula net operating income (NOI) less debt service payments, tenant improvements, leasing commissions, and capital expenditures.
- D. **Spending Rate** is the percentage (%) applied to the average market value to determine the spend amount.
- E. **Annual Spending Withdrawals** defined as the maximum amount authorized to be budgeted from the Native Hawaiian Trust Fund in one fiscal year.
- F. **Moving Average Rule** - to spend a fixed percentage of the average Native Hawaiian Trust Fund's average market value (e.g., spend 5.0% of the average market value of the previous 20 quarters).
- G. **Annual Ceded Land Revenues** – shall be the \$15.1 million (fifteen million one hundred thousand dollars) annual revenues received from the state of Hawaii as of the fiscal year 2006-2007, or including any adjustments.
- H. **State of Hawai'i General Fund** appropriations are determined by the Legislature during each Biennium and are spent for a specific purpose.
- I. **Average Market Value** - shall be computed quarterly based upon the monthly statements received from OHA's Custodian of Record, the average shall be computed from the most recent 20 quarter period ending as of March 31st, fifteen months prior to the start of the budget on July 1.
- J. **Public Land Trust Revenue** - emanating from 5(f) funds that the State of Hawai'i remits to the Office of Hawaiian Affairs.
- K. **5(f) Funds** - refers to Section 5(f) of the State of Hawai'i Admissions Act.

THE OFFICE OF HAWAIIAN AFFAIRS

DEBT MANAGMENT POLICY (DRAFT)

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DEBT MANAGEMENT POLICY (DRAFT)**Section 1. Purpose & Objectives****1.1 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 accordance with best practices.

1.2 Objectives

- a. To provide principles to the use of debt to support OHA’s resource needs.
- b. The Debt Policy should be synchronized with OHA’s Spend Policy and Endowment Fund Investment Policy.
- c. To provide guidance on debt issuance, structuring, and management to achieve the lowest overall cost of capital over the long term, with acceptable risk parameters.
- d. To provide a specific limit for the Debt to the Endowment Fund Value ratio and additional guidelines for other financial ratios.
- e. To provide guidance for OHA to maintain an acceptable creditworthiness rating that permits OHA to use debt in sufficient amounts at reasonable rates and borrowing covenants.

Section 2. Policy**2.1 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

DEBT MANAGEMENT POLICY (DRAFT)

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. Principles and 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 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 the impact of future budgets, sufficiency of revenues dedicated to debt service or operating costs of capital assets, and impact on the ability to provide future services.
4. Debt for OHA Programs and the Endowment Fund should be considered, planned, and coordinated together from an enterprise perspective given that they both have very similar implications for increasing the risk vs. return profile.
5. The most common form of debt in the endowment would be to use leverage for commercial real estate projects and/or to lever up the financial assets' portfolio using financial derivatives products.
6. The most common scenario for mission debt involves OHA borrowing to build, renovate, or purchase a facility for program use.
7. Implicit commercial real estate debt that OHA may cure will be treated as explicit debt for purposes of calculating the Debt to Endowment Fund Value ratio.
8. Debt in Financial Assets will only be used primarily for short-term asset allocation rebalancing.

DEBT MANAGEMENT POLICY (DRAFT)

B. Financial and Credit Limitations

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 preserve 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, such that OHA will not issue debt that it cannot repay or that causes it to incur undue financial risk.

Section 3. Key Ratios & Guidelines

3.1 Key Ratios

The ratios are consistent with the measures used by rating agencies in measuring an institution's financial strength. OHA will set a debt limit using the Debt to Endowment Fund Value Ratio and use other ratios as guidelines for prudent management. Management will regularly monitor the following ratios to ensure that OHA continues to operate on a strong financial basis and maintain its ability to receive a favorable credit rating.

3.2 Guidelines

- Debt to Endowment Fund Value: <20%
- Debt Service to Operations: < 8%
- Variable Debt Allocation: < 30%

Each of these ratios is briefly explained below:

$$\text{Debt to Endowment Fund Value} = \frac{\text{Total Outstanding Debt}}{\text{Endowment Fund Value}}$$

This ratio measures the availability of OHA’s Endowment Fund Value to cover its debt. The limit for this ratio is to be no more than 20%. At the time OHA is considering debt for the institution, it should strive to keep the ratio below the guideline to hedge against the potential negative effect on the financial statements during a downturn in the growth of the endowment.

DEBT MANAGEMENT POLICY (DRAFT)

$$\text{Debt Service to Operations} = \frac{\text{Annual Debt Service}}{\text{Total Revenue and Sources of Funds}}$$

The debt service to operations ratio measures the percentage of debt service to the total revenue and sources of funds of the institution. By maintaining an appropriate proportion of debt service to total revenues and sources of funds, other critical and strategic needs can be met as part of the expense base. The guideline for this ratio is to be no greater than 8%. This ratio indicates that OHA is not spending excessive amounts of the operating funds for debt service instead of needed programs.

$$\text{Variable Rate Debt Allocation} = \frac{\text{Variable Rate Debt}}{\text{Total Debt}}$$

Fixed-rate debt provides more long-term interest rate stability than variable-rate debt; however, variable rate debt can be a desirable component of a debt portfolio because it is typically at lower interest rates. The purpose of using a portion of variable rate debt for capital purposes is to lower the overall costs of borrowing, however, it is recognized that variable debt carries with it risk, therefore has a guideline of no more than 30% of the debt portfolio and should only be considered after a thorough evaluation.

Section 4. Issuance & Structure**4.1 Debt Issuance**

- a. Tax-exempt debt will be considered by weighing the potential savings from a lower cost of funding versus the additional requirements, restrictions, and limitations.
- b. Secured debt should be considered as a possible method of reducing cost and limiting risk and the pledged assets should align strategically with the financing purpose.
- c. Method of Bond Sale
 1. Bonds should be sold through a negotiated sale with a senior underwriter that is selected through a Request for Proposal process.
 2. A competitive sale may be considered if it is projected to produce an optimal result.
 3. Private Placements may be considered if the size or structure of a transaction is not appropriate for public issuance. Lower upfront costs of a private placement should

DEBT MANAGEMENT POLICY (DRAFT)

be balanced with higher interest rates, counterparty risk, and covenants.

4. Bond issues will be coordinated to the extent possible so that multiple projects can be accommodated in a single borrowing to reduce overall issuance cost per dollar of debt issued.

4.2 Debt Structure**a. Fixed versus Variable Rate**

1. Both fixed and variable rate debt should be considered based on their associated costs, risk, and flexibility.
2. To minimize the uncertainty of interest rate fluctuations, the variable portion of the OHA's total debt portfolio should be managed.

b. Amortization

1. Varying Amortization types may be considered, including level, staggered or bullet, depending on the projected availability of cash flows to meet debt service requirements, the relative shape of the yield curve, and governmental restrictions.

c. Duration Matching

1. Duration matching should be used where possible to reduce undue added risk to OHA operations. The correlation of current financing and temporary assets to shorter-term floating rate debt could potentially offer lower costs, while long-term debt could offer lower interest rate risk for fixed assets with longer useful life expectancies.

d. Lines of Credit

1. Lines of credit can be used to assist with short-term cash management. Additionally, dedicated lines of credit to provide liquidity support for variable rate debt may be considered.

e. Credit Enhancements

1. Credit enhancements such as letters of credit and bond insurance may be considered if they are cost-effective, do not pose material credit risks, and do not place onerous covenants on OHA.

f. Derivative Products

1. Derivative products such as swaps, forwards, and options, and other hedging techniques such as caps, floors, collars, and rate locks, can be important interest rate management tools, which when used properly, can increase OHA's financial flexibility, provide opportunities for interest rate savings, and limit or hedge variable rate payments.
2. It is essential that the character and risk associated with these transactions be carefully evaluated and clearly understood before entering into a debt-related derivative.

DEBT MANAGEMENT POLICY (DRAFT)**Section 5. Management****5.1 Management**

- a. Projected Spending
 - 1. Monitored by OHA management.
 - 2. Spending Decline Risk – the probability of a spending decline of more than 10% at the end of 5 years.
 - 3. Implied changes to spending given OHA's 5% target spend rule.
- b. Projected Shortfalls
 - 1. Monitored by OHA management.
- c. Compliance and Reporting
 - 1. OHA will provide ongoing disclosure information as required by State and Federal laws.
 - 2. OHA will maintain good communication with lenders and bond rating agencies, including providing them with periodic updates of OHA's financial position as appropriate.
- d. Internal Controls
 - 1. Adequately detailed accounting records will be maintained with all transactions properly accumulated, classified, and summarized in accounts.
 - 2. Appropriate internal and external reports will be issued as required.
- e. Refunding and Restructuring
 - 1. Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities.
 - 2. Refunding will be considered if there is a present value economic benefit on the refinanced amount or if there will be material negotiation of financial or other covenants.
- f. Multiple facilities should be consolidated into longer-term fixed-rate obligations when appropriate.

DEBT MANAGEMENT POLICY (DRAFT)**Section 6. Scope & Authority****6.1 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.

Section 7. Governance**7.1 Governance**

- a. All debt limits must be approved by the Office of Hawaiian Affairs Board of Trustees after recommendation by the CEO and CFO.
- b. All significant debt issues, including refunding or restructuring, must be approved by the CEO and CFO.
- c. Management will ensure compliance with all debt covenants.
- d. The debt policy should be formally reviewed no less than every five years.
- e. Any exceptions to the policy must require a memo detailing the rationale for Board approval.

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THE OFFICE OF HAWAIIAN AFFAIRS**Treasury Management Policy****Section 1. Introduction and Purpose****1.1 Introduction**

This document sets out the policies, practices, and objectives of the Office of Hawaiian Affairs (OHA) Treasury management activities, as approved by the Office of Hawaiian Affairs Board of Trustees' (BOT), and is effective until modified. OHA maintains a centralized management approach for all its banking and treasury services. The Resource Management Office is responsible for the optimization of cash flow and security of all funds collected, managed, and disbursed by the OHA. OHA acknowledges that effective Treasury Management will provide support towards the achievement of its business objectives.

1.2 Purpose and Objectives

The general purpose of this Treasury Management policy is to set forth the business policies and procedures to protect and enhance the financial resources through effective cash management, prudent borrowing, and sound risk management. It is intended to provide the following benefits:

1. Strengthen OHA's operations quality control, management, production, and systems for financial control.
2. Improve internal communication to help ensure efficient operations and consistent delivery of quality information.
3. Functional guide for training new and existing employees and should prevent difficulties in performing duties due to lack of understanding or inconsistent approaches from personnel changes.
4. Identifying the key roles and responsibilities relating to Treasury and Cash management.

Section 2. Delegation of Authority**2.1 Delegation**

As authorized by the BOT, the administration of the OHA's financial and business affairs is the responsibility of the Chief Executive Officer (CEO). By approval of this document, The CEO has delegated the planning and management responsibility for OHA's financial resources to the Chief Financial Officer (CFO). The CFO, therefore, has the authority and

THE OFFICE OF HAWAIIAN AFFAIRS**Treasury Management Policy**

responsibility for treasury and financial functions in the areas of banking, cash management, debt management, investment management, financial relationships management, and other general treasury functions. These responsibilities will be executed under the guidelines outlined in this policy.

Section 3. Treasury Functions of the Office of Resource Management**3.1 Functions of the Office of Resource Management**

1. **Banking** - The CFO has overall responsibility for the administration and oversight of all banking and treasury services for the OHA. No other individual, department, or affiliate has the authority to establish an active bank account using the OHA's name or tax identification number.
2. **Cash Management** - Cash management is an integral component of the OHA's financial activities. It is the responsibility of the Resource Management Office to monitor and facilitate the flow of funds through all OHA's depository and disbursement accounts.
3. **Investment Management** - The CFO is charged with implementing the investment strategy as approved by the BOT. This office is also responsible for overseeing the day-to-day management and administration of the OHA's Native Hawaiian Trust Fund portfolio.
4. **Debt Management** - OHA borrows money through banks and/or the issuance of tax-exempt bonds to finance construction, development, or the acquisition of real estate assets to optimize its financial balance sheet for the long term. The CFO is responsible for coordinating the debt funding of these projects.
5. **Financial Relationships Management** - The Office of the Resource Management is responsible for the efficient operations of the OHA's banking and financial institution relationships. This includes handling key relationship issues such as pricing, bundling of services, availability of credit and non-credit services, and developing a 'partnership' approach.

THE OFFICE OF HAWAIIAN AFFAIRS**Treasury Management Policy****Section 4. Banking and Treasury Policy****4.1 Banking and Treasury Services Policy**

Purpose: to outline authority and responsibility as it pertains to the establishment and maintenance of OHA's financial accounts.

General Guidelines:

1. A financial institution account is defined as any account (checking, savings, depository, money market, etc.) opened at a financial institution that uses the name of the Office of Hawaiian Affairs or any derivation thereof, uses OHA's tax identification number, or receives the deposit of or disburses OHA funds.
2. All activities related to the opening, closing, and maintenance of all depository and disbursement accounts carrying the OHA's name and/or tax identification number shall be the sole responsibility of the Resource Management Office.
3. OHA staff should not deal directly with any financial institution regarding the opening, closing, or maintenance of a bank account, except as authorized in writing by the CFO.
4. All banking and treasury services concerning any financial institution account must be approved by the CEO and CFO.
5. Unless otherwise directed by the CFO, all account statements for OHA shall be mailed to the Resource Management Office to allow for prompt account reconciliation and review by the Controller.
6. Accounts no longer active should be closed. The closure process requires written authorization from the CFO and provides information as to the dispensation of any remaining funds left in the account. Additionally, the Resource Management office will provide information regarding the closing of the account to the Office of the CEO.
7. Counterparty Risk Management – CFO is responsible for monitoring the credit standing of approved financial institutions. The minimum acceptable long-term rating shall be S&P A, Moodys A2, or Fitch A, which are regarded as the upper-medium grade for investment.

4.2 Authorization Summary

1. The CEO is the only individual authorized to execute legal account opening and closing forms.
2. The CEO and CFO will designate an authorized signatory list which shall be

THE OFFICE OF HAWAIIAN AFFAIRS**Treasury Management Policy**

maintained by the Controller.

Section 5. Cash Management Policy**5.1 Cash Management Policy**

Purpose: to establish sound cash management practices to ensure efficient utilization of cash and effective controls in a manner consistent with the overall strategic goals of OHA. *(In this context, cash would be defined as currency, checks, money orders, wire transfers, and ACH payments.)*

General Guidelines:

1. All activity and balances in the primary accounts shall be monitored by the Resource Management Office to assess the cash necessary to meet daily obligations and ensure adequate funds are available.
2. The **Controller** is responsible for the movement of funds between and from bank accounts maintained by OHA. This includes, but is not limited to:
 - Initiating all wire transfer of funds for general business purposes OHA
 - Establishing the daily cash position of the OHA
 - Appropriately funding disbursement accounts for OHA obligations
 - Initiating wire transfers and movement of funds at the custodian bank for investments, capital calls, and rebalancing purposes for the NHTF Portfolio.
3. All electronic fund transfers/remittances shall require the same supporting documents and authorizing signatures as non-electronic disbursements.
4. Check signers are authorized by the **CEO** and are prohibited from signing checks made out to him/herself or any related party. Any changes to authorized signers are communicated to the **Controller**, who is responsible for promptly modifying the signature cards.
5. Efficient cash management strategies, techniques, and procedures shall be used to increase the productivity of cash flows while achieving the following objectives:
 - **Liquidity** – maintaining the ability to pay obligations when they become due.
 - **Cash Optimization** – establishing systems and procedures that help minimize investment in non-earning cash resources while providing adequate liquidity.
 - **Financing** – obtaining both short- and long-term borrowed funds promptly at an acceptable cost.
 - **Financial Risk Management** – monitoring and assisting in the control of

THE OFFICE OF HAWAIIAN AFFAIRS

Treasury Management Policy

the OHA's exposure to interest rates, foreign exchange, and other financial risks.

- **Coordination** – ensuring that cash management goals are communicated and integrated with the strategic objectives and policy decisions of other areas of OHA that have an impact on cash flows.

5.2 Authorization Summary for Cash Disbursements/Transfers

First Approval	Secondary Approval	Authorized Amount
Financial Analyst	Controller	Under \$100,000
Controller	CFO	Under \$500,000
CFO	CEO	Under \$1,000,000
CEO	Board Chair	\$1,000,000+

The CFO will ensure there is proper documentation for all transactions, and the procedures exist for the effective transmission of funds.

Section 5. Investment Management Policy

5.1 Investment Management Policy for Native Hawaiian Trust Fund

Purpose: The Investment Policy governs the investment of assets held in the Office of Hawaiian Affairs Native Hawaiian Trust Fund (the "Endowment Fund" or "Fund") which comprises of Financial Assets and Hawai'i Commercial Real Estate. The primary long-term financial objective is to maintain the purchasing power of the Endowment after spending and inflation. The objective of preserving purchasing power emphasizes the need to take a long-term perspective in formulating spending and investment policies.

The NHTE Investment Management Policy can be accessed here: (attach link)

THE OFFICE OF HAWAIIAN AFFAIRS**Treasury Management Policy****Section 6. Debt Management Policy****6.1 Debt Management Policy**

Purpose: to articulate the OHA's philosophy and provide a strategic framework on the use of debt as a funding source. The appropriate use of debt can enable OHA to advance its mission to serve the Native Hawaiian population while ensuring sound financial health over the long term. The Debt Policy should be synchronized with OHA's Spend Policy and Endowment Fund Investment Policy. The most common form of debt in the endowment would be to use leverage for commercial real estate projects and/or to lever up the financial assets' portfolio using financial derivatives products. The most common scenario for mission debt involves OHA borrowing to build, renovate, or purchase a facility for program use.

The Debt Management Policy can be accessed here: (attach link)

Section 7. Relationship Management Policy**7.1 Relationship Management Policy**

This outlines the policy as it pertains to the efficient and effective management of OHA's financial institution relationships.

General Guidelines:

1. The Resource Management Office will serve as the first point of contact for all financial institutions. OHA units and their staffs should not deal directly with any financial institution regarding OHA accounts.
2. The suitability of utilizing a financial institution's services is to be assessed by the Office of Resource Management. The selection criteria will include but are not limited to knowledge of the state of Hawaii government business practices, quality of customer service, pricing, financial strength, ability to meet future needs.
3. The CFO shall maintain efficient operations of OHA's relationships to achieve the following objectives:
 - Access to credit and non-credit services
 - Management of costs and quality
 - Monitoring risks
 - Developing a partnership approach
4. The Resource Management Office is responsible for developing a methodology for ongoing evaluation and performance measurement of service providers.
5. Departments or divisions within OHA will not be allowed to utilize OHA's financial

THE OFFICE OF HAWAIIAN AFFAIRS**Treasury Management Policy**

account information without prior approval from the CFO.

Section 6. Reporting Requirements

The CFO will ensure that regular reports are prepared and considered on the implementation of the OHA Treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from the regulatory, economic, market or other factors affecting its treasury management activities; and on the performance management function.

Appendix. Definitions

Cash - Money in any form: currency (coins and bills), personal/individual check, wire transfer, ACH (direct deposit), other electronic funds transfers, postal money order, express money order, bank draft, certified check, etc.

Automated Clearing House (ACH) - An ACH transfer is an electronic item that is processed through the Automatic Clearing House established as a clearing and settlement facility for financial institutions. ACH transfers take 2 to 4 business days to reach their destination and can be recalled or returned for a variety of reasons.

Electronic funds transfer (EFT) - Generic term for any movement of funds by non-paper means; can be an Automated Clearing House (ACH) or a wire transfer.

Wire transfer - Funds sent through the Federal Reserve Wire Network from one financial institution to another. They can only be recalled with the permission of the recipient. Wire transfers typically are used when large amounts are needed along with the ability to confirm receipt, and when international transfers are required.



OFFICE OF HAWAIIAN AFFAIRS

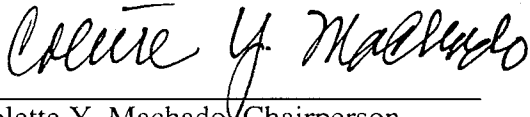
NATIVE HAWAIIAN TRUST FUND INVESTMENT POLICY STATEMENT

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

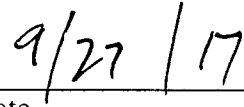
NATIVE HAWAIIAN TRUST FUND

INVESTMENT POLICY STATEMENT

The following Investment Policy Statement (IPS) has been duly adopted, predominantly utilizing the Manager-of-Managers (MoM) approach, by the Office of Hawaiian Affairs, Board of Trustees at its meeting held on August 24, 2017 and is in full force and effect on October 1, 2017.



Colette Y. Machado, Chairperson
Board of Trustees



Date

First Reading: August 1, 2017
Second Reading: August 24, 2017

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Distribution:

- 9- Each OHA Trustee via Asset & Resource Management Committee
- 1- OHA BOT Secretary
- 1- OHA Chief Executive Officer
- 1- OHA Chief Operating Officer
- 1- OHA Chief Financial Officer
- 1- OHA Controller
- 1- OHA Chief Investment Officer
- 1- OHA Investment Consultant
- 5- Each Investment Advisor / Non-Marketable Alternatives Provider
- 1- Custodian

THE OFFICE OF HAWAIIAN AFFAIRS NATIVE HAWAIIAN TRUST FUND INVESTMENT POLICY STATEMENT

OBJECTIVES AND POLICY GUIDELINES

Section 1. Introduction and Scope

1.1 Introduction. This statement governs the investment of assets held in the Office of Hawaiian Affairs Native Hawaiian Trust Fund (the "Fund").

This Policy Statement is set forth so that the Board of Trustees ("BOT") of the Office of Hawaiian Affairs ("OHA"), OHA Staff, Investment Consultant, Investment Advisors and Investment Managers (where appropriate), and beneficiaries may be made aware of the investment policy with regard to the investment of the Fund's assets, the investment objectives, and the expectations and requirements with respect to the ongoing management of the Fund's assets.

1.2 The Trust. OHA's mission is to malama (protect) Hawai'i's people and environmental resources and the Trust Fund's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally. The overall goal of the Fund is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA's mission.

1.3 Purpose of the Investment Policy Statement. In keeping with the fiduciary requirements and obligations of all parties involved in managing the Fund under existing Federal and State laws, the purposes of this Policy Statement (the "Statement") are to provide the:

- a) BOT, OHA staff, Consultant and Advisors with a clear and mutual understanding of the Fund's philosophy, investment objectives and policies;
- b) Advisors with guidance, objectives and limitations in investing the Fund's assets; and
- c) BOT with a meaningful basis to evaluate the Advisors' performance in order to meet the BOT's fiduciary responsibility to monitor prudently the Fund's investments.

This Statement represents the BOT's philosophy regarding the investment of the Fund's assets. The BOT will review and revise the Statement as needed to ensure that it continues to reflect the BOT's expectations and objectives. All of the BOT's modifications or amendments to the Statement shall be made in writing and will be provided to all Investment Advisors and Consultants.

It is also intended that the investment policies be sufficiently specific to be meaningful, but adequately flexible to be practicable. It is further understood that all performance standards and return objectives in this Statement are intended as evaluation tools for determining whether to continue to retain the Advisors. The parties understand that the Advisors cannot give assurance of actual investment results and that the Advisors understand that the BOT will terminate its relationship with an Advisor based on a determination that the Advisor is not achieving the performance standards.

1.4 Manager-of-Managers Approach. The BOT has elected to employ Advisors in an outsourced manager-of-managers investment approach, without necessarily bundling custodial services. There is a preference for a full discretionary approach to invest across multiple asset classes. When necessary to achieve the Fund's objectives, the BOT may hire an Advisor with a non-Manager-of-Managers approach or to manage assets with a specific asset class mandate. Under the outsourcing agreement, the Advisors will assume certain BOT fiduciary responsibilities as set forth in the applicable agreement(s) between the Advisors and the BOT. The Advisors are accountable for the prudent management of all assets subject to their oversight and, where applicable, will make all key investment decisions, such as tactical asset allocation and manager selection, within the context set by this Statement and in

adherence to the duties and powers set forth in the applicable management, advisory, or trust agreements. The BOT still maintains responsibility for imposing guidelines, targets and asset allocation constraints as set forth in this Statement, and for monitoring the Advisors to ensure they act prudently and adhere to all aspects of the Statement.

1.5 Spending Policy. The annual amount withdrawn from the Fund shall constitute no more than five percent (5%) annually of the Fund's market value, excluding any Fiscal Reserve spending, using the methodology specified in the OHA Native Hawaiian Trust Fund Spending Policy. The calculation of the maximum withdrawal amounts are set forth in the Native Hawaiian Trust Fund Spending Policy and Fiscal Reserve Withdrawal Guidelines.

Section 2. General Objectives

2.1 Prioritized Investment Objectives. The overall objectives of the Fund are in the following order of priority:

- a) To grow the Fund's assets consistently by at least inflation plus five percent annually (Consistent Capital Growth);
- b) To invest in a manner that seeks to ensure the continuous preservation of purchasing power of the overall portfolio (Capital Preservation);
- c) To achieve a portfolio return that meets or exceeds the return of the Fund's Policy Portfolio Benchmark on a net of fee basis over a long time horizon (Benchmark Outperformance); and
- d) To diversify the portfolio by asset type, security (issuer) and Investment Manager to reduce the volatility of returns (Adequate Diversification).

2.2 Long-Term Objective. Consistent capital growth is the primary objective of the Fund. The investment portfolio shall be designed with the objective of protecting principal while earning a rate of return that is targeted to meet or exceed the real spending rate and the strategic benchmark index of the Fund over the long term in order to preserve the Fund's assets and ensure that sufficient liquidity will be available to cover future cash requirements. Consistent capital growth is achieved by investing prudently in a wide range of asset classes to achieve proper diversification, thereby reducing volatility. Since the Advisors will focus on long-term capital appreciation, the Fund may experience a drawdown of principal, although over a full market cycle, the Advisors in aggregate are expected to produce a total annual return that will exceed inflation as measured by the Consumer Price Index (CPI) by five percent. It is anticipated that the Fund will experience an annualized average volatility of approximately 13% annually with a maximum rolling 12-month annualized volatility of roughly 20% over a market cycle.

All parties named in this Statement shall carry out their business in compliance to all existing and future applicable state and federal regulations (Regulatory Compliance Requirement) and for assets subject to their discretion maintain adequate liquidity to meet all anticipated expenditures after sufficient notice (Adequate Liquidity Requirement).

2.3 Definition of Market Cycle. Throughout this Statement the term "market cycle" is used. Market cycles include both a rising and a declining market. Generally, a rising market will be defined as a period of at least two consecutive quarters of rising stock prices and a declining market will be defined as a period of at least two consecutive quarters of declining stock prices. Therefore, a Market Cycle (the minimum period of evaluation) shall be at least one year and more typically three to six years.

2.4 Definition of Investment Consultant, Investment Advisor and Investment Manager. Throughout this Statement the terms Investment "Consultant", Investment "Advisor" and Investment "Manager" are used. Consultant shall refer to the entity hired by the OHA Chief Executive Officer ("CEO") to assist OHA staff and BOT in overseeing the Fund and to monitor and evaluate the Advisors; "Advisor" shall refer to each Fiduciary (typically utilizing the "manager-of-managers" approach) hired by the BOT to exercise investment discretion over a portion of the Fund's

assets within the parameters set forth in the Statement; and "Manager" shall refer to any portfolio manager selected by the Advisors to invest the Fund's assets.

Section 3. Standards of Care

3.1 Board of Trustees and OHA Staff. The standard of care applied to the BOT and OHA internal staff assigned to the Fund shall be the "prudent person" standard, defined as follows: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The BOT may rely upon the expert advice and counsel of its external providers to satisfy the "prudent person" standard provided the BOT has established adequate controls and fulfills its oversight responsibilities regarding the external providers as outlined in this Statement.

3.2 External Providers. The standard of care applied to all external providers (i.e., Consultant, Advisors (indirectly Investment Managers hired by the Advisors), and Custodian) shall be as set forth in the agreement between the BOT or CEO, as appropriate, and each external provider. The BOT will negotiate a standard for the Investment Advisors that is similar in effect to the "prudent expert" standard, defined as: "Investments shall be managed with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".

3.3 Code of Ethics. OHA Trustees, OHA officers, and OHA employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of their investment program, or that could impair their ability to make impartial decisions. OHA Trustees and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. OHA employees and officers shall refrain from undertaking personal investment transactions with entities that conduct business with the Fund. Should any Trustees have personal involvement with any direct investment transaction or any perceived conflicts of interest, the Trustee should disclose the involvement immediately and be recused from discussions and votes on said investment. OHA Trustees, officers, and employees shall abide by the Standard of Conducts established under Chapter 84 of the Hawai'i Revised Statutes and the code of ethics stated in the OHA Bylaws and, where appropriate, the OHA Employee Handbook and the BOT Executive Policy Manual.

Section 4. Delegation of Authority

The Office of Hawaiian Affairs Native Hawaiian Trust Fund maintains a structured and organized process in implementing its investment program. To accomplish the mission, objectives and desired investment returns of the Fund, the Board of Trustees has delegated authority to various individuals and organizations.

4.1 BOT Composition. The BOT currently consists of representatives from:

- a) O'ahu
- b) Kaua'i and Ni'ihau
- c) Moloka'i and Lana'i
- d) Hawai'i
- e) Maui
- f) At large (4)

4.2 BOT Responsibilities. The BOT recognizes that it may not possess sufficient expertise to manage directly the

assets of the Fund. The BOT, therefore, employs the services of various external experts to act as Fiduciaries--Consultants, Advisors and/or Custodians and seeks advice from independent parties. The BOT does rely on this expertise in carrying out its responsibility to oversee the overall management of the Fund's assets, and will meet quarterly to review the performance of the Fund and the activities of the external providers for reasonable consistency with the objectives of the Fund as set forth in this Statement. When necessary, the BOT will provide guidance to the investment process. BOT may delegate certain of its responsibilities to the CEO to assist with the implementation of this Statement. BOT responsibilities include, but are not limited to:

- a) Approve the Investment Policy Statement and all modifications to the Statement;
- b) Select Advisors and Non-Marketable Alternatives Providers. The BOT delegates authority to the CEO to select the Custodian, Consultant and Investment Advisory Committee (IAC) members;
- c) Monitor results of all Fund assets as a whole and those assigned to each Advisor. The BOT shall include in its quarterly assessment such topics as: economic outlook, portfolio diversification, asset allocation and structure, Advisors' strategies, potential risks, and the performance of the overall portfolio as well as each of the Fund's asset classes versus its benchmark rate of return and peer institutions;
- d) Review quarterly reports regarding the activities of Advisors, Consultant, Investment Advisory Committee and OHA staff overseeing the Fund;
- e) Review quarterly reports from the Custodian and Advisors regarding the composition of each Advisor's assets under management versus the Fund's strategic target and the asset class strategies of each Advisor;
- f) Review the annual report of the Consultant regarding the performance of the Fund and the Advisors;
- g) As necessary, review the Fund's strategic direction or significant issues impacting the Fund or Fiduciaries, and take action as appropriate;
- h) Attend a minimum of two investment educational events held in Hawai'i per year; and
- i) Attend out-of-State training, educational or due diligence events that are recommended by the CEO and approved by the Chairperson of the BOT.

4.3 Duties of the Consultant, Investment Advisory Committee, CEO and OHA Staff. The duties of the Consultant will be as set forth in the agreement entered into between the CEO and the Consultant. The duties of the Investment Advisory Committee are as outlined in the Committee's Charter. This Committee has no authority to make decisions, but only serves to provide independent comments to the Consultant, the CEO and staff, and BOT representatives regarding the economic outlook and the Fund's assets, strategies, performance, risks and Fiduciaries. The duties of the CEO, OHA staff, Investment Advisory Committee and Consultant will be set forth in the OHA Native Hawaiian Trust Fund Operational Procedures. The CEO is responsible for approving these Operational Procedures and for reviewing and approving all investment decisions not made by an Advisor, except those reserved for the BOT. The Consultant and OHA staff are responsible for assisting the CEO and the BOT in the execution of their responsibilities. Duties of the Consultant and OHA staff jointly include, but are not limited to:

- a) Monitor the performance of each Advisor's portfolio as frequently as market conditions dictate, including review of the Advisor's monthly reports;
- b) Aggregate as necessary and monitor the performance of the Fund's investment portfolios monthly and prepare quarterly performance and Advisor activity reports for review by the CEO and BOT;
- c) Monitor the monthly reconciliation of the portfolio positions and valuations among the Custodian and Advisors (OHA staff only);
- d) Seek to ensure that assets are invested in accordance with the requirements specified in this Statement;
- e) Recommend to the CEO and implement operational procedures that will enhance the investment program of the Fund and ensure that proper internal controls are implemented to safeguard the assets of the Fund, including preparing Investment Guideline Summaries for each of the Advisors;
- f) Recommend benchmarks for approval to the CEO;
- g) Prepare periodic market-cycle and annual reviews of the Fund's investments and the Advisors' performance, including findings from annual due diligence visits for presentation to the BOT;
- h) Conduct onsite annual due diligence of the Advisors and Custodian;
- i) Coordinate and vet changes to the Investment Policy Statement and serve as chair (Consultant) and secretary (OHA staff) to the Investment Advisory Committee;

- j) Evaluate the reasonableness of recommendations of Advisors and Non-Marketable Alternatives Providers regarding investment decisions and policies requiring the approval of the CEO.
- k) Evaluate and recommend Direct Investments in Hawaii for the approval of the CEO and BOT, as appropriate;
- l) Manage the Fund's Enhanced Liquidity Account assets awaiting disbursement to OHA consistent with the Operational Procedures reviewed by the CFO and approved by the CEO; and
- m) Maintain knowledge of current trends and conditions with respect to investment management through continuing education.

4.4 Duties of the Advisors. The duties of the Advisors shall be as set forth in the agreements entered into between the BOT and the Advisors, and will explicitly include this Statement as an addendum. The Advisors act as Fiduciaries of the Fund for the assets they have under management. Duties of the Advisors include, but are not limited to:

- a) Invest the assets of the Fund within the constraints of the Statement while adhering to the investment management style, concepts and principles for which they were retained by the BOT. Advisors are responsible for tactical asset allocation and manager selection unless otherwise stated in the management and/or trust agreement with OHA;
- b) Where applicable per the Advisor management agreement, for all investment decisions requiring the CEO's approval, recommend specific investments and provide strategic and/or tactical investment advice to the BOT, CEO, OHA staff, and Consultant as appropriate to render a decision that will achieve the Fund's investment objectives;
- c) Seek to achieve best execution and price for all transactions effected on behalf of the Fund with brokers and dealers qualified to execute institutional orders on an ongoing basis and if appropriate, facilitate the recapture of commissions on behalf of the Fund;
- d) Reconcile within tolerance limits monthly accounting, transaction, valuation and asset summary data with the Custodian's transactions, valuations and holdings, including resolving any discrepancies with the Custodian;
- e) For investments where a market value is not available, assist the Custodian as necessary in finding appropriate pricing sources or establishing fair value procedures.
- f) Report to the BOT on all significant matters pertaining to their firm's ownership, investment style and philosophy, changes in personnel and performance relevant to the management of the Fund. Items relevant to the Fund include those that would have a direct or indirect impact on the ability of the Advisor to continue to provide a high level of service;
- g) Vote the proxies of invested companies (or delegate the vote to Managers), as they deem appropriate, although the BOT reserves the right to vote proxies in separately managed accounts if it so chooses;
- h) Periodically conduct capital market studies and make recommendations to the BOT regarding changes to the Statement and strategic asset allocation targets and ranges based on the risk/return objectives of the Fund and the economic and market outlook. The timing of these analyses, and either reaffirmation or recommendation of modifications to this Statement, shall be as agreed upon with the BOT, but normally every two to five years, but no less frequently than every six years;
- i) Select qualified Investment Managers, and monitor existing Managers' style consistency and performance at least monthly, including due diligence of those Managers regarding personnel, ownership, risk management and the investment process;
- j) Negotiate fee arrangements and other contract terms with the investment Managers on behalf of the Fund;
- k) Communicate with the Consultant and/or OHA staff on at least a monthly basis regarding actions taken, or any material changes, issues or circumstances warranting attention including performance of the Fund, market conditions and outlook, manager-turnover, Managers' or Advisor's staff turnover, etc;
- l) Prepare and present a quarterly executive summary report to the BOT as requested by the Consultant or OHA staff including performance versus benchmarks, asset allocation, economic outlook, fees, Manager summary, and any other significant issues impacting the Fund;
- m) Assist the Consultant and OHA staff in preparing Investment Guideline Summaries for the approval of the

CEO covering the assets under their management and annually prepare a compliance and derivatives usage report (Each Advisor's Investment Guideline Summary will govern the assets under their management in conjunction with the Investment Policy Statement and the Investment Management Agreement between the Advisor and OHA);

- n) Host an annual onsite comprehensive and/or topical due diligence for the Consultant and OHA staff and officials and as requested provide portfolio analytics and style consistency adherence at the manager-level for the Advisor's commingled vehicles;
- o) Negotiate and arrange for brokerage and any applicable recordkeeping services;
- p) Render special projects at the request of the BOT, the Consultant or OHA staff; and
- q) Provide certain other services, as described elsewhere in this Statement, such as investment training, market research, educational programs, analytical tools, etc.

4.5 Duties of the Custodian. The duties of the Custodian shall be as set forth in the agreement between the BOT and the Custodian. In addition to other responsibilities contained in that agreement the Custodian will:

- a) Provide complete custody and depository services for the Fund's assets including obtaining market values or fair values for all assets on at least a monthly basis;
- b) Provide a monthly report of transactions by the Advisors and, where applicable, by OHA (Enhanced Liquidity Account) as set forth in the Custody agreement;
- c) Provide audited monthly and annual accounting statements for all the Fund's assets and transactions;
- d) Collect all interest income, dividends and principal realization and properly report them in all accounting statements;
- e) Disperse funds to cover expenses, accept funds from OHA or the Advisors, and disperse funds to OHA or the Advisors as properly instructed by CEO or OHA staff, and properly report these transactions in all accounting statements; and
- f) Reconcile monthly accounting, transaction and asset summary data and communicate and resolve any discrepancies with the Advisors.

Section 5. Asset Allocation Guidelines and Long Term Targets

The BOT prefers Advisors who can construct and manage a portfolio encompassing multiple strategic asset classes using a Manager-of-Manager approach and utilize the Fund's strategic target index as their primary benchmark (strategic target weight times strategic benchmark index return for each strategic asset class). The purpose of the strategic target asset allocation is to provide an optimal mix of investments that has the potential to produce the desired returns with the least amount of fluctuation in the overall value of the investment portfolio. The minimum and maximum levels listed below are targeting guidelines as opposed to absolute barriers; Advisors should bring asset allocations which are outside of their approved targeting range back to the range per their rebalancing policy unless granted a written exception by the CEO. The Traditional and Alternative Assets Advisors are not responsible for Hawai'i Direct Investments and the Enhanced Liquidity Account. OHA staff may hedge the allocation to Hawai'i Direct Investments in a traditional asset class managed by one or more Advisors until such investments are made. The Alternatives Advisor may hedge the under or over exposure to asset classes with barriers to entry and exit (Non-Marketable Alternatives) with similar liquid (marketable) asset classes (e.g. hedge underexposure to targeted private equity using traditional equity or marketable equity alternatives).

5.1 Asset Allocation.

Asset Class Portfolios	Maximum	Minimum	Strategic Target	Benchmark Index	Primary Objective
Traditional Asset Classes					
Traditional Global Equities	55%	22%	40%	MSCI ACWI	Growth
Traditional Global Fixed Income	22%	11%	17%	Bloomberg US Aggregate	Income
Traditional Global Real Assets	11%	0%	5%	US TIPS +3%	Inflation Hedge
Total Traditional Assets	88%	33%	62%		
Alternative Asset Classes					
Hedge Funds	19.2%	6.4%	12%	3-Month T-Bills +4%	Volatility Management
Private Markets*	25.6%	0%	18%	MSCI ACWI +3%	Growth
Total Alternative Assets	44.8%	6.4%	30%		
Enhanced Liquidity Account					
Enhanced Liquidity	10%	0%	3%	1-3 Year Treasury	Liquidity
Hawai'i Direct Investments					
Hawai'i Direct Investments	10%	0%	5%	US TIPS +3%	Inflation Hedge
*The Private Market allocation will consist of the previous Non-Marketable Equity, Credit, and Real Assets & Opportunistic portfolios					

The Strategic Targets for the Asset Classes listed in the table above multiplied by the benchmarks recommended by the Consultant and approved by the CEO constitute the Policy Portfolio. The table below regroups the Asset Classes by their primary objective.

Asset Class Portfolios	Maximum	Minimum	Strategic Target
Growth			
Traditional Global Equities	55%	22%	40%
Private Markets	25.6%	0%	18%
Total Growth	80.6%	22%	58%
Income			
Traditional Global Fixed Income	22%	11%	17%
Total Income	22%	11%	17%
Volatility Management			
Hedge Funds	19.2%	6.4%	12%
Inflation Hedge			
Traditional Global Real Assets	11%	0%	5%
Hawai'i Direct Investments	10%	0%	5%
Total Inflation Hedge	21%	0%	10%
Liquidity			
Enhanced Liquidity	10%	0%	3%

The CEO has the delegated power to allocate up to \$25 million from the Fund for a Direct Investment Program. Direct investments made from the Fund shall follow the guidelines set forth in the Hawai'i Direct Investment Policy section of this Statement. All Hawai'i-based Direct Investments are excluded from the discretionary Manager-of-Managers framework. The OHA staff with the assistance of the Consultant will be responsible for the due diligence, performance monitoring and reporting of such investments.

Private Market investments are accomplished outside of the discretionary Advisor framework as the Advisors do not have investment discretion over these assets. Approved Non-Marketable Alternatives Providers will provide OHA staff and the Consultant with sufficient information and analyses to evaluate their investment recommendations. The information may include Manager due diligence reports and portfolio analytics so that the CEO can make an informed decision relating to the investment. It is recognized that there may be underinvestment or overinvestment in these illiquid asset classes due to the timing of capital calls and distributions.

5.2 Benchmarks. Each Advisor will use the primary strategic benchmark index listed in their Investment Guideline

Summary as a guide in managing assets under their control. The strategic asset allocation targets and ranges, performance benchmarks, and additional investment guidelines are also set forth in each Advisor's Investment Guideline Summary or Investment Management Agreement. As necessary, the Consultant will recommend changes to the strategic targets, ranges, performance benchmarks, and any additional guidelines and the CEO must approve those changes before they become effective. The CEO will notify the BOT of Investment Guideline changes in writing.

Every new product of an Advisor must be assigned to one of the above asset classes as agreed upon between the Advisor and OHA Staff and/or the Consultant, with notification of the CEO. In addition, each investment may have a custom benchmark different from that of the asset class as agreed upon with the Consultant. The secondary benchmark is the Consumer Price Index (CPI) plus 5.0% annually for the Fund as a whole. The Consultant will also recommend, in consultation with each Advisor, peer manager and peer institution benchmarks and these will be approved by the CEO. Besides reporting portfolio performance versus these portfolio benchmarks, the Advisors shall report investment results on individual funds or portfolios versus their custom benchmarks.

The BOT recognizes that the actual asset allocation of the Fund may vary between or even outside of the minimum and maximum in the short term depending on market conditions and/or tactical asset allocation shifts. Asset classes not contemplated above or elsewhere in this Policy may be added to the Fund upon approval in writing by the BOT. The Advisors will only be responsible for meeting the investment objectives applicable to the portion of the Fund entrusted to such Advisors.

5.3 Rebalancing Policy. The primary purposes of rebalancing are to (1) ensure that the Fund's actual asset allocation does not drift too far from the strategic asset allocation; and (2) improve the performance of the Fund. The CEO will ensure that any agreement entered into with an Investment Advisor sets forth a rebalancing policy satisfactory to the BOT.

Section 6. Cash Holdings

It is the policy of the Fund that the Advisors fully invest the assets of the Fund under their control except to accommodate large cash flows. Unhedged cash and equivalents may be held in the Fund for defensive purposes at the Advisor's discretion during abnormal market conditions. The equity portion of the Advisor's portfolio should strive to maintain less than 5% of the portfolio in cash equivalents, unless the cash is hedged to achieve the appropriate asset class exposure. The fixed income portion of the Advisor's portfolio may maintain higher cash balances (e.g., as barbell strategies necessitate this exposure to cash).

Cash equivalents maximize liquidity and safety of principal. Maturities should be short enough that cash equivalents can be liquidated with a limited loss of principal. The following types of cash equivalents are eligible for investment:

- a) Money market mutual funds (2a7) which invest solely in U.S. Treasury and government agency securities;
- b) Deposits which are 100% federally insured or collateralized with U.S. government or agency securities with a market value of at least 100% of the face amount of the certificate;
- c) U.S. Treasury bills and short-term U.S. government agency securities;
- d) Overnight repurchase agreements collateralized with U.S. government or agency securities with a market value of at least 102% of the face amount; and
- e) Commercial paper of the highest two grades as rated by a nationally recognized rating agency.

Section 7. Pooled/Commingled Investments/Mutual Funds

Commingled investment vehicles where there is a pooling of securities owned by multiple clients for

diversification, risk reduction, or cost benefits, include mutual funds, trust funds, private placements, and limited partnerships, and are explicitly permissible. Although private placements and limited partnerships are exempt from both federal and state securities registration, they are considered appropriate vehicles for the Fund.

Section 8. Permissible Investments

8.1 Asset Class Definitions, Objectives, Permissible Instruments, Strategies, & Requirements. Investments in each asset class listed in Section 5, except for those investments excluded from the Advisors' responsibility, must be well diversified as defined below and in the Investment Guideline Summary or Investment Management Agreement of each Advisor. Advisors, as Fiduciaries, must exercise prudence in all matters and invest solely for the benefit of the Fund. For each asset class, the Advisors will retain Managers who invest in separate accounts or in commingled vehicles. An Advisor may select itself, an affiliated Manager, or an external Manager. Advisors may also retain Managers to provide "active overlay" strategies that use securities, currencies and derivative instruments, including but not limited to forwards, options, futures contracts, options, currency forwards, futures contracts and swaps (e.g. interest rate, credit default and total return) to replicate an index or combination of indexes. These overlay strategies will seek to (a) manage Fund exposure to various asset classes, (b) manage overall Fund risk, and (c) under certain conditions, enhance total return with tightly controlled leverage constraints.

Each Advisor must demonstrate that it has the capability to manage the risks involved in each asset class. Key to controlling risks is the ability to conduct robust ongoing due diligence on the Managers it selects and the ability to measure, manage and report portfolio risks, including issuer concentration, market, credit, duration, liquidity, leverage, currency and other major risks. The Consultant, with the assistance of OHA staff and the Advisors, must document the investment restrictions and risk controls for the portfolio of each Advisor in the Investment Guideline Summaries. The Advisors are not allowed to leverage the Fund's assets at the portfolio level without prior written approval of the BOT, although individual managers or commingled vehicles in certain asset classes and strategies may employ leverage under controlled conditions. Risk hedging in each asset class is explicitly permitted, including currency risks relative to the benchmark index and temporarily hedging the exposure in an illiquid asset class with a similar liquid asset class.

a) Traditional Global Equity - Common & Preferred Stocks and Un-levered Equity Derivatives. The primary role of traditional global equity is to seek to provide total return in excess of inflation, consistent with the appropriate benchmark index. Traditional equity may be actively managed in diversified portfolios of long only positions and/or long and short positions netting to approximately 100% long, be passively managed, utilize active overlay strategies, or be managed in any combination of active, passive and overlay strategies. The goal of an actively managed stock portfolio will be to achieve a net return after fees in excess of its benchmark index with comparable risk. Securities should be publicly owned and traded actively enough to insure liquidity without significantly adverse effects on price due to rapid sale. The Advisor should diversify the portfolio by geography—domestic and international, both developed and emerging markets, by investment style—value and growth, by manager, by approach—quantitative versus fundamental, by sector and industry, and capitalization—small, mid and large. An Advisor may select itself or an affiliated Manager in this asset class.

b) Traditional Global Fixed Income – Cash Equivalents, Bonds, Loans and Un-levered Fixed Income Derivatives. The primary role of Global Fixed Income is to seek to: 1) generate income while diversifying the investment assets, 2) provide a safe, stable return, and 3) provide a deflationary hedge. The fixed income asset class may include, but is not limited to the following components:

- a) Cash equivalents;
- b) US core credit including investment grade corporate, asset-backed, municipals and mortgage securities;
- c) High-yield securities and liquid loans; and
- d) Foreign government securities, investment grade foreign corporate debt denominated in US dollars or foreign currencies from both emerging markets and developed countries.

Advisors should ensure that managers are carefully managing portfolio duration, convexity, yield curve structure, sector exposure, issuer concentration, credit quality, non-U.S. securities, and currency risk to achieve a balanced and reasonable risk budget relative to the benchmark index for the fixed income portfolio. An Advisor may select itself or an affiliated Manager in this asset class.

c) Global Real Assets – Real Estate Investment Trusts (REITs) and Treasury Inflation Protected Securities (TIPS). The primary role of global real estate is to seek to provide total return in excess of inflation, consistent with an appropriate real estate benchmark index. The Managers selected by the Advisors must have demonstrated a favorable record in managing real estate portfolios. The public real estate asset portfolio of the Fund may be comprised of commingled pools and/or a portfolio of real estate investment trusts (REITs), which are well diversified by property type and geographic location. Advisors shall invest in instruments which comprise a portfolio well diversified by the four main property types, including office, retail, industrial, and multifamily residential, as well as by geographic region, and tenancy/leasing structure. If a real estate investment is made via a commingled vehicle, the prospectus or operating guidelines of that vehicle will serve as the operative policy. The Advisors are responsible for ensuring that the selected vehicle or portfolio has adequate risk controls in place and that the Manager is investing according to the operative policy. The Advisors may also invest in TIPS as a diversifier, or if they believe that they provide a better value than REITs, as an inflation hedge. An Advisor may select itself or an affiliated Manager in this asset class.

d) Low Volatility Marketable Alternatives – Funds of Hedge Funds, Individual Hedge Funds, Commodity Funds, and Mutual and Exchange Traded Funds employing alternative strategies. The primary role of this asset class is to seek to provide a consistently positive return source above the risk free rate that has low volatility and low correlation to the other asset classes, and the secondary role is to provide an inflation hedge through a commodity allocation. This asset class consists of a diversified portfolio of hedge fund strategies deemed appropriate by the Advisor for this role, including but not limited to macro, commodity trading advisors, relative value, opportunistic, global tactical asset allocation, distressed, and opportunistic. The Alternatives Advisor may utilize funds of hedge funds, a portfolio of individual hedge funds, mutual funds or market neutral overlay strategies designed to achieve a consistently positive return above the risk free rate. The Alternatives Advisor may select itself or an affiliate as the fund-of-funds Manager or as one or more of the hedge fund Managers. The Alternatives Advisor is responsible for ensuring that the selected vehicle has adequate risk controls in place. The Alternatives Advisor will seek to ensure that Managers invest according to the offering memorandum or partnership agreement. The Alternatives Advisor may select Managers that utilize reasonable amounts of leverage at the fund-of-funds level and Managers that utilize reasonable leverage within their individual hedge funds. The liquidity requirements for individual hedge funds or hedge fund-of-funds will be defined in the Advisor's Investment Guideline Summary. Advisors should seek to avoid direct or indirect investments in funds with redemption gates or side pockets, as well as funds which lack reasonable transparency consistent with the investment strategy. Advisors should also avoid any funds with excessive fees in relation to market practice and/or expected returns, or terms which do not align the interests of the Manager with the client, as well as those that have the majority of assets in illiquid investments.

The primary role of the commodities allocation is to seek to provide a consistently positive return above inflation with a low or negative correlation to the other asset classes. Commodities provide an inflation hedge and should consist of a diversified portfolio of energy, metal, agricultural and other commodities, including but not limited to oil, natural gas, grains, metals, and livestock. The Alternatives Advisor may utilize separate accounts or commingled funds using a single Manager or a multi-manager approach. The Alternatives Advisor should utilize strategies that have at least monthly liquidity under normal conditions and further liquidity guidelines will be specified in the Advisor's Investment Guideline Summary. The Alternatives Advisor may select an affiliate as the Manager-of-Managers or as one of the Managers. The Alternatives Advisor is responsible for ensuring that the selected Managers have adequate risk controls in place, especially for separately managed accounts. The Alternatives Advisor will seek to ensure that Managers utilizing funds invest according to the offering memorandum or partnership agreement.

e) Non-Marketable Equity Alternatives – Private Equity Funds, Funds of Private Equity Funds, Equity Hedge Funds, and Cash Equivalents & Overlay Strategies. The primary role of Non-Marketable Equity Alternatives is to

seek to provide enhanced total return to traditional equity through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but employ strategies which go beyond the long only equity portfolio. Equity Alternatives include, but are not limited to, investments in private equity, venture capital, portable alpha, and long-biased equity hedge funds. The Alternatives Advisor may utilize hedge funds that correlate to the equity markets or overlay strategies such as portable alpha to hedge an underexposure to the targeted level of Non-Marketable Equity Alternatives, and hold cash temporarily to meet capital calls. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class. The CEO may approve funds of private equity funds, which consist of funds making primary and/or secondary investments in underlying private equity funds as well as some direct investments. These funds are managed for returns with low correlation to returns in the traditional equity markets, and with very little liquidity. Assets invested in these private funds are generally illiquid for five to ten or more years. The CEO needs to invest the Fund's assets in a consistent long-term approach so as to limit the vintage year risk where there is a wide range of performance depending on the year the fund is launched. The Non-Marketable Alternatives Providers will seek to ensure that general partners invest according to the offering memorandum or partnership agreement. The Providers are responsible for ensuring that the selected vehicle has adequate risk controls in place and invests within the stated style and the scope of its offering memorandum or partnership agreement. Due to the long-term nature of a private equity investment, the measurement period for complete evaluation will be over a ten-year period. A ten-year return is intended to cover at least one complete market cycle, and is consistent with the average term of private equity fund-of-funds investments. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

f) Non-Marketable Credit Alternatives — Mezzanine Debt Funds, Specialty Loan Funds, Distressed Debt Funds, and Credit Hedge Funds. The primary role of Non-Marketable Credit Alternatives is to seek to provide enhanced total return to traditional credit through vehicles which may have limited liquidity and/or utilize leverage and derivatives, but provide access to fixed income strategies with higher return potential. Credit alternatives include, but are not limited to mezzanine debt, bank loans, distressed debt, special situations, portable alpha, and hedge funds utilizing credit strategies. These strategies should have returns with moderate correlation to traditional fixed income returns and low correlation to the other asset classes. The Non-Marketable Alternatives Providers are responsible for ensuring that their selected vehicles have adequate risk controls in place and that their selected vehicles conform to the offering memorandum or partnership agreement. The Alternatives Advisor may select itself or an affiliated Manager to hedge an underexposure in this asset class using credit hedge funds, overlay strategies, or traditional credit strategies. The OHA staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class.

g) Non-Marketable Real Assets & Opportunistic Alternatives — Natural Resource Funds, Infrastructure Funds, Commodity Funds, Master Limited Partnerships (MLP's) and unique investments that do not fit into another Asset Class. The primary role of Non-Marketable Real Assets & Opportunistic Alternative investments is to seek to provide an inflation hedge, and the secondary role is to provide enhanced total return above Traditional Real Assets by committing capital for ten years or more to private market real asset strategies. Real assets include, but are not limited to real estate, TIPS, commodities, and natural resources. The OHA Staff and Consultant will evaluate and the CEO must approve all investments in Non-Marketable funds within this asset class. The Alternatives Advisor may hedge target exposure using such marketable assets as MLP's, CTA's, REITs, TIPS, overlay strategies, or mutual and exchange-traded funds utilizing real asset strategies. The Alternatives Advisor may select itself or an affiliated Manager to hedge underexposure in this asset class.

h) Hawaii Direct Investments. The primary role of Hawaii Direct Investments is to seek a total return of five percent in excess of inflation from real property that provides office space to OHA in Hawaii. This asset class includes the legacy investment in Russell Investments Private Real Estate Fund. All direct real estate investments must be made within the context of the Direct Investment Policy Statement.

Section 9. Prohibited Investments

The following investments are prohibited. Should a prohibited transaction occur, the Advisor must report it immediately after discovery to the Consultant and OHA staff, who will report it at the next BOT meeting.

9.1 Self-Dealing Transactions. Managers cannot purchase or hold any security of the Advisor who selected them, unless permitted by law.

9.2 Financial Institution Deposits including CDs. Direct deposits may not exceed the Federal Deposit Insurance Corporation insurance limit unless they are 100% collateralized by eligible U.S. government securities or fully covered by a surety bond.

9.3 Letter Stock. Letter stock and other unregistered equity securities are prohibited except in the alternative asset classes.

Section 10. Derivatives Policy

This Derivatives Policy applies to all investments with the exception of those permitted in funds in the alternative asset classes. Investments in derivatives shall not create a leverage effect on portfolio returns and must be consistent with the asset class they are in. Structured securities, futures, forwards, total return swaps, interest rate swaps, credit default swaps, options and other derivatives are permitted only if they are used in a defensive hedging manner (e.g. to hedge a currency, equitize cash, or to create an overlay strategy or structured fixed income portfolio). Advisors will be required to report on a periodic basis (at least annually) to the BOT on their use of derivatives for any purpose and to assure compliance with this Policy.

Section 11. Voting of Proxies

The BOT has delegated the authority to Advisors and Managers to vote proxies. For separately managed accounts (not pooled vehicles), the BOT reserves its right to exercise its proxy rights when it so chooses and to vote the proxies of invested companies as it deems appropriate. The proxy voting review process and guidelines are set forth in the OHA Native Hawaiian Trust Fund Operational Procedures.

Section 12. Trades, Exchanges & Valuation

12.1 Selling or Exchanging Securities. Investment Managers may sell or exchange securities in the course of daily management of specific funds. The goal of all such trades is to maximize portfolio performance while maintaining an appropriate risk profile.

12.2 Marking to Market. To account for market fluctuations and volatility, the Custodian or its agent (independent pricing agent) will mark to market all securities at least monthly. When market values are not available, the Custodian will follow the prevailing best practices regarding fair valuation. If a significant market event takes place during the month that impacts the value of the portfolio, the Custodian or its agent will determine the impact on the portfolio.

Section 13. Procedures for Selecting and Reviewing Investment Advisors

13.1 Review Process. Fund investments will be managed by professional Advisors and Managers except to the extent the BOT specifically delegates investment authority for other strategies for which the Fund's Advisors do not have specific expertise under the Manager-of-Managers' approach or for OHA's Enhanced Liquidity Account. When the BOT elects to retain a new Investment Advisor(s), the OHA staff will select four finalists to make an oral presentation. Evaluation factors will include three-year, five-year and ten-year performance record, as available, and the associated risks taken to achieve the returns, the quality and stability of the investment personnel and process of each company, adherence to philosophy/style and the fees charged by each company.

A contract will be executed pursuant to the Fund's Operational Procedures.

13.2 Selection Criteria for Advisors. Criteria will be established for each Advisor search undertaken by the BOT and will be tailored to the BOT's needs. These criteria are applicable to discretionary Manager-of-Managers and may not necessarily be applicable for the Enhanced Liquidity Account Manager. In general, eligible Advisors will possess attributes including, but not limited to, the following:

- a) For Manager-of- Manager searches, the firm must exhibit capabilities to offer Manager-of-Manager programs across a variety of asset classes and are capable of utilizing qualified Hawaii-based Managers;
- b) For specific asset class searches, the firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the BOT;
- c) The firm must have a minimum five-year history with managing institutional assets, demonstrate continuity of key personnel, and offer a reasonable fee schedule; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms;
- d) The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients;
- e) The firm must have an asset base sufficient to accommodate the Fund's portfolio: Manager of Managers should have at least \$20 billion of discretionary institutional assets under management; the Fund's portfolio should represent no more than 5% of the firm's total asset base for any Advisor;
- f) The firm must demonstrate adherence to the investment style sought by the BOT, and adherence to the firm's stated investment discipline;
- g) The firm should promote good governance in its proxy voting policy and adhere to best practice standards regarding transparency, manager fee structure, leverage, and liquidity in the alternative asset classes;
- h) The firm's fees should be competitive with industry standards for each product category and overall;
- i) The firm must comply with the "Duties of the Investment Advisors" outlined in this Statement and should conform to GIPS (Global Investment Performance Standards) for performance reporting;
- j) The firm must be able to offer investment education programs to the BOT and OHA staff at least once a year; and
- k) The firm must be able to provide analytics tools and/or reports necessary for OHA staff and Consultant to monitor and analyze asset allocation, risk, and manager performance.

13.3 Criteria for Advisor Review and Monitoring. The BOT reserves the right to terminate an Investment Advisor at any time with reasonable notice as defined in the contract between the BOT and the Investment Advisor. Grounds for termination may include, but are not limited to:

- a) Failure to comply with the guidelines agreed upon for the management of the Fund's assets; including holding restricted securities and conducting prohibited transactions;
- b) Failure to achieve performance objectives specified in this Statement or the Advisor's contractual guidelines;
- c) Significant deviation from the Advisor's stated investment philosophy/style and/or process.
- d) Loss of key personnel or significant ownership changes that create instability in the organization;

- e) Evidence of illegal or unethical behavior by the Investment Advisor;
- f) Lack of willingness to cooperate with reasonable requests by the BOT, Investment Consultant or OHA staff for information, meetings or other material;
- g) Loss of confidence by the BOT; and
- h) A change in the Fund's asset allocation program which necessitates a shift of assets to another process or style.

The presence of any one, or a combination of these, factors will be carefully reviewed by the BOT, but will not necessarily result in an automatic termination.

13.4 Performance Monitoring. The OHA staff and Consultant shall monitor monthly statements and receive quarterly performance reports from the Advisors. The Advisors shall monitor, at least monthly, the investment results of each Manager under contract to determine whether or not that Manager is performing up to the standard required by the benchmark of performance specified in the Manager's contract.

13.5 Advisors Total Return Comparison. The BOT expects that each Advisor's total portfolio performance over a market cycle will meet or exceed the benchmark index established for that Advisor.

13.6 Total Portfolio Returns. The BOT expects that the Fund's combined investment results over a market cycle will be in the top 50% of a nationally recognized universe of foundations and endowments with similar sized portfolios.

13.7 Asset Class Returns. Specific asset class investment results shall be measured against benchmarks as detailed in the Advisor's Investment Guideline Summary.

13.8 Advisor Alerts. Advisors are expected to keep the BOT, OHA staff and Consultant informed of any material changes in their respective firms (i.e. change in personnel, ownership, policy, etc.).

13.9 Termination. If at any time the standard required is not being met by an Advisor, the BOT will determine what action will be taken toward the Investment Advisor. The decision to terminate an Investment Advisor shall be by majority vote of the BOT present at the meeting subject to the contractual agreement.

Section 14. Liquidity Policy

The Redemption liquidity of the total Trust Fund will be maintained with a minimum 65% of the Fund's assets able to be liquidated at market value under normal conditions on at least a quarterly basis (advance notification and some restrictions may apply). Investments with liquidity less than quarterly require the approval of the CEO. At least 50% of the total Trust Fund's assets must be liquid on at least a monthly basis at market value without restriction or advance notice longer than five business days under normal conditions. The Liquidity requirements for each Advisor and the assets under their management will be specified in their Investment Guideline Summaries and/or Investment Management Agreements.

Section 15. Errors & Omissions

The Advisor is to correct any material violation of the provisions of this Statement within a reasonable time period upon discovery. The Advisor will reimburse the Fund for a realized loss resulting from a material violation as agreed in the contract between the BOT and the Advisor.

Section 16. Adding New Asset Classes

The Investment Consultant with the assistance of OHA staff will work with the Advisors to assign each investment (e.g. fund) to an asset class portfolio, a custom benchmark index, and a peer manager universe. If the Advisor proposes an investment that does not fit into one of the approved asset classes listed in Section 5, the Advisor will prepare a written recommendation to the OHA staff / Consultant justifying the investment. The recommendation must include a description, of the new asset class, rationale for including the new investment, historical returns and risk statistics, liquidity, analysis of impact on the risk/return of the Fund, the benchmark index and manager peer universe. Adding a new asset class will require the approval of the CEO and the BOT.

Section 17. Interpretation

This Statement will be incorporated as an addendum in the agreements between the OHA BOT and each Advisor. In the event of any conflict or inconsistency between the terms of the agreement and this Statement, other than the Section 4.4 Duties of the Investment Advisors and anything designated as a Fundamental Investment Policy, the terms of the agreement with the Advisor shall govern.

Section 18. Hawai'i Direct Investment Policy (HDIP)

The CEO has the delegated power to allocate up to \$25 million, but not to exceed 10% of the market value of the Fund at the time of investment, on a cost basis for Hawai'i Direct Investments, including real estate and equity positions in companies based in Hawaii or with significant operations in Hawaii. Approved uses for this allocation include the acquisition of corporate real estate that OHA will occupy in whole or in part and funding BOT-approved lending programs for Native Hawaiians. This allocation may not be used for any other purpose until the acquisition of OHA's first corporate headquarter real estate property is complete. Investments other than corporate real estate and BOT-approved lending programs must be approved by a supermajority vote of the BOT. The combined cost of all direct investments, less any return of capital to the Fund from these direct investments, cannot exceed the \$25 million allocation.

18.2 Delegation of Authority. All final acquisition, development, and/or disposition decisions of Hawai'i direct investments must be approved by the BOT. The BOT delegates to the CEO the authority to:

- a) Administer the HDIP and approve and implement procedures to carry it out;
- b) Delegate duties to OHA staff as necessary to fulfill and implement this policy;
- c) Deny opportunities that do not satisfy current policy, guidelines, and/or criteria approved by the BOT;
- d) Execute contract and agreements;
- e) Conduct investment due diligence, negotiations, and on-going performance monitoring;
- f) Structure real estate financing terms for approval by the BOT;
- g) As necessary, oversee and manage the operational functions associated with each investment, including selecting and terminating service providers, negotiating leases and setting fee schedules (including market-based lease terms for OHA occupied space), obtaining and approving permits, licensing, and leasing, approving tenant improvements, sub-leases, evictions, use and service agreements, and making all other operational decisions associated with the investment; and
- h) Determine when to segregate assets to fund acquisitions and to place those assets with OHA staff to invest in the Enhanced Liquidity Account (ELA) until acquisitions are closed. These funds do not count toward the spending limit on annual transfers to the ELA

The BOT reserves the right to approve all other decisions not listed above.

18.3 Permissible Investment. For OHA's headquarter corporate real estate acquisition, OHA is to invest in real estate located on the island of O'ahu. OHA may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or vice versa, during the course of the holding period of the investment. Realized gains generated from real estate dispositions should credit the cost of the investment allocated to the direct investment program.

All direct investments should demonstrate the ability to generate current income and capital gains consistent with the asset class benchmark index and Fund's long-term objective.

18.4 Leverage. OHA may finance the acquisition of corporate real estate with a mortgage. The property may be pledged as collateral under a non-recourse structure to OHA. Any amount of recourse back to OHA, including an OHA guarantee, will be considered a use of capital and therefore be counted toward the \$25 million allocation.

18.5 Market Valuation. Market valuation of corporate real estate is determined by biennial appraisals conducted by a reputable independent appraisal firm and that value will be utilized until the next appraisal. Prior to the first appraisal, the market value of the asset is assumed to equal its acquisition cost.

Section 19. Enhanced Liquidity Account Investments

The BOT has authorized the use of an Enhanced Liquidity Account (ELA) utilizing primarily short-term and intermediate-term U.S. government and agency securities, TIPS, MLP's, liquid alternative risk premia strategies, and passive beta strategies to manage OHA's short-term (less than 18 months) cash flow. The ELA may be managed internally by OHA staff or externally by a registered investment advisor. The primary objectives of the ELA are to expedite the ability to meet fiscal obligations and efficiently manage short-term cash needs; a secondary objective is to provide a highly liquid, low volatility, low or anti-correlating asset to the Fund. As such, OHA may hold up to 10% of the net assets of the Fund in the ELA. The custody of short-term investment assets shall remain with OHA's Fund Custodian.

19.1 Permissible Investments. Assets held within the ELA must have no less than monthly liquidity under normal conditions. Passive index mutual funds, passive exchange-traded funds, passive institutional commingled funds, liquid alternative risk premia strategies, short-term U.S. government and agency securities, cash, and cash equivalents are permitted. A list of allowable investment vehicles for each asset class must be reviewed by the CFO and Consultant, approved by the CEO, and presented to the BOT for review. OHA staff or its external Manager may only select from this Approved List of investments vehicles in the ELA.

19.2 Asset Allocation and Rebalancing. The investments should be highly liquid with low volatility. Under normal conditions, the ELA's assets should be targeted no more than 2.0 percentage points (absolute) away from the strategic target allocation set forth in the ELA Manager's Investment Guideline Summary or Investment Management Agreement. OHA staff and the Consultant will devise a targeting and rebalancing process with a maximum tolerance approved by the CEO. If managed internally, OHA staff will execute the process; otherwise the external Manager will execute the process. Decisions to target the asset allocation outside of the maximum 2.0% tolerance shall be reviewed by the Investment Advisory Committee and/or CFO, approved by the CEO, and reported to the BOT prior to implementation.

19.3 Internal Controls. Internal operational controls and procedures relating to short-term investments shall be outlined in the OHA Native Hawaiian Trust Fund Operational Procedures.

19.4 Advisor and Manager Selection. The BOT will approve OHA staff under the supervision of the CFO and CEO as the Advisor and an external Manager to manage the ELA. The external Manager may not have full investment discretion; therefore, provisions relating to discretionary Advisors in this Statement may not necessarily apply to the ELA Manager. The duties of the ELA Manager shall be established based on the Investment Management

Agreement between the Manager and the BOT. BOT presentations by four finalists are not necessary for ELA Manager selection.

19.5 ELA Policy Benchmark & Investment Guidelines. The Policy performance benchmark for the ELA shall be the combination of market indexes and the risk free rate as set forth in the Manager's Investment Guideline Summary or Investment Management Agreement, which will also establish investment guidelines for managing the account.

Section 20. Investment Risk Management Policy

The Native Hawaiian Trust Fund ("NHTF") Investment Risk Management Policy is designed to ensure that there are risk control measures in place to identify, monitor, and manage the level of risks and to balance the long-term expected risk and return objectives of the NHTF investment portfolio. The OHA Board of Trustees ("BOT") recognizes that the undertaking of risks is generally unavoidable in investment management. The purpose of this policy is not to eliminate risks, but to understand the risks through the implementation of disciplined processes and procedures. Risk control measures include continuous monitoring and timely reporting by OHA staff to ensure the effectiveness of OHA's investment risk management system. This Policy is not intended to provide an exhaustive list of risks or provide a comprehensive list of process and procedures to identify and mitigate risks. Rather, this policy provides generally accepted approaches to risk management that can be implemented through investment guidelines and operational policies and procedures.

Risk Management

Key risk factors may stem from internal or external sources. The assessment of risk may be both qualitative and quantitative. The OHA staff and Consultant shall conduct an annual qualitative risk assessment identifying key risk factors, sources of risk, risk mitigants, and remediation plan, if necessary, to manage these risks. OHA staff shall also provide quantitative risk reporting to the BOT using commonly accepted quantitative risk reporting measures on a quarterly basis. Risk management measures may include the following:

- 1) Establish internal policies and procedures to minimize operational and legal risks;
- 2) Establish investment guidelines for eligible investments, diversification, rebalancing, liquidity, leverage, and use of derivatives;
- 3) Annual reporting of portfolio volatility (measured using standard deviation of returns) and expected volatility and return provided by the Investment Advisors;
- 4) Annual reporting of tracking error for OHA's liquid assets;
- 5) Annual reporting of leverage, currency risk, concentration risk, and liquidity risk;
- 6) Annual external financial audit by a reputable independent audit firm; and
- 7) Periodic review of the Investment Policy Statement and Risk Management Policy as necessary to assess the relevance and effectiveness of these policies.

Implementation

It is the responsibility of OHA's Chief Executive Officer to ensure that risk management policies and procedures are in place to identify, monitor, and manage investment risk. It is the OHA staff's responsibility to implement internal procedures and continuously monitor the investment portfolio and Advisor activities to ensure policy and guideline compliance. OHA staff shall rely on most recent data available provided by the Custodian and Advisors to analyze risk statistics and provide risk reporting. A risk management review shall be provided to the BOT by the Investment Consultant on an annual basis, or more frequently as needed.



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

**OFFICE OF HAWAIIAN AFFAIRS
NATIVE HAWAIIAN TRUST FUND SPENDING POLICY**

I. PURPOSE. The purpose of this policy is to ensure the continued viability of the Office of Hawaiian Affairs' (OHA) Native Hawaiian Trust Funds (NHTF) by providing specific guidelines to balance the objectives of maintaining principal and producing large, stable and predictable spending. Decisions affecting management of the NHTF focus upon four conflicting objectives:

- A. Maximize long-term total return;
- B. Maximize annual spending from the Trust;
- C. Preserve the real value (purchasing power) of the Trust's principal and of its spending distributions over the long term;
- D. Maximize the stability and predictability of spending distributions. In other words, minimize the spending shortfall risk.

II. OBJECTIVE. The following spending policy reflects the objective of distributing as much total return as is consistent with the overall defined investment objectives while protecting the value of the principal.

III. DEFINITIONS. To further clarify the spending policy, the following definitions are used:

A. Native Hawaiian Trust Fund defined as all Public Land Trust revenue emanating from 5(f) funds that is subject to OHA's Native Hawaiian Trust Fund investment policy.

B. Spending Rate is the percentage (%) applied to the average market value to determine the spend amount.

C. Annual Spending Withdrawals defined as the maximum amount authorized to be budgeted from the Native Hawaiian Trust Fund in one fiscal year.

D. Moving Average Rule – to spend a fixed percentage of the average Native Hawaiian Trust Fund's average market value (e.g., spend 5.0% of the average market value of the previous 20 quarters).

E. Annual Ceded Land Revenues – shall be the \$15.1 million (fifteen million one hundred thousand dollars) annual revenues received from the state of Hawai'i as of fiscal year 2006-2007, or including any adjustments to annual ceded lands revenues in the future by the state of Hawai'i.

F. State of Hawai'i General Fund appropriations are determined by the Legislature during each Biennium and are spent for a specific purpose.

G. To Spend is the result of multiplying the moving average rule (Moving Average) by the spending rate.

H. Spent is when actual disbursement or encumbrances of funds is made. Trustees should never appropriate funds beyond the Spending Policy calculated amount.

I. Average Market Value – shall be computed quarterly based upon the monthly statements received from OHA's Custodian of Record, the average shall be computed from the most recent 20 quarter period ending as of March 31st, fifteen months prior to the start of the budget on July 1. If real estate is included in the Native Hawaiian Trust Fund then the real property market value shall be included to compute the average market value.

J. Public Land Trust Revenue – emanating from 5(f) funds that the State of Hawai'i remits to the Office of Hawaiian Affairs.

K. Real Property Market Value – shall be based upon the latest real estate appraisal. Such an appraisal should be conducted every five (5) years or upon the sale of any respective real estate property, whichever comes first.

L. Investment – an acquisition for future income or benefit.

M. 5(f) Funds – refers to Section 5(f) of the State of Hawai'i Admissions Act.

N. Total return is defined as the sum of earned interest and dividends and realized and unrealized gains or losses, less all investment management costs (*e.g. investment consultant, custodian, money manager fees*).

O. Native Hawaiian Self-Governance Spending Withdrawal defined as a maximum cumulative authorization not to exceed \$3,000,000 to be budgeted from the

Native Hawaiian Trust Fund for self-governing efforts of the Office of Hawaiian Affairs.

IV. POLICY/PROCEDURE. Consistent with the overall investment goals of the Native Hawaiian Trust Fund, the following spending rates and rules for distribution are set forward.

A. The formula for determining **annual spending withdrawals** and the mechanics of its implementation shall adopt the **Moving Average Rule**, whereby;

1. OHA will **spend** a fixed percentage of no more than five percent (5%) of the Native Hawaiian Trust Fund's **average market value**,

plus

2. **Ceded Land** Revenues received by OHA

plus

3. **State of Hawai'i General Funds** received by OHA

plus

4. Any funds available but not spent in previous fiscal years (Fiscal Reserve), held within the Native Hawaiian Trust Fund.

B. Regardless of the performance of the Native Hawaiian Trust Fund, OHA's spending policy will apply. The 5% spending rate shall be applied to investment portfolio and real property assets intended to be income or benefit producing.

C. Funds available from sources other than those defined in Section IV.A. of this policy are not limited by this annual spending withdrawal formula.

V. SPECIAL SPENDING WITHDRAWAL. Public Law 103-150 recognizes that the "...indigenous Hawaiian people never directly relinquished their claims to their inherent sovereignty as a people or over their national lands..." and urges the President of the United States to "...support reconciliation efforts between the United States and the Native Hawaiian people." Act 195 was signed into law on July 6, 2011 and recognized the Native Hawaiian people as the only indigenous, aboriginal, maoli people of Hawai'i. Act 195 encourages OHA to "...continue to support the self-determination process by Native Hawaiians in the formation of their chosen governmental entity" and notes that the State has designated OHA "...as a trust vehicle

NHTF Spending Policy

Page 3

to act on behalf of Native Hawaiians until a Native Hawaiian governing entity could be reestablished...". Balancing the opportunity for the formation of a governmental entity that would empower Native Hawaiians to exercise their un-relinquished inherent sovereignty with the objectives of maintaining principal and producing large, stable and predictable spending, a special cumulative spending withdrawal of no more than \$3,000,000 can be authorized to be budgeted from the Native Hawaiian Trust Fund for self-governing efforts of the Office of Hawaiian Affairs and will be known as a **Native Hawaiian Self-Governance Spending Withdrawal**. Authorizations of funds pursuant to Section V. will require a separate Action Item appropriation request pursuant to Section 1.4.b of OHA's Board of Trustees Executive Policy Manual. This Section V. specifically disallows transfer of funds or appropriations of any kind to the Native Hawaiian Roll Commission, as established by Act 195.

VI. REVIEW

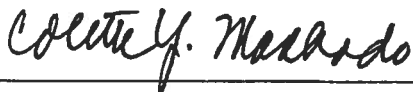
A. The Spending Policy will be reviewed at least every two years or as recommended by the Chair of the ARM Committee.

B. Modifications to the Spending Policy must meet requirements as provided by the then current By-Laws. Any modification or exceptions to OHA's Spending Policy shall require six (6) votes and two (2) readings at the Board of Trustees level and require external due diligence to be conducted.

VII. EFFECTIVE DATE. "The effective date of this policy is February 27, 2014 and this policy shall be deemed to pre-exist funds disbursed to OHA by the State pursuant to Act 178, SLH 2006."

Adopted on the 27th day of February, 2014

OFFICE OF HAWAIIAN AFFAIRS BOARD OF TRUSTEES



Colette Y. Machado, Chairperson

First Reading 2/20/2014

Second Reading 2/27/2014

OHA'S NATIVE HAWAIIAN TRUST FUND SPENDING POLICY'S FISCAL RESERVE WITHDRAWAL GUIDELINES

I. INTRODUCTION. The Office of Hawaiian Affairs two criteria for an effective Fiscal Reserve are the following: (1) the fund collects and dispenses appropriate amounts of money at appropriate times; and (2) it is simple to operate. Of the various alternatives studied by Administration, the fiscal reserve fund proposed here comes closest to satisfying these criteria. The purpose of this section is to describe the proposed operation of OHA's fiscal reserve as established by OHA's Spending Policy, which was initially adopted on October 31, 2000 and subsequently amended in September 2004, July 2006, and May 2009, respectively. These guidelines are not policy, rather it clarifies existing policy that exists on page 3, section IV of OHA's Native Hawaiian Trust Fund Spending Policy section entitled, "Policy/Procedure" and states "*plus*" A.3 "*Any funds available but not spent in previous fiscal years, held within the Native Hawaiian Trust Fund.*"

II. OHA'S NATIVE HAWAIIAN TRUST FUND SPENDING POLICY'S – FISCAL RESERVE. Following is a description of the fiscal reserve fund:

A. Objective. OHA's fiscal reserve fund is designed to provide money in certain situations.

B. Authorized uses. Money can be authorized under any of the 3 (three) permissible purposes as follows:

- 1. Budget Stabilization** – To address shortfalls in funding that directly translate into a significant spending decrease for a budget year. The shortfall can be the result of a downturn in the economy that negatively impacts the value of the NHTF investments, or can be the result of a reduction in general funding or ceded land revenue payments received from the state. Costs of programs can be funded through the fiscal reserve if it is determined that not providing the funding will have a severe negative impact on OHA's beneficiaries. The amount that can be utilized under this category in any given fiscal year, cannot exceed the previous year's spending limit subject to the limitations set forth in (E.) below. In other words, the budget stabilization can be used so that the fiscal reserve will supplement the current year budget to be at least equal to the prior year budget up to the limit set forth in (E.) below.
- 2. Unpredicted One-time Payments** – to address events or opportunities that are non-recurring in nature, have not been contemplated in the

budget process, and cannot wait to be included in the next budget cycle. This category would also include any expenditures needed to address legal issues as well as to remedy an emergency condition (which means a situation that creates a threat to public health, welfare, or safety that may arise by reason of major natural disaster, epidemic, riot, fire, or other reason.) The maximum designation amount under this category is subject to the limitations set forth in item (E.) below.

3. **Capital Acquisitions** – Major purchases of non-investment land or other capital assets that either have not been contemplated during the time of budget preparation, or cannot be addressed within the confines of the budget, and cannot wait to be included in the next budget cycle. The maximum withdrawal amount under this category is subject to the limitations set forth in item (E.) below.

C. Maximum Designations. The maximum designations allowable to be made in any given fiscal year, using any combination of items B.1. through B.3. above, are limited to no more than \$3,000,000 annually. The \$3,000,000 limitation is based on the fiscal year in which the designation is made, regardless of the year of funding specified in the designation. For example, if a \$2m designation is made in budget year 1, to be funded in budget year 2, the \$2m will count towards the limit in budget year 1, and only an additional \$1m can be designated in budget year 1. In budget year 2, the full \$3m of designations is still available.

D. Special Circumstances – There may be special circumstances that will require the use of funds in excess of the categories noted above. For example, the imminence of the passage of a federal recognition bill may trigger events for which OHA will be required to spend monies not otherwise available. In these special circumstances, the criteria set forth above can be waived by the BOT with a vote of the super majority plus 2 (8 affirmative votes). Since the “fiscal reserve” is a part of OHA’s Native Hawaiian Trust Fund and not an account established separately, if and when the fiscal reserve is utilized, the funds identified will merely serve as an additional means of financing.

E. Deposit Calculations. The source of data required to calculate the amount to be “restricted” as an OHA NHTF Spending Policy Fiscal Reserve shall be subject to audited financial statements for the respective fiscal year. Estimated year-end budget surpluses based upon unaudited records are not permissible.

F. Restrictions. The operation of the fiscal reserve fund is subject to two (2) restrictions:

1. no more than the current balance of the fiscal reserve in any year will be designated from the fund (e.g., the fund's balance cannot be negative after accounting for all designations; and
2. the total amount of money earmarked as a fiscal reserve does not have an upper threshold (*cap*) imposed upon it.

G. Operation

A. Pursuant to the OHA Spending Policy, Administration is tasked with calculating the spending policy limitation for the upcoming fiscal year utilizing a 20-quarter rolling average of the Native Hawaiian Trust Fund's market value, ending as of March 31st, fifteen months prior to the start of the budget on July 1. The respective 20-quarter rolling average along with a Board of Trustees determined spending rate (up to 5%) eventually determines the upper threshold for the development of a biennium budget, which is revisited during the supplemental year to correct any upward or downward adjustments in accordance to the actual spending policy formula. Note: during the development of a biennium budget, only the first fiscal year can utilize actual figures with the second year requiring Administration to "estimate" the market value of the upcoming four quarters based upon financial analysis techniques.

B. Only upon the close of OHA's fiscal year end financial records and the successful completion of a financial audit engagement can fiscal year "expenditure" figures be utilized, less any investment related expenses, and then deducted from OHA's calculated spending policy ceiling. As a part of OHA's adjusting fiscal year end journal entry, the difference is to be accumulated to any existing fund reserve account. Note: the funds are maintained within the Native Hawaiian Trust Fund, without the benefit of interest income and/or capital gains accrual, and are merely recognized as "reserved" funds within OHA's financial statements.

III. PROCEDURE. The procedure to be followed when requesting money via these guidelines for Board consideration shall be in the form of an Action Item and must include, at a minimum, the following information:

1. Identify the originator of the request;
2. Cite specific "Authorized Use" being requested as:
 - a. **B.1. Budget Stabilization,**
 - b. **B.2. Unpredicted One-time Payments, or**

c. B.3. Capital Acquisitions

3. Cite **D. Special Circumstances** if applicable.
4. Explain why the request cannot be accommodated with funds from the current Core Operating Budget.
5. State the urgency of the request and its impact on OHA if the request is denied or the decision is delayed.
6. Attach a letter or proposal detailing the request in sufficient detail to reasonably draw a conclusion of merit.

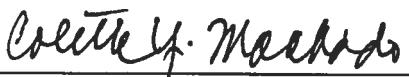
IV. VOTING REQUIREMENTS.

A. The Board of Trustees with six (6) affirmative votes may authorize expenditures from the fiscal reserve up to the maximum designation allowable under Budget Stabilization, Unpredicted One-time Payments, and Capital Acquisitions categories as set forth in Section II. B.1., B.2. and B.3., respectively, above.

B. The Board of Trustees with eight (8) affirmative votes may authorize expenditures from the fiscal reserves above the maximum designation allowable under the Special Circumstances category as set forth in Section II.D. above.

Adopted on the 27th day of February, 2014

OFFICE OF HAWAIIAN AFFAIRS BOARD OF TRUSTEES



Colette Y. Machado, Chairperson

First Reading	2/20/2014
Second Reading	2/27/2014



OFFICE OF HAWAIIAN AFFAIRS

REAL ESTATE VISION, MISSION, AND STRATEGY POLICY

First Reading: May 17, 2007
Second Reading: June 6, 2007

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I. VISION

The OHA real estate vision is to be the real estate partner of choice:

- By every person and entity with any involvement in Hawai'i lands: individuals, institutions, corporations, public purpose entities and government agencies.
- For any and every type of Hawai'i property and Property Involvement.

II. MISSION

OHA shall protect and preserve Hawai'i lands and their cultural significance by:

- Bridging the ancient use of lands with future land use patterns
- Advocating for land use and transaction practices and regulations congruent with the Hawaiian Sense of Place.
- Creating financially viable Property Involvements.

III. OHA REAL ESTATE STRATEGY

1. OHA Will Champion Real Estate Best Practices

A. Best Practices

- 1) The Board and Staff will model Best Practices in all OHA Property Involvements.
- 2) The OHA Real Estate Strategy shall be consistent with OHA's mission, values, goals, and resources.
- 3) The implementation of the OHA Real Estate Strategy will be guided by a congruent OHA Real Estate Business Plan and OHA Real Estate Investment Policy.
- 4) OHA Property Involvements shall be World Class and have congruency among the following elements:
 - a. Strategy
 - b. Structure
 - c. Staff

- d. Rewards
- e. Tasks
- f. Resources
- g. Systems
- h. Style.

5) OHA will meet Prudent Investing Standards applicable to investment properties.

B. Real Estate Asset Allocation Model

1) OHA shall prioritize resource allocation by adopting a Real Estate Asset

Allocation Model to include:

a. Legacy Lands

i. Conservation and Preservation Lands

ii. Cultural Lands

b. Corporate Real Estate

c. Programmatic Lands

i. Housing Lands

ii. Agricultural Lands

iii. Educational Lands

iv. Health & Human Services Lands

v. Community Lands

d. Investment Lands

i. Directly held Lands

ii. Value creation (development) Lands

iii. Real Estate Investment Fund

2) The Real Estate Asset Allocation Model shall be congruent with and developed in

conjunction with the OHA Investment Policy.

C. Prudent Investment Standard

- 1) OHA shall develop specific investment decision criteria consistent and congruent with the OHA Real Estate Business Plan and OHA Real Estate Investment Policy.
- 2) OHA shall conduct Due Diligence on all Property Involvements in order to assess risk and reward.
- 3) The implementation of Property Involvements will include the separation of (1) opportunity origination; (2) Due Diligence and evaluation; and (3) approval functions.

D. World Class Strategic Management

- 1) Trustees shall devote their attention, time, energy and resources to big picture, high-level, major policy priorities – not transaction specific deal-making.
- 2) The Board of Trustees shall emphasize policy making and approval of capital commitments.
- 3) Staff shall be responsible for implementation of the Board of Trustees decisions.

E. Mandatory Property Standards

- 1) Every Property Involvement shall be considered in light of and be consistent with Real Estate Asset Allocation Model and specific decision criteria.
- 2) OHA shall only consider Property Involvements in which a complete information package consistent with OHA specifications is provided.
- 3) Once a proposal for a Property Involvement has been submitted to OHA, Trustees shall have no contact, in any form (including social occasions) with any person associated with the Property Involvement until after the closing or a denial of the proposal.

- 4) Any Trustee who has any personal relationship with any person or any entity associated with a particular Property Involvement, shall reveal the nature of the relationship prior to voting on any associated matter. The Board shall, in consultation with counsel, decide whether that Trustee should be barred from voting prior to taking the vote.

F. Types of Property Involvements

- 1) OHA shall acquire the following kinds of Property Involvements:
 - a. Ceded Lands to be held in trust for the future Nation.
 - b. Other Property Involvements as part of a land base to support the future Nation.
 - c. Property Involvements that enhance the stature, self-respect, self-sufficiency and well-being of all Hawaiians.
 - d. Property Involvements that promote the well-being of all people with a connection to Hawai'i.
 - e. Property Involvements that promote and respect Hawaiian places and their sacred cultural traditions.
 - f. Property Involvements that provide places to promote OHA purposes, activities and programs.
 - g. Property Involvements that generate the financial resources to sustain OHA, its programs, purposes and mission.

G. Specific Decision Criteria / Dual Priority for Economic and Cultural Concerns

- 1) OHA shall develop specific decision criteria for each aspect of a Property Involvement.
- 2) OHA shall apply multi-factor decision model – combining financial and non-financial factors – to all property decisions.

- 3) Sacred land involvements shall have economic integrity, for if they do not, their financial sustainability shall be compromised and ultimately their sacred purposes shall be compromised.
- 4) Entrepreneurial, profit seeking land involvements must respect all OHA values, priorities and objectives.

2. OHA Shall Seek Portfolio Expansion

A. Beyond Ceded Lands

- 1) OHA shall proactively pursue control of Hawaiian properties beyond Ceded Lands.
- 2) OHA shall pursue control of Hawaiian properties beyond Ceded Lands in order to be the catalyst to transform Hawai'i land stewardship.

B. Collaboration and Relationships

- 1) OHA shall seek to partner with other organizations to pursue all of its land-based objectives – rather than independently trying “to do it all.”
- 2) OHA shall encourage private parties to pursue land involvements consistent with OHA values, priorities, and objectives.
- 3) OHA shall be an advocate/agent/representative/partner of multiple levels of government: federal/state/local.
- 4) OHA shall seek to be known as the pre-eminent joint venture partner for any property project in Hawai'i.
- 5) OHA shall seek to be the organization that those who care about Hawai'i – its people, its culture, its history, and its lands – choose as the recipient for their donations and their estates.

3. OHA Shall Seek Decision Making Influence over All Land in Hawai'i

A. Every Property in Hawai'i is Sacred

- 1) OHA shall promote the idea that every property in Hawai'i is sacred and pursue initiatives that help achieve a broad acceptance of this truth.
- 2) OHA shall pursue initiatives that respect the sacred qualities and cultural legacy of every property.
- 3) OHA shall address issues for each land parcel and Property Interest that reflect its sacred circumstances.
- 4) OHA shall model respect for the land and honoring Hawaiian Sense of Place.

B. Sacred Lands Assessment

- 1) OHA shall assess the sacred status and relative priority of every property in Hawai'i.
- 2) OHA shall implement a GIS-based inventory of all property in Hawai'i that includes information about property circumstances, owners, and their motives.
- 3) OHA shall initiate relationships with stakeholders of significant properties.

C. Advocate Superior Land Policy

- 1) OHA shall advocate that every property analysis and appraisal report for any property transaction shall contain an assessment of how that property and transaction may influence the Hawaiian Sense of Place.
- 2) OHA shall advocate that a precondition to implementing any proposed Property Involvement – particularly property development and modification - shall be an assessment of how that proposed Property Involvement would affect the Hawaiian Sense of Place.
- 3) OHA shall take leadership to articulate and document the Hawaiian Sense of Place.

- 4) OHA shall employ its power, stature, and influence to encourage responsible land stewardship and development.

D. Sacred Land Advocacy

- 1) OHA shall pursue education, advocacy, collaborative development relationships, legislative initiatives, and – where necessary/appropriate – litigation to protect, preserve and enhance Hawai'i lands.
- 2) OHA shall protect Hawai'i places that need protection.
- 3) OHA shall employ its power to encourage urban development that models the Hawaiian Sense of Place.

4. OHA Shall Establish Superior Organization and Infrastructure

A. Professional Property Investing and Stewardship

- 1) To provide competent, responsible stewardship of land in Hawai'i, OHA shall develop its Land organization to a meaningful scale.
- 2) OHA's Land organization shall contain diverse organization capabilities in order to respond to the diverse property priorities of OHA stakeholders.
- 3) OHA's Land organization structure shall combine generalist professional skills in integrative functions with specialist knowledge and capabilities.

B. World Class Strategic Management System

- 1) OHA shall invest in technology, staff, data and expertise to classify all Hawai'i land and property interests.
- 2) OHA shall obtain a comprehensive portfolio management database/system.
- 3) OHA shall leverage staff productivity by investing in sophisticated property analysis software plus data retrieval and project management automation systems.

5. OHA Shall Build a Strong Financial Foundation for All Property Involvements

A. Interlinked Financial Foundation

- 1) OHA shall provide organizational, managerial and financial support to facilitate the OHA Real Estate Strategy.
- 2) Each important OHA property shall be managed by a separate legal entity and supported by an independent foundation.
- 3) OHA shall establish where appropriate a family of Hawai'i land foundations at three levels:
 - a. Hawai'i
 - b. Each island
 - c. Each property/land parcel
- 4) OHA shall design an overlay governance structure to balance Trustee leadership and guidance with local community initiative and self-determination.
- 5) OHA shall encourage those who care about preserving the traditions of Hawai'i to invest in Hawaii's future through contribution of lands and money to the family of Hawai'i land foundations.

B. Prudent Real Estate Investment Policy

- 1) Capital investment decisions shall reflect risks and rewards.
- 2) OHA shall not set arbitrary limits or pursue one-size-fits-all capital budgeting, as that would be contrary to Best Practices.
- 3) OHA shall not set an arbitrary capital spending ceiling, as that would be in conflict with fiduciary duty to beneficiaries.

IV. STATUS / EFFECTIVE DATE

This document is effective as of June 6, 2007.



OFFICE OF HAWAIIAN AFFAIRS

KAKA‘AKO MAKAI POLICY

First Reading: August 30, 2012
Second Reading: September 20, 2012

Kaka‘ako Makai Policy of the Office of Hawaiian Affairs

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Kaka'ako Makai Policy of the Office of Hawaiian Affairs

PURPOSE

The purpose of this policy is to set forth guidelines for the management and development of its Office of Hawaiian Affairs' (OHA) Kaka'ako Makai parcels received through Act 15, Session Laws of Hawai'i, consistent with the existing Real Estate Vision, Mission, and Strategy Policy. The Real Estate Vision, Mission and Strategy Policy currently provides for real estate best practices and world class caliber developments. Factors affecting management and development of the Kaka'ako Makai parcels focus upon five objectives:

- 1) Relationship to OHA's vision and strategic priorities;
- 2) Design and use, including cultural values;
- 3) Revenue generation and proceeds;
- 4) Timetable and process; and
- 5) Governance and decision-making

The following set of policy guidelines reflects the objective of maximizing revenue and total returns to increase OHA's programmatic reach without compromising OHA's kuleana to perpetuate Hawaiian culture in OHA's management and development of the parcels.

POLICY GUIDELINES

1. Relationship to OHA's Vision and Strategic Priorities

Create synergy between OHA's Kaka'ako Makai parcels and OHA's vision and strategic priorities.

A. Commercial kuleana to maximize revenues while providing economic development opportunities for Native Hawaiians.

- 1) Create a sustainable revenue stream to support OHA's strategic priorities
- 2) Create opportunities for Native Hawaiian self-sufficiency
- 3) Create programmatic opportunities for employment of Native Hawaiians

B. Cultural kuleana to incorporate Native Hawaiian culture in both intrinsic and extrinsic design elements and purposes.

- 1) Proceed in a way that has in mind the transfer of the assets to the Nation

- 2) Raise an architectural landmark/signature that signifies Kaka‘ako Makai as a Hawaiian place
- 3) Create a sense of Nation - acting boldly

2. Design and Use, including Cultural Values

Ensure that cultural and stewardship values drive/provide the base for design and use decisions.

A. Create a Hawaiian sense of place – a cohesive Hawaiian identity that creates a place in which the physical structures and environment are connected to the socio-psychological, cultural and spiritual aspects of living Hawaiian that reflects the past, present and future.

- 1) Understand that history can guide us – consider the trajectory of historical uses of the area
- 2) Incorporate cultural uses
- 3) Introduce Kaka‘ako Makai as a meeting place for Native indigenous leaders of the Western hemisphere and Pacific Islands
- 4) Encourage uses and activities that attract Hawaiians and locals to Kaka‘ako Makai
- 5) Incorporate the cultural identity of the area - stories, names, guardians, wind and elements – as a guide for planning, design and use
- 6) Proceed with our cultural/kanaka foot
- 7) Create a signature architectural Hawaiian landmark

B. Balance pono and commerce.

- 1) Encourage cohesiveness among parcels/projects
- 2) Establish priority for qualified Hawaiian businesses and professionals
- 3) Incorporate mixed uses
- 4) Use green (environmentally friendly) technology
- 5) Prioritize the use of indigenous plants

C. Collaborate with other Native Hawaiian organizations

- 1) Work with Kamehameha Schools on potential partnerships with KS's adjoining properties
- 2) Work with other Ali'i Trusts

3. Revenue Generation and Proceeds

Balance near-term revenue stream and/with long-term financial and strategic goals and decisions.

A. Near-term kuleana to balance near-term revenue generation for programmatic use with long-term vision.

- 1) Create a sustainable revenue stream for strategic priorities
- 2) Allocate 10% of gross revenue for grants (*policy to be revisited in two years)
- 3) Set leases and other contractual arrangements at market value; anything below market value should be exceptions, and will require Board approval

B. Long-term kuleana to balance revenue generation with OHA strategic goals.

- 1) Maximize revenue generation, consistent with design, use, and cultural values
- 2) Balance pono and commerce

4. Timetable and Process

Develop a timely, accountable process.

A. Key planning considerations

- 1) Have an overall conceptual plan before considering or initiating major proposals
- 2) Establish a timeline for tasks that need to be accomplished

B. Key execution considerations

- 1) Engage professionals – finance, real estate, marketing, development, etc.
- 2) Maintain the momentum, in keeping with fiduciary duties

3) Proceed in ways that grow, preserve, and protect the assets to the Nation

C. Transparency and communication kuleana

- 1) Embrace community engagement – ensuring dialogue with the community and neighbors
- 2) Have a robust communications and information-sharing infrastructure

5. Governance and Decision-Making

Exercise appropriate leadership and management.

A. Vision for master planning and property management.

- 1) Implement knowledge-based decision-making
- 2) Establish efficient management
- 3) Act in ways that are consistent with Kaka‘ako Makai being a flagship of actions, values and leadership
- 4) Create a sense of nation - acting boldly
- 5) Retain policy direction at the level of the Trustees

B. Accountability

- 1) Lead with people who have financial, management, and development expertise
- 2) Complete an annual budget and a 5-year management and operating budget

UPDATE AND MAINTENANCE

The OHA Chief Executive Officer shall be responsible for the update and maintenance of these policies. A review shall be done at a minimum annually to insure that amendments or changes in the laws are duly incorporated or as requested by the Chairperson of the Board of Trustees or Chairperson of a Standing Committee.

STATUS / EFFECTIVE DATE

This document is effective as of September 20, 2012.



OFFICE OF HAWAIIAN AFFAIRS

COMMITTEE ON LAND AND PROPERTY POLICY GUIDELINES

Adopted by the Board of Trustees, July 3, 2014

PREAMBLE:

The Committee on Land and Property (the “**Committee**”) has determined that it is prudent to establish certain general policy guidelines, procedures, and project best practices governing land acquisitions, dispositions, development, management, and use by the Office of Hawaiian Affairs (“**OHA**”) in order to provide general guidance to the Committee in dealing with all matters which fall within the purview of the Committee and to better implement and enact OHA’s real estate vision, mission and strategy. These policy guidelines, procedures, and project best practices are not intended to be immutable or unchangeable, and revisions, modifications, supplements, and clarifications thereto are and should be anticipated and encouraged as the real estate holdings of OHA evolve and the members of the Committee may change over time.

GENERAL GUIDELINES:

1. **Protection, Preservation, and Enhancement.** Land acquisitions, dispositions, development, management and use shall be guided by the following general principals which seek to protect and preserve OHA’s lands and their cultural significance while enhancing the revenue generated therefrom for the purpose of preserving, protecting, and maintaining OHA’s lands and to also provide supplemental funding for OHA sponsored programs by:

- Bridging the ancient use of lands with future land use patterns.
- Advocating for land use and transaction practices and regulations congruent with the Hawaiian Sense of Place.
- Creating financially viable Property Involvements.

It is recognized that over time changes will occur but nonetheless the intention is that they be accomplished within the context of maintaining OHA’s primary objective of maintaining, protecting and preserving OHA’s lands and their cultural significance while enhancing the revenue generated therefrom in order to provide supplemental funding for OHA sponsored programs.

2. **Balancing of OHA’s Real Estate Portfolio.** OHA currently holds lands which are classified as (a) legacy lands, (b) corporate real estate, (c) programmatic lands, and (d) investment properties (collectively, the “**OHA Lands**”). Over time OHA will add to or dispose of certain of these lands and it is prudent for the Committee to periodically review not less than every 3 years the overall allocation of these real estate holdings into each category and to strive for a balance among these categories which satisfies the objectives of Paragraph 1 above, while still generating an overall return which provides a sustainable source of revenue to (x) maintain, preserve, and protect the OHA land holdings in all categories, and (y) generate sufficient revenue to provide the necessary supplemental funding for OHA sponsored programs. In the periodic review and balancing of the OHA’s Real Estate Portfolio the Committee shall recognize and assign a special priority to the preservation, maintenance, upkeep and protection of the

designated legacy lands, including legacy lands which are only a portion of larger tracts of lands owned or controlled by OHA, due to their special cultural significance to OHA and the Native Hawaiian community notwithstanding their lack of revenue generating potential for other OHA purposes.

3. **OHA Real Estate Strategy.** The Committee with the assistance of its retained consultant(s) shall formulate and submit to the OHA Board for approval an overall OHA Real Estate Strategy to guide the Committee's overall strategy with respect to the (a) the targeted balance of OHA's Real Estate Portfolio among the 4 property categories, (b) the maintenance, preservation, and protection of the OHA Lands, and (c) the acquisition, development, operation, and disposition of the OHA Lands. Once established the OHA Real Estate Strategy shall be considered a guiding principal of the Committee. The OHA Real Estate Strategy shall be periodically reviewed by the Committee and as appropriate shall be adjusted, modified or supplemented to address (a) the changing real estate environment in Hawaii, (b) the evolving and changing needs and requirements of OHA, and (c) any changes which may occur from time to time in the balancing of OHA's Real Estate Portfolio among the 4 property categories. This review shall occur not less frequently than every 3 years.
4. **OHA Real Estate Business Plan.** The Committee with the assistance of its retained consultant(s) shall formulate and submit to the OHA Board for approval an OHA Real Estate Business Plan intended to implement the OHA Real Estate Strategy and to guide the Committee's overall strategy with respect to the OHA Lands. Once established the OHA Real Estate Business Plan shall be considered a guiding policy of the Committee. The OHA Real Estate Business Plan shall be periodically reviewed by the Committee and as appropriate shall be adjusted, modified or supplemented to address (a) the changing real estate environment in Hawaii, (b) the evolving and changing needs and requirements of OHA, and (c) any changes which may occur from time to time to the OHA Real Estate Strategy. This review shall occur not less frequently than every 3 years and always in conjunction with any review and update of the OHA Real Estate Strategy.

The OHA Real Estate Business Plan shall also include guidelines relating to the form of ownership by OHA of the various categories of OHA Lands within OHA's Real Estate Portfolio, and financing options relative to development and operation of, and capital improvements to, the OHA Lands.

5. **OHA Real Estate Investment Policy.** The Committee with the assistance of its retained consultant(s) shall formulate and submit to the OHA Board for approval an overall OHA Real Estate Investment Policy in conformance with the OHA Real Estate Strategy and the OHA Real Estate Business Plan. Once established the OHA Real Estate Investment Policy shall guide the Committee's overall real estate investment strategy. Once established the OHA Real Estate Investment Policy shall be considered a guiding policy for the Committee in its review and evaluation of new potential real estate investments, and in its periodic review and evaluation of existing OHA real estate investments. The OHA Real Estate Investment Policy shall be

periodically reviewed by the Committee and as appropriate shall be adjusted, modified or supplemented to address (a) the changing real estate environment in Hawaii, (b) the evolving needs and requirements of OHA, and (c) any changes which may occur to the OHA Real Estate Strategy and OHA Real Estate Business Plan. This review shall occur not less frequently than every 3 years, and always in conjunction with the review and update of the OHA Real Estate Strategy and OHA Real Estate Business Plan.

6. **Oversight of the Use and Condition of OHA's Real Estate; Policy for Proper Use and Stewardship of such Real Estate.** The proper management, operation, maintenance and upkeep of the OHA Lands in good order and condition is a prerequisite to the OHA guiding principles of competent and responsible stewardship and the protection and preservation of the OHA Lands and their cultural significance. The implementation of a proper program of management, operation, maintenance and upkeep of the OHA Lands will require a careful balance between those functions which can be effectively and efficiently performed by OHA staff and the retention of various third-party professionals/vendors in property management, operation, leasing, landscaping, maintenance and repair.
7. **Avoid Short Timelines.** Decisions related to the foregoing matters are best made following appropriate investigation, analysis, study, and recommendations by highly reputable, experienced, and competent retained consultants, and a reasonable time period thereafter for review, comment and follow up by Committee members prior to making any final decision. Therefore, absent special circumstances, the Committee should strive to avoid short timelines for its decision making.
8. **Plan for Subsequent Review of Capital Budget.** While the initial capital budget for a project must be approved in advance by the OHA Board, the actual cost is usually only refined and confirmed after responses to the Request for Proposals are received and reviewed and further discussions with the successful consultant/vendor/bidder have been completed. If the final cost is in excess of the then approved capital budget, the Committee shall review and consider various alternative options to address the shortfall in the approved capital budget for such project, including without limitation, (a) seeking an increase in the approved capital budget from the OHA Board, or (b) the modification or alteration of the project scope and/or plans in order to bring the contemplated project back within the approved capital budget, or (c) the possible delay of the project to a time when adequate funding is available. The Committee's recommended course of action shall be subject to approval by the full OHA Board.

PROJECT RELATED BEST PRACTICES:

1. **Request for Proposals (RFPs).** Given the nature of the undertakings and responsibilities of the Committee the selection and retention of highly reputable and recognized real estate experts/consultants and investment advisers/consultants in the formulation of the OHA Real Estate Strategy, the OHA Real Estate Business Plan, and the OHA Real Estate Investment Policy

is prudent. In addition the selection and retention of highly reputable and responsible third-party professionals/vendors to be contractually responsible for property management, operation, leasing, landscaping, maintenance and repair of certain OHA Lands is also prudent.

The use of a process of issuing a Request for Proposal with clearly defined criteria and requirements will result in a competitive selection process which will assist the Committee in making a knowledgeable and informed final decision.

2. **General Guidelines for RFPs.** The following general guidelines are established for use by the Committee when it deems it appropriate to use a Request For Proposal ("**RFP**") process for any matter or project undertaken:
 - a. Establish Clear Criteria and Requirements. RFP's shall establish clear criteria and requirements for use in the competitive bid process to assure that each bidder is responding to a correct and accurate request so that the bid responses can be reviewed and compared against the RFP to assure compliance with the criteria and requirements and that the scope of work and price comparisons are on a relatively equal basis in terms of achieving the delivery of a detailed project at a specified quality for the best price consistent with the proposed capital budget for said matter or project from a responsible, reputable and reliable consultant or contractor.
 - b. Retention of Appropriate Consultant(s) to Establish RFP. With respect to any matter or project to be undertaken the Committee shall first retain the services of reputable and competent consultant(s) to (i) assist with the establishment of the criteria and requirements to be included within an RFP to be issued to prospective bidders, (ii) make knowledgeable recommendations as to the persons or companies from whom bids should be solicited, (iii) establish a review and evaluation process for the responsive RFPs, (iv) review and assist the Committee in reviewing the bids for compliance with the RFP, and (v) upon completion of the work to review and confirm satisfactory completion and performance in compliance with the RFP and Contract.
 - c. Competitive Bids. It is generally recommended that at least three (3) consultants/contractors/vendors be solicited to respond to the RFP. It is understood that in some cases otherwise qualified consultants/contractors/vendors who are solicited may choose not to respond to the RFP, and that in such cases if not less than two (2) responses to the RFP are received from qualified consultants/contractors/vendors there should be no requirement to solicit other consultants/contractors/vendors on that particular RFP. The lowest responsible bidder is not necessarily the low bidder in terms of cost and there shall be no requirement to accept the lowest bid in terms of cost as all other pertinent factors and components shall be appropriately considered and weighed in reaching the final decision.

- d. Conformance with OHA Procurement Procedures. The RFP process set forth herein shall at all times be consistent with and conform to all applicable OHA Procurement Procedures in effect from time to time.
3. **Establish Clear Responsibility for Oversight and Completion.** For all Committee matters and projects the Committee shall establish a clear line of responsibility for oversight and successful completion of the approved matter or project. It is a best practice to ensure that the responsibility for project oversight and completion is clear.
 - a. Single Accountable Project Leader. Except in special circumstances as may be approved by the Committee it is recommended that the responsibility for successfully implementing and managing a Committee approved matter or project should be assigned and delegated to one (1) member of the Committee (the "**Project Leader**"), as may be designated by the Committee as a whole or by the Committee Chair. The designated Project Leader shall be the initial and primary point of contact on the matter or project for the OHA staff member(s) assigned to implement, manage and oversee the completion of the matter or project.
 - b. Role of Continuing Committee Oversight. The designated Project Leader shall make recommendations to the Committee Chair or the Committee as a whole when and if matters or issues arise during the course of the matter or project requiring discretionary approval or resolution which do not fall within the scope or purview of the designated Project Leader and the Committee shall exercise that discretion, unless the Committee determines it requires OHA Board approval.
 - c. Conflict Resolution. If any conflicts or disputes arise between the consultant/contractor/vendor selected for the project and the OHA staff responsible for project oversight, implementation, and completion, such conflict or dispute will be referred to the Project Leader for resolution, but if the Project Leader decides such resolution is not within the Project Leader's delegated authority, then and in such event resolution of the dispute shall be referred to the Committee Chair, and/or in the Committee Chair's discretion either (a) to an ad hoc committee of members of the Committee so designated to handle any such matters, or (b) the Committee, as a whole.
 4. **Effective Use of the Committee.** The OHA Board has complete oversight over the formation of and assignment of responsibilities to the Committee. Effective use of the Committee can and will facilitate the review, analysis, and informed consideration of the alternatives and options available so as to assist the OHA Board in making prudent and informed final decisions relating to the matters or projects within the purview of the Committee. Nonetheless it shall remain clear that absent a specific delegation to the Committee from the OHA Board, the final decision making authority on all matters remains with the OHA Board.

CONFORMANCE WITH OHA BOARD POLICIES AND GUIDELINES:

These policy guidelines and procedures are intended at all times to be consistent with and not in conflict with any policies, guidelines or procedures which may be adopted from time to time by the OHA Board. In the event of any such conflicts the provisions of the policies, guidelines and procedures adopted by the OHA Board shall control over these policy guidelines and procedures. If any such inconsistency is found to exist, the Committee shall modify and amend its policy guidelines and procedures to bring them into full conformance.

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT
COMMITTEE REPORT**

May 22, 2019

The Honorable Colette Machado,
Chairperson Board of Trustees
Office of Hawaiian Affairs

Madame Chair Machado,

Your Joint Committees on Resource Management and Beneficiary Advocacy and Empowerment, having met on May 22, 2019 and after full and free discussion, recommends approval of the following action to the Board of Trustees:

- 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 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.

Relevant attachments are included for your information and reference. Attachment(s):

- 1) Action Item RM #19-07
- 2) RM #19-07 Roll Call Sheet



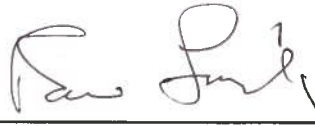
Trustee, Chair Dan Ahuna



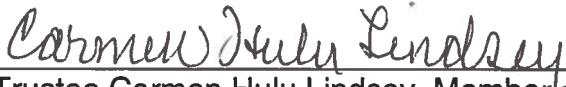
Trustee John Waihe'e, IV, Member

Excused

Trustee Leina'ala Ahu Isa, Member



Trustee Robert Lindsey, Member



Trustee Carmen Hulu Lindsey, Member



Trustee Colette Machado, Member

Excused

Trustee Brenden Lee, Member



Trustee Kalei Akaka, Member



Trustee Keli'i Akina, Member

PHONE (808) 594-1888

FAX (808) 594-1868

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



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

MEETING OF THE COMMITTEE ON RESOURCE MANAGEMENT

DATE: Wednesday 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 no later than three (3) business days prior to the date of the meeting.

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

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

Handwritten signature of Dan Ahuna in black ink.

Trustee Dan Ahuna
Chairperson, Committee on Resource Management

Handwritten date "05/15/19" in black ink.

Date

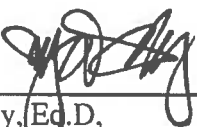
OFFICE OF HAWAIIAN AFFAIRS

Action Item
Committee on Resource Management
May 22, 2019

RM #19-07

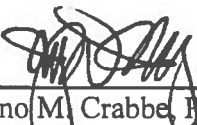
Action Item: Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies

Prepared by:

 5/16/19


Sylvia Hussey, Ed.D., Date
Ka Pou Nui, Chief Operating Officer

Reviewed by:

 5/16/19

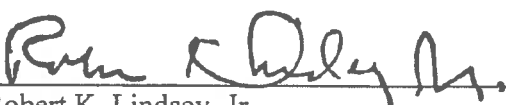
Kamana'opono M. Crabbe, Ph.D. Date
Ka Pouhana, Chief Executive Officer

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**

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. Background¹ 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.

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

Disclaimer

The information contained in this report is confidential to the Office of Hawaiian Affairs ("OHA") and may not be disclosed without the express written consent of OHA Board of Trustee ("BOT") Chair, Resource Management ("RM") Committee Chair, OHA executive management, and Spire Hawai'i LLP ("Spire"). This information is intended solely for the use of OHA and is not intended to be, and should not be, used by anyone other than OHA. This report should not be used for any other purposes or reproduced in any form that is inconsistent with its intent or is not authorized. If you are not authorized, please note that the use, further transmission, or disclosure of the contents of this report is strictly prohibited. Under the standards promulgated by the American Institute of Certified Public Accountants ("AICPA"), Spire considers all material confidential. However, we defer to OHA counsel on the issue of whether any material is subject to disclosure under State law.

RM #19-07**Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies**

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

RM #19-07**Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies**

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

- 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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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 Analysis²

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.

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

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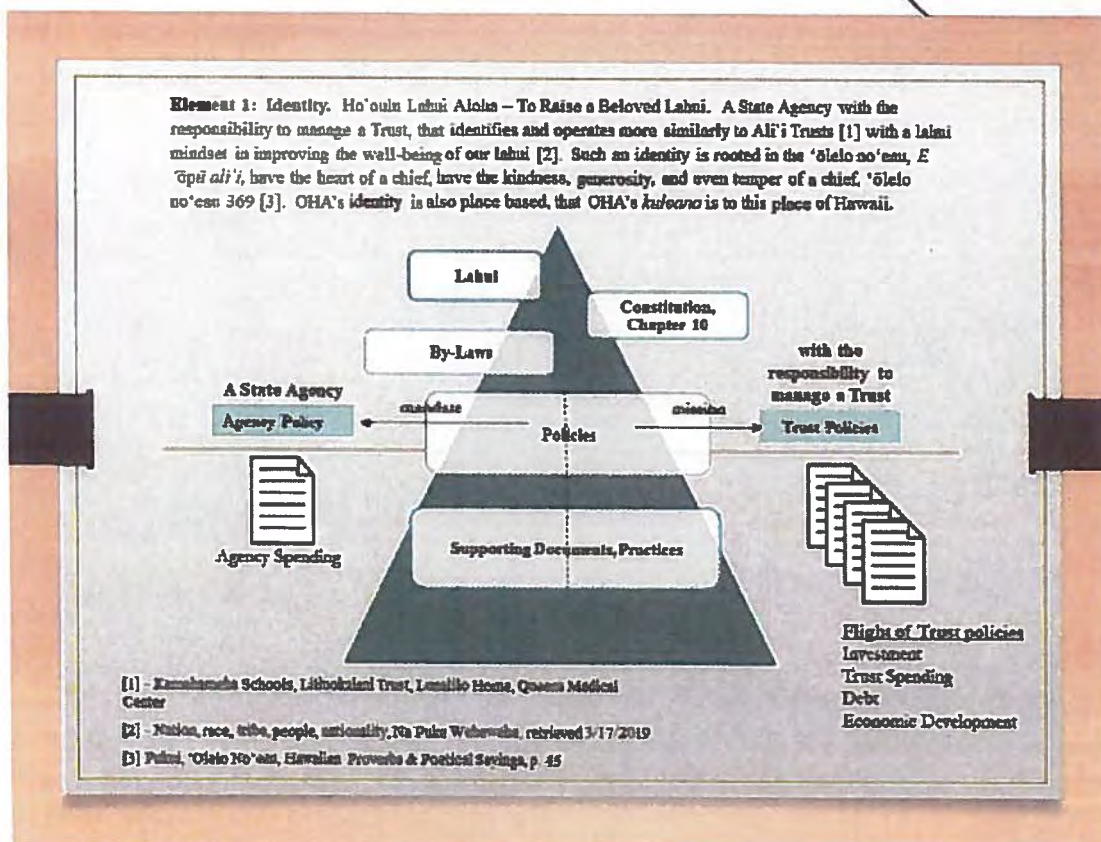
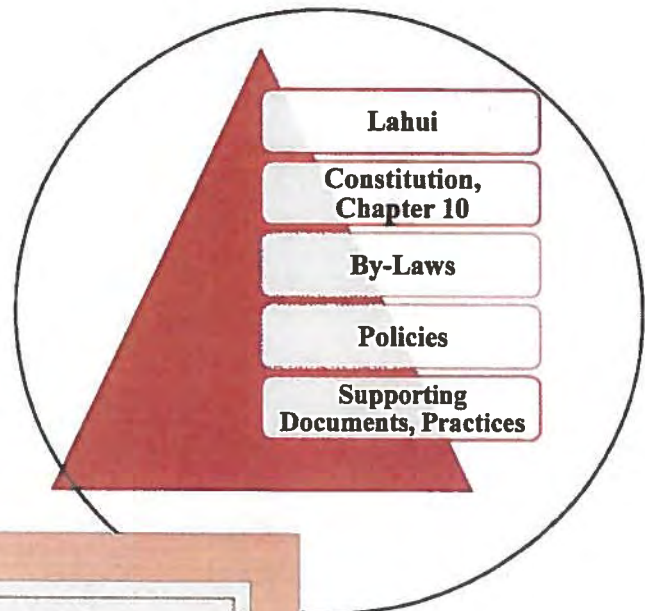
The information contained in this report is confidential to the Office of Hawaiian Affairs ("OHA") and may not be disclosed without the express written consent of OHA Board of Trustee ("BOT") Chair, Resource Management ("RM") Committee Chair, OHA executive management, and Spire Hawai'i LLP ("Spire"). This information is intended solely for the use of OHA and is not intended to be, and should not be, used by anyone other than OHA. This report should not be used for any other purposes or reproduced in any form that is inconsistent with its intent or is not authorized. If you are not authorized, please note that the use, further transmission, or disclosure of the contents of this report is strictly prohibited. Under the standards promulgated by the American Institute of Certified Public Accountants ("AICPA"), Spire considers all material confidential. However, we defer to OHA counsel on the issue of whether any material is subject to disclosure under State law.

RM #19-07**Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies**

As of February 2018, the BOT placed a moratorium on the use of the Fiscal Reserve³

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.



³ 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)

- 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)

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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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

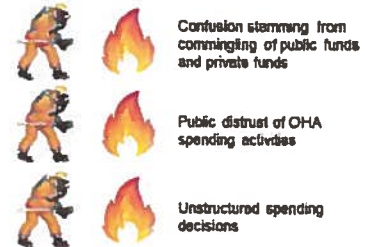
an asset only for financial gain, requires due diligence prior to issuing debt

- 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.

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.



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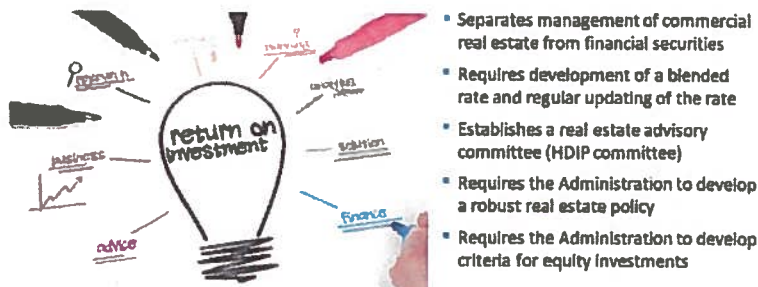
A lack of repayment plans and dedication of funds, use of debt to cover operational costs and lack of diligence required to assume debt may occur when there is no clear policy.

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

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

Investment Policy Changes and Real Estate Policy




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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.

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.



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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.

**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.

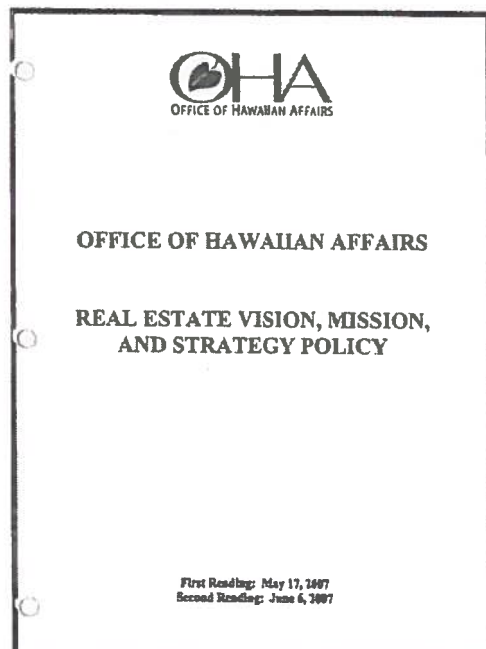
Investment Policy Changes and Real Estate Policy

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 Pouhema 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 |  | Applying the same investment strategy to all types of assets |
| B. Maintain an appropriate and achievable blended return goal for financial security assets, real estate assets, and other assets |  | Reliance on financial asset performance on building value |
| C. Consult with an expert real estate advisory committee |  | Making decisions without the correct level of experience |
| D. Develop a robust real estate plan | | |

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P.O. Box 10000, Honolulu, HI 96810-0000



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.

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

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

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

Attachment #1

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.

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

Attachment #1

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.

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

Attachment #2

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

RM #19-07**Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies****Attachment #2**

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.

RM #19-07

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

Attachment #3

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.

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

Attachment #4

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

RM #19-07**Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies****Attachment #4**

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.

RM #19-07

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

Attachment #4

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.

Office of Hawaiian Affairs
560 N Nimitz Hwy. Ste. 200
Honolulu, HI 96817

Action Item Vote

COMMITTEE ON RESOURCE MANAGEMENT (RM)	DATE: May 22, 2019 Time of Motion: Passed at 11:01am																																																																						
AGENDA ITEM: New Business A. RM # 19-07: Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies																																																																							
MOTIONS: 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 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 polciies, noting Administration will return with consolidated policy document(s) for Board action.																																																																							
AMENDMENT:																																																																							
MEANS OF FINANCING:																																																																							
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">TRUSTEE</th> <th style="width: 10%;">1</th> <th style="width: 10%;">2</th> <th style="width: 10%;">‘AE (YES)</th> <th style="width: 10%;">A’OLE (NO)</th> <th style="width: 10%;">KANALUA (ABSTAIN)</th> <th style="width: 10%;">EXCUSED</th> </tr> </thead> <tbody> <tr> <td>LEI AHU ISA</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">X</td> </tr> <tr> <td>KALEI AKAKA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>KELI’I AKINA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>BRENDON KALEIAINA LEE</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">X</td> </tr> <tr> <td>HULU LINDSEY</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>ROBERT LINDSEY, JR.</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>COLETTE MACHADO</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>JOHN WAIHEE</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>CHAIR DAN AHUNA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	TRUSTEE	1	2	‘AE (YES)	A’OLE (NO)	KANALUA (ABSTAIN)	EXCUSED	LEI AHU ISA						X	KALEI AKAKA			X				KELI’I AKINA			X				BRENDON KALEIAINA LEE						X	HULU LINDSEY			X				ROBERT LINDSEY, JR.			X				COLETTE MACHADO			X				JOHN WAIHEE			X				CHAIR DAN AHUNA			X				
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COLETTE MACHADO			X																																																																				
JOHN WAIHEE			X																																																																				
CHAIR DAN AHUNA			X																																																																				

TOTAL VOTE COUNT			7			2
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MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

DISCUSSION:

OFFICE OF HAWAIIAN AFFAIRS

**MEETING OF THE
COMMITTEE ON RESOURCE
MANAGEMENT**

COMMITTEE REPORT

September 25, 2019

The Honorable Colette Machado,
Chairperson Board of Trustees
Office of Hawaiian Affairs

Madame Chair Machado,

The Committee on Resource Management, having met on September 25, 2019 and after full and free discussion, recommends approval of the following action to the Board of Trustees:

Administration recommends the Board of Trustees (BOT) approve the Debt Management Policy implementation procedures as detailed in Attachment A.

Relevant attachments are included for your information and reference. Attachment(s):

- 1) Action Item RM#19-15
- 2) RMRoll Call Vote Sheet

Meeting of the Committee on Resource Management
Committee Report of
September 25, 2019 Page 1 of 2

Respectfully submitted:



Trustee Dan Ahuna, Chair

NOT AVAILABLE

Trustee Kalei Akaka, Member



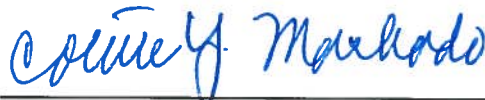
Trustee Leina'ala Ahu Isa, Member

NOT AVAILABLE

Trustee Robert Lindsey, Jr., Member



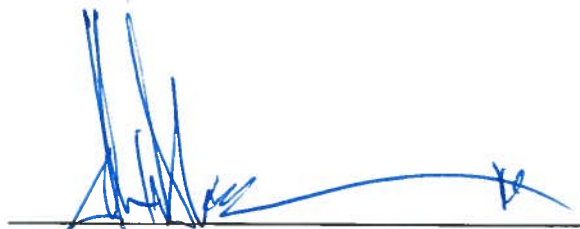
Trustee Keli'i Akina, Member



Trustee Colette Machado, Member



Trustee Hulu Lindsey, Member



Trustee John Waihe'e, IV, Member

NOT AVAILABLE

Trustee Brendon Lee, Member

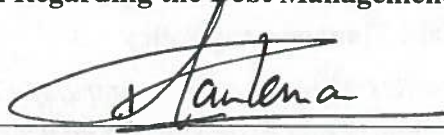
OFFICE OF HAWAIIAN AFFAIRS

Action Item
Committee on Resource Management
September 4, 2019

RM #19-15

Action Item: **Action Regarding the Debt Management Policy Implementation Procedures**

Co-Prepared by:



Paul Harleman, MBA, EA, Trustee Aide
Office of Keli'i Akina, Ph.D., Trustee At-Large

8/27/19

Date

Reviewed by:



Raymond Matsuura
Pou Kako'o Mahele Kumupa'a, Investment Manager

8/27/19

Date

Reviewed by:



Gloria Li
Ka Pou Kihi Kanaloa Wai, Kūikawā, Interim Chief Financial Officer

8/27/19

Date

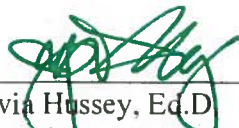
Reviewed by:



Lisa Watkins-Victorino, Ph.D.
Ka Pou Nui Kūikawā, Interim Chief Operating Officer

8/27/19

Date

Co-Prepared &
Reviewed by:

Sylvia Hussey, Ed.D.
Ka Pounana Kūikawā, Interim Chief Executive Officer

8/27/2019

Date

Reviewed by:



Ke Kua, Trustee Dan Ahuna
Luna Ho'omalu o ke Kōmike Resource Management
Chair of the Committee on Resource Management

8/27/19

Date

RM #19-15: Action Regarding the Debt Management Policy Implementation Procedures

I. Proposed Action

Administration recommends the Board of Trustees (BOT) approve the accompanying Debt Management Policy implementation procedures as outlined in Attachment A.

II. Issue

Whether the BOT should take action on the accompanying Debt Management Policy implementation procedures associated with the Fiscal Sustainability Plan (FSP).

III. Background¹ and Context of the Debt Management Policy

Overview. As outlined in *Action Item RM #19-07: Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies*, 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.



to implement the FSP, beginning with related policies, remained a priority of Administration through the election of new Trustees and Board leadership in 2018.

Although the last meeting held by the five working groups was in December 2017, the desire

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

Disclaimer

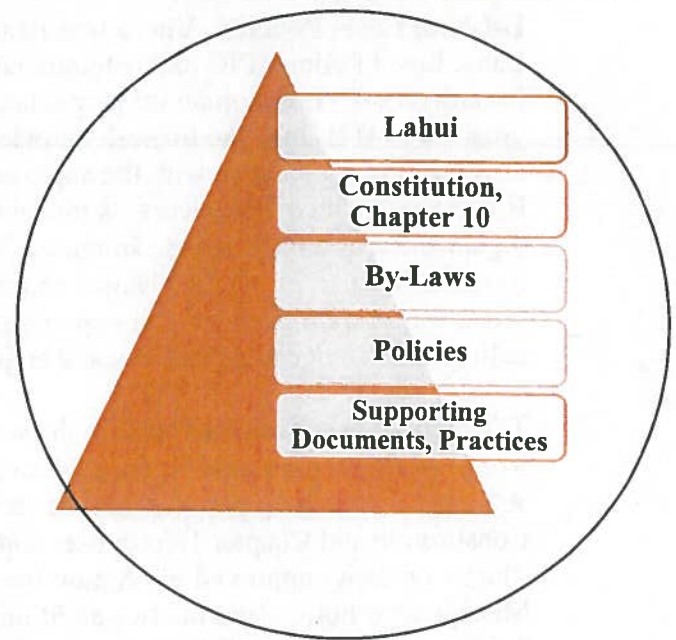
The information contained in this report is confidential to the Office of Hawaiian Affairs (“OHA”) and may not be disclosed without the express written consent of OHA Board of Trustee (“BOT”) Chair, Resource Management (“RM”) Committee Chair, OHA executive management, and Spire Hawai’i LLP (“Spire”). This information is intended solely for the use of OHA and is not intended to be, and should not be, used by anyone other than OHA. This report should not be used for any other purposes or reproduced in any form that is inconsistent with its intent or is not authorized. If you are not authorized, please note that the use, further transmission, or disclosure of the contents of this report is strictly prohibited. Under the standards promulgated by the American Institute of Certified Public Accountants (“AICPA”), Spire considers all material confidential. However, we defer to OHA counsel on the issue of whether any material is subject to disclosure under Statelaw.

RM #19-15: Action Regarding the Debt Management Policy Implementation Procedures

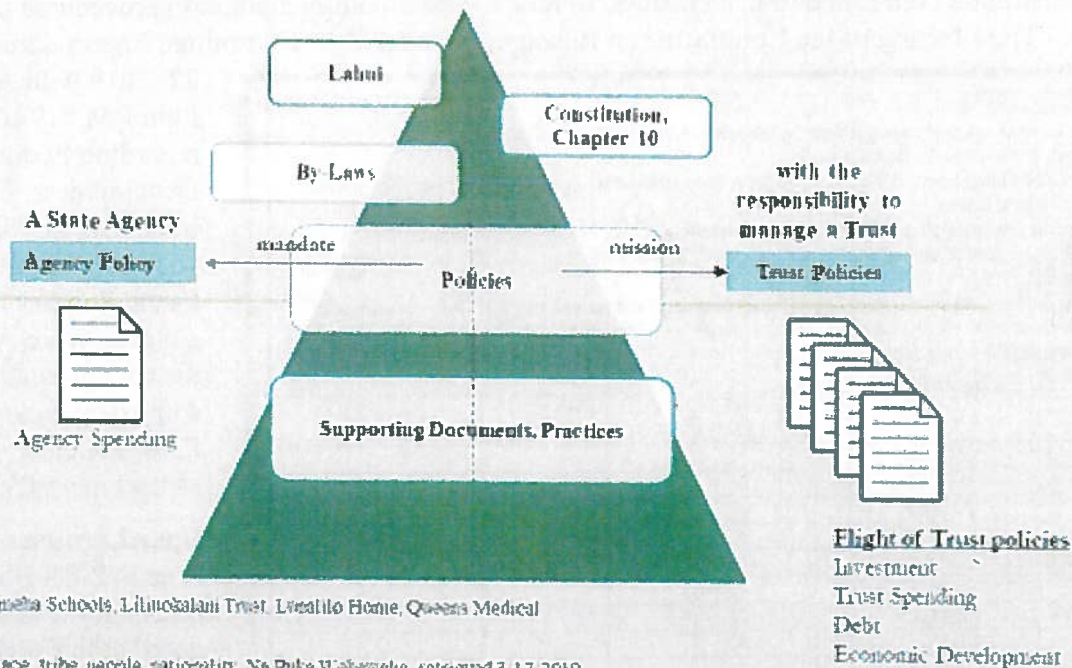
IV. Alignment of the Policy to the Board Governance Framework.

Overall. 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'eau. *E 'ōpū'āli'i* have the heart of a chief, have the kindness, generosity, and even temper of a chief. 'ōlelo no'eau 369 [3]. OHA's identity is also place based, that OHA's *kūloana* is to this place of Hawaii.



L-Lāhui Level Policies. Via Action Item #19-06, the Board approved the findings of the L-Lāhui Level Policies PIG and recommended approval of the following policies: (1) E Mālama (to protect); (2) E Ho'omau (to perpetuate); (3) E Pūpūkahi i Holomua (to unite in order to progress); (4) E 'Imi 'Ike (to seek knowledge); (5) E Ho'oulu Lāhui (to grow the Lāhui), developed in accordance with the approved PIG purview. L-Lāhui level policies for OHA's Board Governance Framework, is intended to articulate the Hawaiian cultural foundation of the organization as a basis for the *kaumaha* (heavy weight, sadness) or significant *kuleana* (responsibility) to normalize Hawaiian language, protect and exercise native rights regarding 'āina, water, wahi pana and iwi kupuna, strengthen 'ohana and kaiāulu, perpetuate Hawaiian culture, knowledge and practices and engage in global, international indigenous contexts.

T-Trustee Level Policies. Next in the series of cascaded Board Governance Framework policy work is the formulation of T-Trustee Level policies which would articulate broad, systemic, strategic, overarching policies that are attributed to OHA's Trustee role as a result of the Constitution and Chapter 10 purposes and duties (e.g., fiduciary, care, obedience, code of ethics). The two policies approved via Action Item RM #19-07---Economic Development and Debt Management Policy; and the two additional policies---Spending and Investment and Real Estate Policies are examples of T-Trustee Level Policies; and work will continue and be "on-ramped" to the T-Trustee Level permitted interaction group when formulated.

In short, action on the implementation procedures of the approved Debt Management policy is aligned to the Board Governance Framework work.

Resource Management Committee Action. Attachment B outlines the actual Debt Management Policy as approved by the Trustees at the May 29, 2019 meeting; and at that time, via RM #19-07, Administration committed to the Trustees, to return with the implementation procedures for Board action. The Meeting of the Committee on Resource Management Committee Report dated May

22, 2019 with Action Item RM #19-07: Action regarding Economic Development, Debt Management, Spending and Investment and Real Estate Policies is attached which outlines the background and context of the overall fiscal policies (Attachment C).

Board Action. At the June 6, 2019 Board meeting, the action noted at left was taken.

Trustee Dan Ahuna moves to						
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 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.						
Trustee Robert Lindsey seconds the motion.						
TRUSTEE	1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEINA'ALA AHU ISA			X			
TRUSTEE DAN AHUNA	x		X			
TRUSTEE KALEI AKAKA			X			
TRUSTEE KELI'I AKINA			X			
TRUSTEE BRENDON KALEI'ĀINA LEE					X -Abstain	
TRUSTEE CARMEN HULU LINDSEY			X			
TRUSTEE ROBERT LINDSEY		x	X			
TRUSTEE JOHN WAIHE'E			X			
TRUSTEE COLETTE MACHADO			X			
TOTAL VOTE COUNT			8		1	
MOTION: [] UNANIMOUS [x] PASSED [] DEFERRED [] FAILED						
Motion passed with eight (8) yes votes, and one (1) abstention.						

Strategic Plan Foundation and Strategic Directions

V. Alignment to

RM #19-15: Action Regarding the Debt Management Policy Implementation Procedures



In March 2019, via BOT #19-03 *Approval of the foundational principles and directions for the next OHA Strategic Plan 2020+*, the Trustees approved the following Strategic Foundation and Strategic Direction elements—as depicted below:

Strategic Foundation
'Aina. Strengthen our ancestral connection to 'aina through responsible stewardship to preserve legacy lands and to responsibly develop economically viable lands.

Mo'omeheu. Strengthen Native Hawaiian's connection to culture by supporting opportunities to engage in 'Olelo and 'ike activities and initiatives.

'Ohana. Promote healthy 'ohana relationships by providing opportunities in communities to engage in 'aina and mo'omeheu based activities and initiatives as well as opportunities to engage in the well-being of their communities via civic participation and leadership.

'Aina, mo'omeheu, and 'ohana are foundational to the work of OHA. **This foundation is the lens through which decisions, planning, activities, initiatives, policies, procedures, and practices are made.** Pilina with āina, mo'omeheu, 'ohana, kaiaulu, and community partners is how we engage in the implementation of our strategies. Building pillina with communities and organizational partners is critical to successfully achieving our vision and mission.

Strategic Directions

Economic Stability. Engaging in strategies to enhance the economic development and financial empowerment of the lāhui will ensure that Native Hawaiians progress toward a state of economic stability.

Quality Housing. Leveraging partnerships to ensure Native Hawaiians can obtain affordable rentals as well as homeownership while also engaging in opportunities to affect legislation that support Hawaiian Home Lands, overall housing costs, and housing supply will greatly enhance the ability for Native Hawaiians who so desire to remain in Hawai'i.

Educational Pathways. Supporting initiatives, leveraging partnerships, engaging in strategies to develop educational pathways that strengthen culture-based education, early education, K-12 and post-secondary education will ensure that Native Hawaiians are grounded in their past while participating in a technologically oriented future.

Health Outcomes. Supporting initiatives, leveraging partnerships, engaging in strategies to promote healthy and strong families.

RM #19-15: Action Regarding the Debt Management Policy Implementation Procedures

In short, action on the implementation procedures of the approved Debt Management policy is aligned to the Strategic Foundation and Directions elements described above.

VI. Policy Review and Analysis²

Background. During this fiscal year, the following policies were developed or considered: Spending; Debt Management; Investment and Commercial Real Estate; Economic Development; and 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); and a State agency to better the conditions of Native Hawaiians. As of February 2018, the BOT placed a moratorium on the use of the Fiscal Reserve³

Establishing the Why? of Policies

policy

po-lis-ee | , often attributive

po-lis-ee | \ 'pā-ls-ē \

plural policies

Definition of *policy*

(Entry 1 of 2)

1a : prudence or wisdom in the management of affairs

1b : management or procedure based primarily on material interest

2a : a definite course or method of action selected from among alternatives and in light of given conditions to guide and determine present and future decisions

1b : a high-level overall plan embracing the general goals and acceptable procedures especially of a governmental body

<https://www.merriam-webster.com/dictionary/policy> retrieved 4/25/2019

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

Disclaimer

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³ Moratorium on Fiscal Reserve Spending, RM 18-03 AI, February 2018

RM #19-15: Action Regarding the Debt Management Policy Implementation Procedures



OFFICE OF HAWAIIAN AFFAIRS

NATIVE HAWAIIAN TRUST FUND
INVESTMENT POLICY STATEMENT

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

Alignment to the Native Hawaiian Trust Fund Investment Policy Statement⁴. Adopted by the Board of Trustees (BOT) on August 24, 2017 (and effective October 1, 2017), the Native Hawaiian Trust Fund Investment Policy Statement (“IPS” or “NHTFIPS”) governs the investment of assets held in the Office of Hawaiian (OHA) Native Hawaiian Trust Fund (“NHTF” or “the Fund”), including, but not limited to investment objectives, and the expectations and requirements with respect to the ongoing management of the Fund’s assets.

OHA’s mission is to malama (protect) Hawai‘i’s people and environmental resources and the Trust Fund’s assets toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally. The overall goal of the fund is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA’s mission.

The purpose of the Investment Policy Statement (“Statement”) is to provide: clear and mutual understanding the Fund’s philosophy, investment objectives and policies; guidance, objectives and

limitations in investing the Fund’s assets; and evaluate the Advisors’ performance.

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

spire

VII. Debt Management Policy

As approved by the BOT via Action Item #19-07 in May 2019, 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.

⁴ Native Hawaiian Trust Fund Investment Policy Statement, Adopted by the Board of Trustees, August 24, 2017, Effective October 1, 2017

RM #19-15: Action Regarding the Debt Management Policy Implementation Procedures

The policy further: 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 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 its launch.

VIII. Debt Management Policy – Implementation Procedures

Refer to Attachment A for proposed implementation procedures.

IX. Certification of Funding Availability

N/A – no funding required for action item.

X. Recommended Action(s)

Administration recommends the Board of Trustees (BOT) approve the Debt Management Policy implementation procedures as detailed in Attachment A.

XI. Alternatives

- A. Take no action, leaving the approved Debt Management Policy without implementation procedures (Attachment B).
- B. Amend the Debt Management Policy implementation procedures (Attachment A).

XII. Time Frame

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

RM #19-15: Action Regarding the Debt Management Policy Implementation Procedures

XIII. Attachment(s)

- A. Debt Management Policy Implementation Procedures
- B. Debt Management Policy, including Section IV. PROCEDURES TO IMPLEMENT THE POLICY
- C. Meeting of the Committee on Resource Management Committee Report dated May 22, 2019
- D. Debt Management Procedures Analysis & Recommendations, August 2019
- E. OHA Revenue Bonds, White Paper, July 2019

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.

A. Purpose and Uses of Debt

In managing debt, OHA shall distinguish between long-term debt and short-term debt. Debt with maturities that exceed three years are considered long-term debt and debt with maturities that are less than three years are considered short-term debt.

Debt shall only be used to fund capital projects. Under no circumstances shall long-term debt proceeds be used to fund current operations or maintenance expenditures.

1. Long-term debt proceeds shall only be used for the purpose of financing or refinancing the cost of design, acquisition, improvement and construction of capital projects that relate to the mission of OHA and align with its Strategic Plan objectives.
2. Short-term debt may only be used to fund temporary cash flow shortages for capital projects or unexpected and significant repair and maintenance expenses for existing capital assets.

B. Guidelines for Decision-making

OHA shall use the following guidelines for decision-making regarding the assumption of debt:

1. To preserve debt capacity, OHA shall only consider debt when necessary and only if utilizing pay-as-you-go financing is not feasible.
2. Capital projects that are fully self-funded and that relate to OHA's Strategic Plan objectives will receive priority consideration.
3. Capital projects that are partially self-funded and relate to OHA's Strategic Plan objectives will only be considered if the project generates significant cultural value to OHA's beneficiaries and produces adequate revenue to offset recurring expenditures for maintenance.
4. OHA shall balance the objective of achieving the lowest cost of capital with the objective of limiting exposure to restrictive liens and debt covenants, interest rate, default, and liquidity risks.

C. Debt Service Limitation

Under no circumstances shall debt service payments exceed twenty percent of Public Land Trust expenditures.

D. Permissible/Impermissible forms of Debt

In accordance with the provisions, restrictions and limitations of the Hawaii state Constitution, Hawaii Revised Statutes, and applicable provisions of the state Debt Management Policy, OHA shall only consider the following forms of permissible debt:

1. Reimbursable General Obligation Bonds as defined by HRS Chapter 39
2. Revenue Bonds as defined by HRS § 10-25
3. Revenue Anticipation Bonds as defined by § HRS 10-24
4. Financing Agreements as defined by HRS Chapter 37D

To reduce risk and preserve debt capacity, under no circumstances shall OHA enter into the following forms of debt agreements;

1. Conduit debt obligations in which OHA would be liable to pay for the principal and interest for debt instruments issued by third-party entities in which OHA does not hold an ownership interest.
2. Non-Exchange Financial Guarantees in which OHA would provide credit enhancements or financial assurances to a third-party entity in which OHA does not hold an ownership interest.
3. Derivatives Instruments, such as interest rate agreements or swaps.

E. Financing Agreements

If financing agreements are considered the appropriate method of financing, OHA shall consult with the Department of Budget and Finance to determine whether OHA can participate in any state financing opportunities. Additionally, OHA shall solicit and consider proposals from various statewide and national financial institutions.

F. Revenue Bonds

If revenue bonds are considered the appropriate method of financing, OHA shall reach out to the Department of Budget and Finance to request for assistance in the structuring, preparation and sale of revenue bonds. The State Debt Management Policy shall be used as the basis to determine the structure, issuance, methods of sale, standards for professional service providers, and pricing of revenue bonds.

G. Debt Structuring

In structuring debt, OHA shall use the following guidelines:

1. Debt proceeds shall be secured as close to the date of expenditure as possible.
2. Debt maturity structures shall not exceed the lesser of the expected useful life of the project financed or 30 years.
3. Debt amortization schedules for long-term debt shall be structured with either annual level principal payments or annual level debt service payment.
4. Principal payments must be made no later than five years from the date of the debt issuance.
5. Debt covenants shall not consist of features that prohibit or restrict potential refunding or refinancing opportunities in the future.

H. Board of Trustees Approval

The Board of Trustees must approve all decisions regarding new debt as well as the refinancing and refunding of existing debt.

Action items that involve decision-making on debt shall include a financial plan that covers the useful life of the capital project to be financed. At minimum, the financial plan shall include estimates for the cost for design, acquisition, construction, financing and ongoing maintenance of the capital project.

I. Refunding/Refinancing

OHA shall monitor outstanding debt for refunding and refinancing opportunities at least annually. Refunding and refinancing decisions shall be considered under the following circumstances:

1. When refunding or refinancing would generate a net present value savings on debt service.
2. When refunding or refinancing would result in the modification of restrictive debt covenants.
3. When refunding or refinancing would involve the conversion between variable and fixed interest rate structures.

J. Debt Affordability Study ("Study")

The Study shall use generally accepted financial ratios that are consistent with the methodologies adopted by credit rating agencies. At minimum, the Study shall include the following financial ratios:

1. Outstanding debt as a percentage of unrestricted net assets,
2. Outstanding debt, pension and other post-employment benefit liabilities as a percentage of Unrestricted Net Assets,

3. Debt service as a percentage of Public Land Trust expenditures, and
4. Debt service, pension and other post-employment benefit contributions as a percentage of Public Land Trust expenditures.

J. Board Reporting

Consistent with OHA Executive Policy Manual section 3.4.f., a summary of outstanding debt shall be submitted in conjunction with the Multi-Year Financial Plan, which shall be submitted in conjunction with the Biennium Budget.

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.

Office of Hawaiian Affairs

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT
COMMITTEE REPORT**

May 22, 2019

The Honorable Colette Machado,
Chairperson Board of Trustees
Office of Hawaiian Affairs

Madame Chair Machado,

Your Joint Committees on Resource Management and Beneficiary Advocacy and Empowerment, having met on May 22, 2019 and after full and free discussion, recommends approval of the following action to the Board of Trustees:

- 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 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.

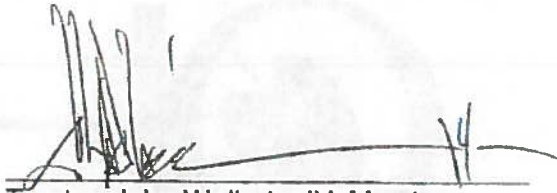
Relevant attachments are included for your information and reference. Attachment(s):

- 1) Action Item RM # 19-07
- 2) RM #19-07 Roll Call Sheet

Respectfully submitted:



Trustee, Chair Dan Ahuna



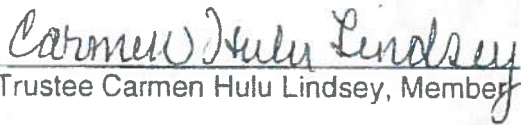
Trustee John Waihe'e, IV, Member

Excused

Trustee Leina'ala Ahu Isa, Member



Trustee Robert Lindsey, Member



Trustee Carmen Hulu Lindsey, Member



Trustee Colette Machado, Member

Excused

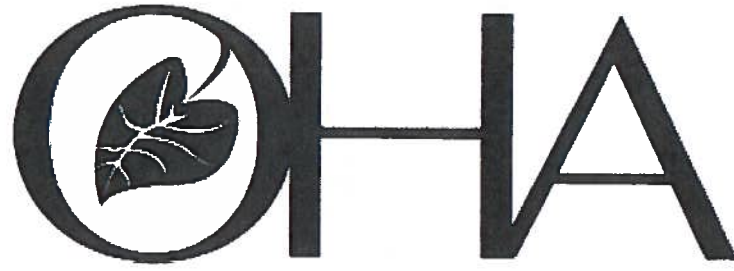
Trustee Brenden Lee, Member



Trustee Kalei Akaka, Member



Trustee Keli'i Akina, Member



DEBT MANAGEMENT PROCEDURES

Analysis & Recommendations

Prepared at the request from Administration:

Paul Harleman, MBA, EA
Trustee Aide
Office of Keli'i Akina, Ph.D., Trustee At-Large

August 14th, 2019

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APPENDIX

A. DEBT PROFILE

I. OBJECTIVE

On May 22, 2019, the Board of Trustees approved a series of board level policies, including a Debt Management Policy. The Debt Management Policy requires that specific procedures are developed to address the following:

1. Incurring and managing debt
2. Due diligence process and analysis
3. Board decision-making and reporting
4. Performance standards for OHA staff and external consultants
5. Permissible/impermissible forms of debt

The development of specific recommendations for debt management procedures requires that due diligence is performed to ensure that the proposed procedures align with OHA's current debt profile as well its future strategic and capital needs.

The objectives of this report are threefold:

- To provide a review of the best practices for debt management policies and procedures,
- To provide an analysis of OHA's current debt profile and future debt capacity, and
- To propose specific recommendations for the implementation procedures of the "Debt Management Policy."

II. METHODOLOGY

The (i) *Government Finance Officers Association ("GFOA") Best Practices for Debt Management Policies* and the (ii) *Standards & Poor's/Moody's Credit Ratings Framework* define best practices that OHA can use as a framework to develop its debt management procedures.

(i) GFOA Best Practices

The GFOA best practices for debt management policies are mainly developed for state and municipal governments that have the statutory authority to issue bonded debt instruments. Because OHA's statutory authority is limited to the issuance of revenue bonds, not all the GFOA best practices are relevant for OHA. Nevertheless, the following recommended GFOA framework for debt management policies can be used as an outline for OHA's debt management procedures (Appendix 1).

1. Conditions for debt issuance
2. Restrictions on debt issuance
3. Debt service limitations
4. Limitations on Outstanding debt
5. Characteristics of debt issuance
6. Debt issuance process

In addition to defining best practices for debt management procedures, the GFOA also provides guidance for structuring debt. The following guidelines for structuring debt are generally accepted as best practices:

- Match short-term capital needs with short-term debt, and long-term capital needs with long-term debt.
- Restrict variable rate debt to short-term financing in order reduce interest rate risk exposure.
- Restrict the use of long-term debt proceeds to capital projects.
- Prohibit use of long-term debt to fund current operations or new programs.
- Avoid debt covenants that unduly restrict the ability to redeem bonds and refinance non-bonded debt instruments.
- Do not extend the maturity of debt beyond the useful life of the capital project that is being financed.
- Adopt a debt amortization schedule with equal principal or debt service payments.

(ii) Standards & Poor's/Moody's Credit Ratings Framework

Standards & Poor's and Moody's are the two leading credit rating agencies that opine on the credit worthiness of both governmental and corporate bonds. The factors generally considered by credit rating agencies should therefore provide a baseline to develop OHA's debt management procedures.

Table 1 provides a summarized overview of the factors that credit rating agencies consider as part of their credit ratings process for general obligation bonds.

Table 1. Standards & Poor's/Moody's Credit Rating Criteriaⁱ

Credit Rating Criteria	S&P	Moody's
1. Economy	30%	30%
Diversified asset base		
Strong statewide economic indicators		
2. Financial Measures	30%	30%
Stable, diversified operating revenues		
Budgetary flexibility		
Fiscal reserves & liquidity		
3. Debt & Long-term Liabilities	10%	20%
Modest capital/debt needs and regularly updated CIP plans		
Rapid amortization of debt (less than 65% within 10 years is good)		
Predominantly fixed rate debt (less than 15% variable debt is good)		
Pension and OPEB ¹ funding funded based upon the ARC ²		
Carrying cost for debt (less than 15% of spending is good; greater than 25% is bad)		
4. Management & Institutional Framework	20%	20%
Efficient decision-making process and consistent cooperation among decision-makers		
Adherence to financial policies and timely reporting		
Support from state government in case of fiscal distress		

Source: Government Finance Officers Association, 108th Annual Conference, "Rating Agencies: How New Evaluation Criteria Could Impact Your Rating"

Since the "Management & Institutional Framework" and "Economy" criteria are already addressed by different policy working groups, the emphasis of this report is solely on the "Financial Measures" and "Debt & Long-Term Liabilities" categories.

The Debt Management Policy and related implementation procedures are certainly significant. However, as illustrated by the credit ratings framework, they are only part of the overall equation that affects OHA's creditworthiness. The work on the economic development policies and the additional efforts by the various Permitted Interaction Groups (PIG) are equally important.

Best practices from both the GFOA and the credit rating agencies are used throughout this report as the basis to evaluate OHA's current debt profile, future debt capacity, as well as the development of specific recommendations for debt management procedures.

¹ Other Post Employment Benefits; In OHA's case this refers to the contributions for the Employer Union Trust Fund (EUTF)

² Annual Required Contribution (ARC); In OHA's case this refers to the actuarially determined minimum annual contribution that must be made to the Employment Retirement System (ERS).

III. DISCUSSION OF FINANCING OPTIONS

OHA's financing options consist of (i) bonded debt options and (ii) conventional financing agreements.

(i) Bonded Debt

The bonded debt options available to OHA consist of reimbursable general obligation bonds, revenue bonds, and revenue bond anticipation notes.

Table 2. State of Hawaii Credit Ratings

Bond Program	Fitch	Moody's	S&P
State of Hawaii - G.O. Bonds	AA	Aa1	AA+
<u>Revenue Bonds</u>			
DHHL	A	Aa3	
DOT Airport System	A+	A1	AA-
DOT Harbor System	A+	A2	A+
DOT Highway System	AA	Aa2	AA-
HHFDC Rental Housing	A	A1	
HHFDC Single Family	AAA	Aaaa	AA+
UH Board of Regents	AA	Aa2	

- **Reimbursable G.O. Bonds³** are general obligation bonds that are issued by the State of Hawai'i on behalf of either a department or political subdivision. The bonds are secured by the full faith and credit of the State of Hawai'i and are subject to reimbursement of debt service payments from the beneficiary department or political subdivision.
- **Revenue Bonds⁴** are not secured by the full faith and credit of the State of Hawai'i and are instead secured by revenues to be derived from either the financed project, other departmental or agency revenues, or a combination of both.
- **Revenue Bond Anticipation Notes⁵** are notes that are secured by the proceeds of the sale of the revenue bonds and the revenues that are pledged towards the revenue bonds. They are used as a short-term financing vehicle in anticipation of the sale of revenue bonds.

Table 3 provides a summarized comparison of the reimbursable general obligation bonds and revenue bonds financing options that are available to OHA.

³ HRS § 10-31 (3) "Reimburse the general fund of the State for any bond requirements on general obligation bonds issued for an office project or projects to the extent required by law"

⁴ HRS § 10-27 (2) states that revenue bonds may contain covenants as to: "the use and disposition of the revenue of the office project", "the use and disposition of the revenue of all office projects", "and the revenues of the office"

⁵ HRS § 10-24

Table 3. Comparison: Reimbursable G.O. Bonds vs Revenue Bonds

	Reimbursable G.O. Bonds	Revenue Bonds
Credit Rating & Interest	Because the bonds are backed by the full faith and credit of the State of Hawai'i they generally carry a higher credit rating and lower interest rate.	OHA revenue bonds will likely have a lower credit rating than the State of Hawai'i.
Issuing Fees	The Department of Budget and Finance will cover the issuance fees.	<p>Budget and Finance Department could assist in the process. However, OHA would need to retain</p> <ol style="list-style-type: none"> 1) underwriter(s), 2) financial advisors (municipal advisor) to assist in the structuring of the bond issuance, 3) bond counsel to issue a disclosure with respect to the tax treatment of the bond, 4) bond trustee or fiscal agent, and 5) credit rating agencies. <p>According to a 2013 study done in California, the average issuance costs for bonds ranged from 2.5% - 0.4% per \$1,000⁷.</p>
Recurring Fees	The Department of Budget and Finance will cover the recurring fees.	<p>Requires ongoing costs for the following: 1) Permanent employee(s) to manage the required recordkeeping, reporting and investor relations.</p> <ol style="list-style-type: none"> 2) Annual credit ratings 3) bond trustee, and 4) arbitrage rebate service providers to ensure compliance with IRS arbitrage rules.
Legislative Approval	Requires legislative approval and more scrutiny.	Requires legislative approval. However, because revenue bonds are not backed by the full faith and credit of the State of Hawai'i, they are generally exposed to reduced levels of legislative scrutiny.

(ii) Financing Agreements

In addition to bonded debt instruments, OHA is also allowed to enter into conventional financing agreements such as loan agreements and lines of credit. However, according to HRS Chapter 37D and the State Debt Management Policy, financing agreements by departments and agencies are to be approved by the Director of Finance and Attorney General. It is unclear whether this requirement applies to OHA as a semi-autonomous state agency.

⁷ California Debt and Investment Advisory Commission

IV. REVIEW OF DEBT PROFILE

Review of OHA's debt profile requires that debt be properly defined for the purposes of this report. Action Item RM #18-12, which established a new budget system, and the recently adopted Debt Management Policy define debt and debt service as follows:

- **Debt Management Policy:**
 - "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."
- **RM 18-12 (Budgeting System):**
 - "Financing agreement means any lease purchase agreement, installment sale agreement, loan agreement, line of credit, or any other instrument of indebtedness of which the full faith and credit of OHA are pledged towards the payment of principal and interest."
 - "Debt Service means interest and principal repayments on financing agreements"

Considering these definitions, an obligation is therefore considered debt if it satisfies the following three criteria:

1. It is a contractual obligation to pay cash.
2. It is an amount that is fixed at the date the contractual obligation is established.
3. The full faith and credit of OHA are pledged towards the payment of principal and interest.

Subsequently, RM #18-12 requires that any payments made towards an obligation defined as debt be treated and budgeted as debt service. Strict readings of the definitions for debt and debt service require, therefore, that OHA's annual payments to DHHL are in fact included in OHA's debt profile as well as its assessment of future debt capacity.

Although the DHHL payments are currently classified as grants for budgetary purposes, they are reported as a discounted debt obligation⁸ on OHA's financial statements, and creditors and credit rating agencies are likely to include the DHHL financial obligation in their assessment of OHA's creditworthiness. For these reasons, the DHHL financial obligation is included in OHA's debt profile for the purposes of this analysis.

⁸ In 2012, the State Auditor required the total gross commitment to DHHL be reflected on OHA's balance sheet with a debt service schedule to correspond to the actual \$3 million payment. Subsequently, the \$90 million obligation was discounted according to a 30-year debt amortization schedule. (Source: OHA DHHL Evaluation Report, July 15, 2015)

(i) Outstanding Debt

Table 4. Debt Profile OHA

Agreement Date	Matures On	Entity	Amount	Debt Service	Interest Rate	Outstanding Principal (6/30/2018)
08/12/20018	5/22/2039	DHHL	\$41.8M ⁹	\$ 3M	N/A	\$ 29.5M ¹⁰
8/14/2012	9/1/2022	Bank of Hawaii	\$ 21.3M	\$ 1.3M ¹¹	3.6% ¹²	\$ 19.7M
2/2/2015	2/3/2024	Bank of Hawaii	\$ 5M ¹³	\$ 1.8M ¹⁴	3%-4.5% ¹⁵	\$ 8.3M
6/28/2013	6/28/2023	Bank of Hawaii	\$ 6.7M ¹⁶			

Table 4 provides a summary of OHA's debt profile. Appendix 1 provides a comprehensive analysis of the structural details of all financing agreements.

The carrying value ("book value") of OHA's outstanding debt as of June 30, 2018 amounts to \$57.5 million. It is important to note, however, that because of the unique characteristics of the DHHL financial obligation, the carrying value of OHA's outstanding debt is not consistent with the actual value of OHA's outstanding debt.

Per the accounting rules, only outstanding principal is reflected as a liability for financial statement purposes. In DHHL's case, the actual value of the financial obligation after the refinancing of the DHHL revenue bond amounts to \$41.6 million, which is \$12.1 million higher than the reported carrying value of \$29.5 million. Although the accounting rules allow for the discounting of financial obligation to DHHL, it is important to understand that unlike conventional debt instruments in which debtors are only liable for outstanding principal, OHA is contractually obligated to pay the entire outstanding balance of \$41.6M¹⁷ to DHHL.

For the purposes of this report, the carrying value of the DHHL liability is used as opposed to the actual value of the financial obligation. As a disclaimer, it is important to note that creditors and

⁹ This reflects the discounted value of the \$90 million financial obligation. The interest rate per the Supplemental Agreement #2337.01 is 5.733%, which allows OHA to discount the financial obligation based upon a 30-year debt service amortization schedule.

¹⁰ This reflects the discounted carrying value: the full obligation to be repaid after the refinancing of the DHHL revenue bonds amounts to \$43.6 million

¹¹ This does not include the payment of \$17.3 million in 2023.

¹² This reflects the amended rate. The initial interest rate was 3.35%.

¹³ This reflects the maximum allowable draw.

¹⁴ No principal payments have been made as of June 30, 2018.

¹⁵ The interest for the lines of credit are based upon the following elections made by OHA: Variable options are base rate +/- 0.5%, LIBOR +/- 0.75%; Fixed option is federal home loan bank index +/- 0.75%. The current Base Rate is 4.5%, LIBOR is 2.2%; 6-year federal home loan bank index is 2.39%.

¹⁶ This reflects the maximum allowable draw.

¹⁷ OHA Legal Counsel is of the position, as shared during the meetings of the FSP DHHL work group, that OHA is legally required to pay the entire outstanding balance of the DHHL financial obligation. Only DHHL is able to reduce the amount of the financial obligation.

rating agencies may use the actual value of the DHHL obligation in their assessment of OHA's creditworthiness.

(ii) Debt service & Amortization

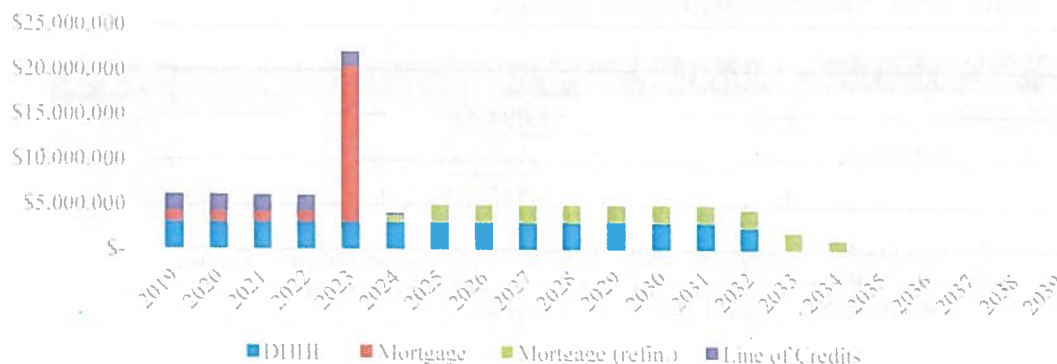
According to the current debt amortization schedule, more than 63% of outstanding principal is expected to be repaid within the next ten years. This is generally viewed as positive factor. However, since the current debt service schedule consists of a \$17 million payment for Nā Lama Kukui in 2023, it does not provide for a realistic scenario.

Table 5. Outstanding Principal



It's reasonable to assume that the mortgage with Bank of Hawaii will have to be refinanced in 2023. The displayed amortization schedule assumes a refinancing of the mortgage at a 3% fixed rate for 10-years. The 10-year 3% fixed rate loan would mirror the current debt service for Nā Lama Kukui. Under this scenario, only 49% of outstanding principal is expected to be repaid within the next ten years, which is less than the 63% benchmark established by the credit rating agencies.

Table 6. Debt Service Schedule



Sources for Table 5 and 6: Mortgage and Line of Credit debt schedule is retrieved from the OHA Financial Statements 2018, Note L – Long Term Liabilities. DHHL debt schedule is retrieved from the DHHL Memorandum to Chair Machado (August 10, 2017). Mortgage refinancing assumes that the Bank of Hawaii mortgage is refinanced at a fixed 10-year loan at 3%.

(iii) Net Pension and OPEB Liabilities

In addition to debt, OHA's credit worthiness is also affected by its participation in the Employment Retirement System ("ERS") and the Employer Union Trust Fund ("EUTF"). Due to recent changes in the government accounting standards, OHA's proportionate share of the unfunded liabilities for the ERS and EUTF are now fully disclosed on OHA's financial statements.

Although the Board of Trustees has limited ability to manage OHA's risk exposure to increased future payments for pension and OPEB liabilities, the likelihood of increased future payments should be carefully evaluated in the context of debt decision-making.

The ERS and EUTF are required to conduct an actuarial valuation study every two years. The actuarial valuation studies contain a projected schedule with minimum annual required contributions for the next 30 years.

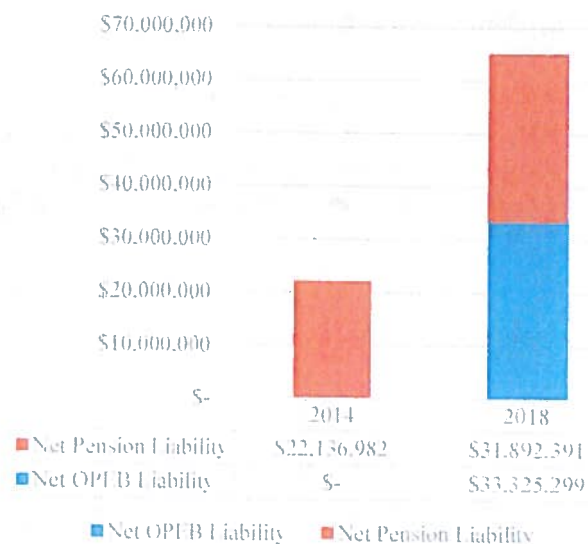
Since these actuarial valuation studies form the basis for potential future fringe benefit rate increases, they should be carefully reviewed on a regular basis. Especially the risk exposure to increased healthcare costs needs to be monitored carefully. Under the most recent actuarial study for the EUTF, a 1% increase in the assumption that is used to project healthcare costs could potentially result in a 17% increase of OHA's Net Pension Liability¹⁸.

Table 8. Annual Required Pension & OPEB Contributions

	Required Contribution FY2018		Actual Contribution FY 2018	
Pension Contribution	\$	1,694,776	\$	1,621,477
OPEB Contribution (Healthcare)	\$	2,123,100	\$	1,881,695
Total	\$	3,817,876	\$	3,503,172

Sources for Table 7 and 8: OHA Financial Statements 2018. Schedule of Contributions (Pensions) page 69. Schedule of Contributions (OPEB) page 72. Schedule of Changes in Net OPEB Liability page 71. Schedule of OHA's Proportionate Share of Net Pension Liability page 68.

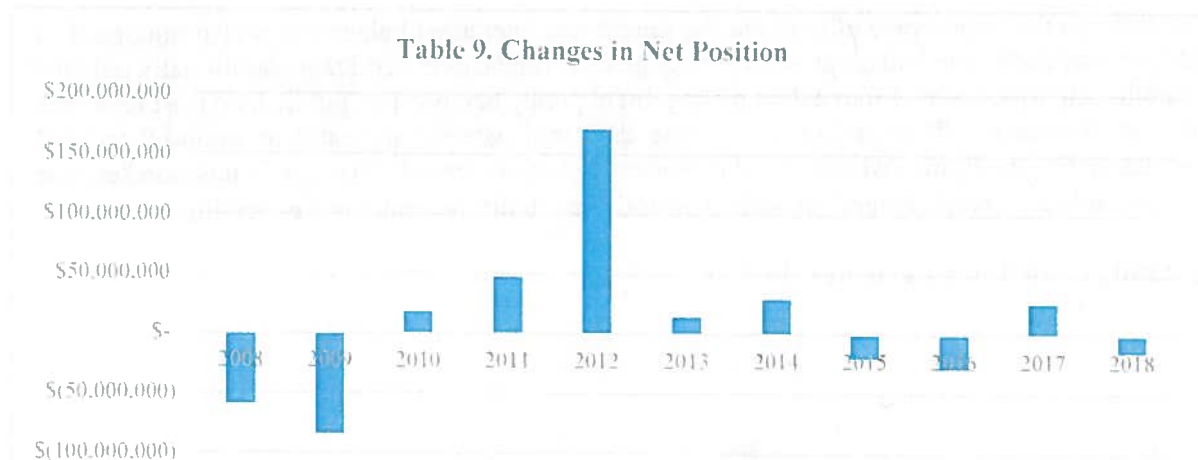
Table 7. Net Pension and OPEB Liability



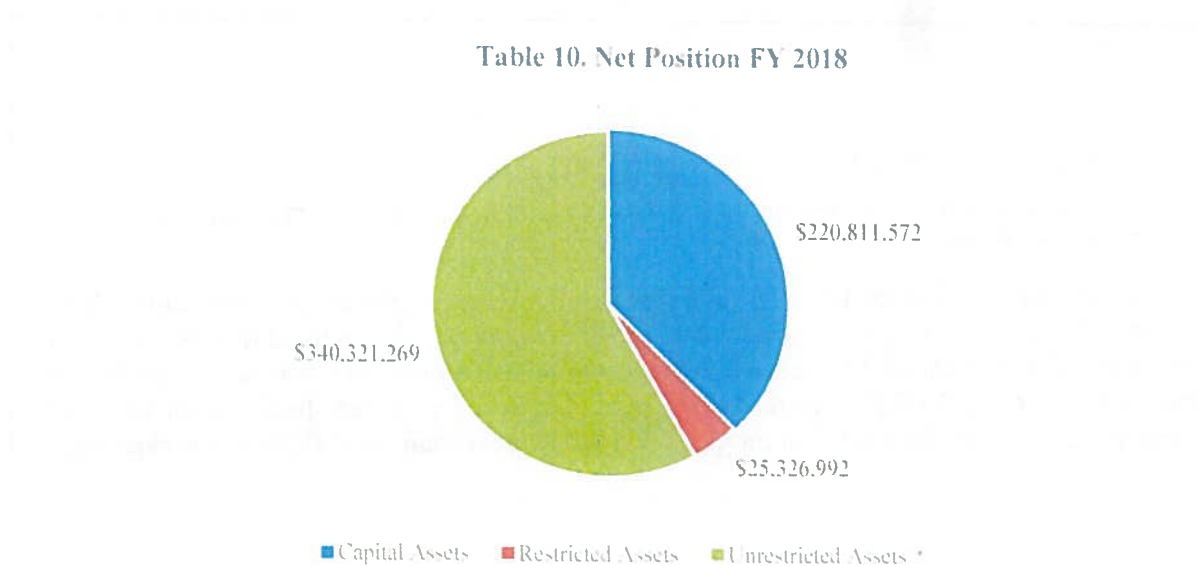
¹⁸ Hawaii Employer Union Health Benefit Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2018. Page 16.

V. REVIEW OF FINANCIAL MEASURES

Financial measures such as the performance of assets, revenue generated capabilities, as well as the flexibility to adjust expenditures are important considerations with respect to the issuance and management of debt.

(i) Net Assets

Over time, increases and decreases in the net position provides a useful indicator of whether OHA's financial position is improving or deteriorating. Since 2008, OHA's net assets have grown from \$446 million to \$586 million. However, this growth is primarily due to the transfer of Kaka'ako Makai (valued at \$200 million) by the State of Hawai'i in 2012.

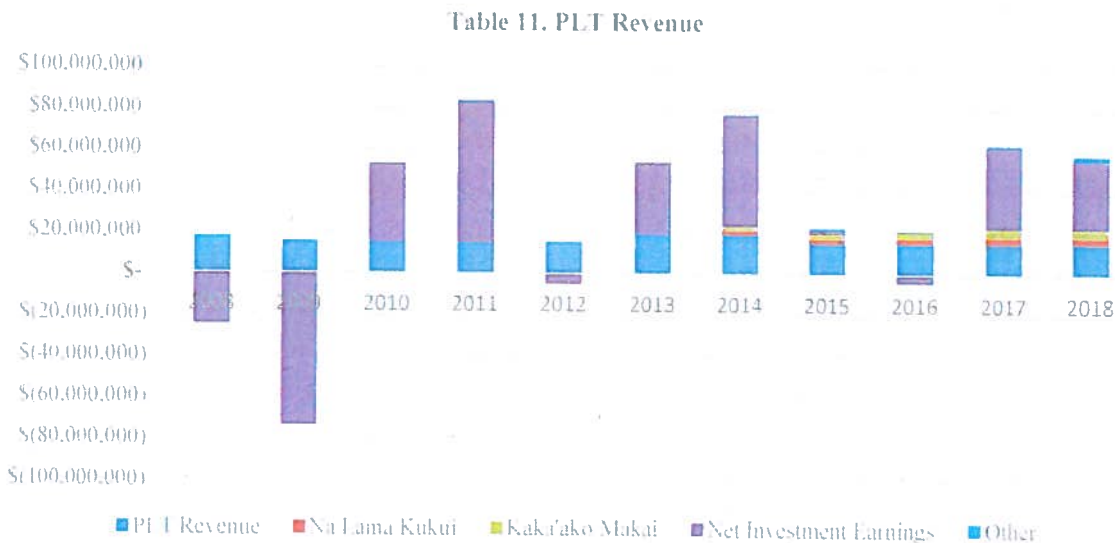


Sources for Table 9 and 10. OHA Financial Statements for the period 2008-2018, Statement of Net Position

In addition to changes in net position, OHA's unrestricted net assets reflect an important measurement of the solvency OHA, which refers to OHA's ability to meet long-term debt and financial obligations. However, since OHA has the discretion to sell its commercial properties, the unrestricted net asset balance, combined with the appraised value of commercial real estate assets would provide a more suitable measurement of OHA's solvency. Because real-estate assets are recorded at their book value for financial statement purposes, OHA should consider regular appraisals for commercial real estate in order to better assess future debt solvency ratios.

In addition to the importance of tracking the unrestricted net asset balance, it is also important to highlight that due to the budget proviso for the general funds, debt service is traditionally paid for by public land trust assets. From a debt management policy perspective, public land trust revenues and expenditures are therefore an appropriate debt management indicator as opposed to total revenues and expenditures, which would provide a distorted view of OHA's debt position because it would include general, federal, as well as proprietary fund¹⁹ revenues and expenditures.

(ii) Public Land Trust Revenue ("PLT")



Sources: OHA Financial Statements 2008-2018. Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.

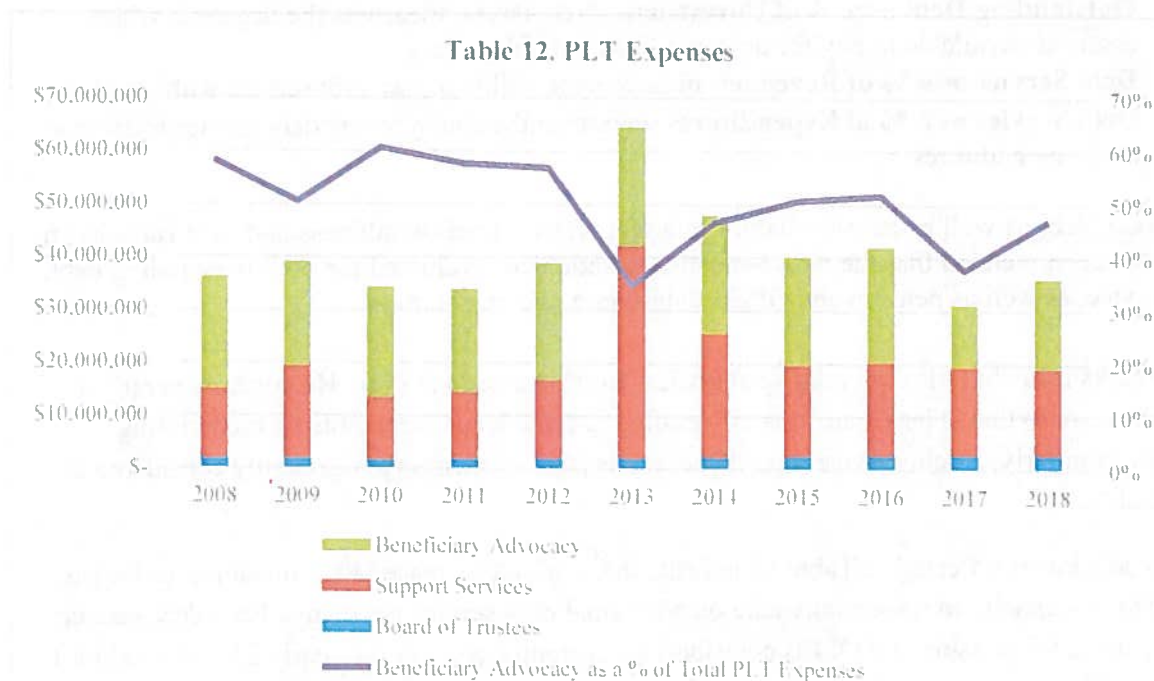
Revenues are often used as the basis for debt policies. For example, the State Constitutional limit for outstanding general obligation bonds is tied to 18.5% of the average general fund revenues for the preceding three years. PLT revenues are predominately tied to the performance of the Native Hawaiian Trust Fund ("NHTF") financial assets portfolio. Because of the volatility of the financial markets, the PLT revenues would not provide for a stable measurement of OHA's debt capacity.

¹⁹ Reflects Hi'ilei Aloha LLC and Ho'okele Pono LLC

(iii) Public Land Trust Expenditures

In contrast to the PLT revenues, PLT expenses have been relatively stable throughout the last decade because they are subject to the Spending Policy, which restricts draws to the 20-month moving average of the NHTF.

Because of the stability, PLT expenditures form a better measurement of OHA's debt capacity. This approach is consistent with the City & County of Honolulu, which has capped debt service on general obligation bonds to 20% of the operating budget²⁰.



Sources: OHA Financial Statements 2008-2018. Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.

With respect to the issuance of debt, OHA should also assess how future debt service payment would impact its ability to respond to the growing needs among beneficiaries. A review of PLT expenditures illustrates that within the last decade, the share of beneficiary expenditures relative to total PLT expenses has gradually declined from 58% in 2008 to 47% in 2018. OHA defines beneficiary advocacy expenditures on its financial statements as disbursements that provide for the “betterment of all Hawaiians through improving access to resources, benefits, and services, in the areas of housing, education, health, and economic development”²¹.

Because beneficiary advocacy is at the core of OHA's mission, it would be prudent to evaluate and assess the impact of future debt service payments on beneficiary advocacy expenditures.

²⁰ Office of the City Auditor. Audit of the City Debt Service Practices (2006)

²¹ OHA annual financial statements (2018), page 5.

VI. DEBT AFFORDABILITY

The recently adopted Debt Management Policy requires that a “Debt Affordability Study” be conducted 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 credit rating agencies provide a framework of commonly used debt ratios that OHA could implement as part of the “Debt Affordability Study”. The following debt ratios are commonly used:

- **Outstanding Debt as a % of Unrestricted Net Assets:** measures the degree to which assets are available to pay for debt and financial obligations.
- **Debt Service as a % of Revenues:** measures the ability to pay debt service with revenues.
- **Debt Service as a % of Expenditures:** measures the ability to pay debt service relative to other expenditures.

Since both debt as well as pension liabilities affect OHA’s creditworthiness and debt capacity, it is highly recommended that the above-mentioned ratios are evaluated for both outstanding debt, debt service, as well as pension and OPEB liabilities and contributions.

Benchmarks for debt ratios are relative statistics that fluctuate over time. However, generally a debt service ratio that is less than 15% of spending is considered acceptable by credit rating agencies. Similarly, a debt service ratio that exceeds 25% of spending is generally considered as unfavorable.

OHA’s debt ratios reflected in Table 13 indicate that without increased PLT revenues, OHA has limited to no capacity to responsibly take on additional debt service payments. Both debt service and payments for pension and OPEB contributions currently account for nearly 25% of total PLT expenses. This means that in the absence of revenue generating activity, incurring additional debt service will negatively affect OHA’s creditworthiness as well as its ability to respond to the growing needs among beneficiaries.

Table 13. Debt Capacity Assessment

	Actual					Projected						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<u>As a % of Unrestricted Net Assets</u>												
Outstanding Debt	17.5%	19.6%	21.8%	19.4%	17.1%	16.2%	15.0%	13.9%	12.8%	11.6%	10.4%	9.3%
Pension & OPEB Liabilities	5.7%	5.8%	6.8%	18.7%	19.3%	18.9%	19.1%	19.2%	19.3%	19.3%	19.3%	19.3%
Outstanding Debt, Pension & OPEB Liabilities	23.2%	25.4%	28.6%	38.1%	36.4%	35.1%	34.2%	33.2%	32.1%	30.9%	29.7%	28.5%
<u>As a % of Unrestricted Net Assets & Commercial Properties (book value)</u>												
Outstanding Debt	11.1%	12.0%	12.9%	11.9%	10.3%	9.9%	9.2%	8.5%	7.8%	7.1%	6.3%	5.7%
Pension & OPEB Liabilities	3.7%	3.6%	4.0%	11.5%	11.7%	11.6%	11.7%	11.8%	11.8%	11.8%	11.8%	11.8%
Outstanding Debt, Pension & OPEB Liabilities	14.8%	15.5%	16.9%	23.4%	22.0%	21.5%	20.9%	20.3%	19.6%	18.9%	18.2%	17.5%
<u>As a % of Public Land Trust Revenue</u>												
Debt Service	5.1%	19.2%	25.2%	7.9%	8.8%	14.2%	14.3%	14.1%	13.9%	11.8%	11.2%	10.7%
Pension & OPEB	2.0%	11.9%	15.2%	5.0%	5.6%	7.6%	7.8%	7.9%	8.0%	8.1%	8.2%	8.3%
Non-Discretionary Costs	7.2%	31.1%	40.4%	12.9%	14.4%	21.9%	22.1%	21.9%	21.8%	19.9%	19.4%	19.0%
<u>As a % of Public Land Trust Expenses</u>												
Debt Service	7.8%	10.7%	10.5%	16.0%	14.1%	16.9%	17.0%	16.7%	16.4%	14.0%	13.3%	12.7%
Pension & OPEB	3.1%	6.7%	6.4%	10.1%	8.9%	9.1%	9.2%	9.3%	9.4%	9.6%	9.7%	9.8%
Non-Discretionary Costs	10.9%	17.4%	16.9%	26.1%	23.0%	25.9%	26.2%	26.0%	25.9%	23.5%	23.0%	22.5%

Actual Financial Data (2014-2018):

The actual financial figures are derived from the OHIA Financial Statements for 2014-2018.

Debt and debt service data is derived from Note L Changes in long-term liabilities (Compensated absences and capital lease obligations are excluded). The DHHIL outstanding debt balance is derived from the Governmental Funds – Balance Sheet Committed fund balance for the Public Land Trust. The data for unrestricted net assets and outstanding pension and OPEB liabilities is derived from the Statement of Net Position.

Projected Financial Data (2019-2025):

The projected financial data for the 2019-2025 time-frame is based on various assumptions.

The pension and OPEB liabilities and contributions are assumed to grow proportionately to the Unfunded Actuarial Accrued Liability (UAAL) and Annual Required Contribution (ARC) as projected by the most recent actuarial valuations for the ERS and EUTF.

The Public Land Trust revenues and expenditures are based on the 5-year average for 2014-2018.

VII. RECOMMENDATIONS

The following provides a summary of findings with respect to OHA's debt profile and debt capacity. The SWOT analysis forms the basis for (i) strategic considerations and (ii) specific recommendations for OHA's debt management procedures.

Strengths:

- The ratio of current debt service to PLT expenditures is within acceptable limits (less than 15% is good).

Weakness:

- Only 49% of outstanding debt is scheduled to be repaid within the next 10 years (less than 65% is the benchmark).
- The refinancing of the mortgage for Na Lama Kukui has reduced the recourse to 53% of the property value. However, the refinancing has also increased the interest rate from 3.3 to 3.6%.
- Payments of principal for the mortgage for Na Lama Kukui and lines of credit were delayed by two years.
- A line of credit is designed to provide short-term liquidity, and was not a suitable method to finance capital improvement projects for Na Lama Kukui.
- The mortgage for Na Lama Kukui includes a 1% prepayment privilege fee, which has increased the costs for future refinancing.
- The mortgage for Na Lama Kukui has a final payment that consists of 87% of principal due in 2023.
- The DHHL obligation has substantially reduced OHA's debt capacity.

Opportunities:

- All current debt is held by Bank of Hawaii. Banking diversification could provide more favorable financing terms and potential for increased deposit returns.
- The implementation of debt management procedures could lead to better financing decisions.
- Reimbursable G.O. Bond could potentially provide an affordable and effective means of financing for OHA.
- The development of formal cash management policies and procedures could lead to increased deposit returns on excess cash.
- Closer cooperation with the Budget & Finance department with respect to financing decisions could potentially lead to more favorable terms on conventional financing agreements.

Threats:

- Since OHA is a participating employer within the EUTF, its debt capacity could be impacted by potential liability adjustments due to changing projections for future healthcare inflation.
- Beneficiary advocacy expenses have gradually declined from 58% of total PLT expenses in 2008 to 47% in 2018.
- It is unclear currently whether OHA's financing agreements require formal approval from the Hawai'i Finance Director and Attorney General (HRS Chapter 37D).

(i) Strategic Considerations

The following provides strategic recommendations to be considered in discussions of debt management procedures.

- **Cash Management Policy** – The development of an organization-wide cash management policy could potentially result in increased deposit returns and efficiencies in the management of working capital.
- **Relationship with Budget & Finance** – Fostering a formal relationship with the Department of Budget & Finance could potentially result in more favorable financing terms through either Reimbursable G.O. Bonds or collaborations on conventional financing agreements with local and national banks.
- **Banking Diversification** – Banking diversification, at both the state and national level, could potentially result in more favorable financing terms as well as deposit returns through a more formalized treasury function.

(ii) Recommendations for Debt Management Procedures

The following are specific recommendations for the development of OHA's debt management procedures.

1. Distinguish between short-term (<3 years) and long-term debt (>3 years).
2. Establish a debt ceiling that limits debt service to less than 20% of total PLT expenses.
3. Restrict long-term debt to capital improvement projects only, and prohibit the use of debt proceeds for operating or maintenance expenses.
4. Use the credit rating agency framework as the basis for the "Debt Affordability Study."
5. Prohibit the issuance of conduit debt obligations and non-exchange financial guarantees such as the DHHL financial obligation.
6. Avoid debt covenants that include features that prohibit or restrict future refunding or refinancing opportunities.
7. Require that principal payments are made no later than five years from the date of the debt issuance.
8. Restrict debt maturity schedules to the lesser of the expected useful life of the project financed or 30 years.
9. Use debt amortization schedules that are structured with either fixed annual principal or debt service payments.
10. Encourage diversification among banks as an effort to obtain more favorable financing terms.
11. For revenue bonds, use the "State Debt Management Policy" as the policy and require formal coordination with the State of Hawai'i Director of Finance (HRS § 39-68)

12. The current policy requires that debt only be taken against an asset for a “financial gain”. Providing a working definition for “financial gain” in the procedures provides better guidance and more flexibility with respect to projects that consist of predominantly cultural gains as opposed to financial gains.
13. Require formal Board of Trustees approval of all decision-making on new debt as well as the refinancing of existing debt.
14. Require that refinancing opportunities be reviewed on a regular basis.

(iii) Recommendations for Implementation

The following are some recommendations that could be considered as part of the implementation of the proposed debt management procedures.

1. Obtain a legal opinion from Board Counsel and the Attorney General to determine whether OHA is required to comply with the requirements of HRS Chapter 37D.
2. Since the DHHL debt service payments are properly classified as beneficiary advocacy expenditures, consider reclassifying the DHHL grant to debt service for budgeting purposes.
3. Create a formal nexus between the budget and the financial statements by classifying budgeted expenses by fund type (General Fund, Public Land Trust, Federal Funds, Other) and financial reporting division (Beneficiary Advocacy, Support Services, Board of Trustees).
4. Create a cash management policy and treasury function to better manage OHA’s working capital and potentially increase returns on cash deposits.

VIII. MAHALO

This research was conducted at the request from OHA Administration. The research would not have been possible without the contributions, expertise, support and guidance from the following individuals:

- Rodney Lee; Executive VP, Spire Hawaii LLP
- Lucas Sayin; Partner, Spire Hawaii LLP
- Gill Berger; Chairman Board of Directors (retired), Pacific Rim Bank.
- Wes Machida; State of Hawaii Budget Director (retired)
- Kalbert Young; VP Finance, University of Hawaii
- Ray Matsuura; OHA Investment Manager

APPENDIX A - DEBT PROFILE

ATTACHMENT D

Agreement Date	Matures On	Maturity	Entity	Type	Purpose	Amount	Debt Service (Annually)	Interest Rate	Outstanding Principal (6/30/2018)	Fixed/Variable Rate	Amortization	Lien/Pledge	Covenants	Optional Redemption
08/12/20018	5/22/2039	30 years	DIHL	Non-Exchange Financial Agreement	Programmatic Support: DIHL	\$42,500,000 (reflects the discounted value of the \$90M financial obligation)	\$3,000,000	N/A	\$ 29,516,390	N/A	Equal installments	N/A	N/A	N/A
8/14/2012	9/1/2022	10 years	BOH	Mortgage	Capital Acquisition: Na Lama Kukui	\$ 21,370,000	\$1,297,593 (balloon payment of \$17,368,929)	3.35% (initial); 3.6% amended (7/13/2013)	\$ 19,734,367	Fixed	Based on 25 year amortization schedule, with balloon payment of principal balance at the end in 2023	Mortgage lien on property; assignment of lease rents; security interest in furniture & fixtures (7/13/2013 amendment reduces of OHA to 53.2% of principal and allows for the property to be transferred into a fully owned subsidiary (corporate entity))	Minimum unrestricted net asset balance of \$250M; Minimum liquidity of \$100K; Maintain a minimum debt service coverage ratio from cash flow generated by the property of 1.00-1.25	Subject to 1% prepayment privilege fee of principal prepayment/refinancing
2/3/2015	2/1/2024	7 years	BOH	Line of Credit	Programmatic Support: Governance Planning Initiative	\$5,000,000 (max draw)	Starting FY 2019, annual debt service is \$1,824,717 (the debt service is gradually reduced over 6 years)	Optional: Variable options are base rate +/- 0.5%; LIBOR +/- 0.75%; Fixed option is federal home loan bank index +/- 0.75%; (Current Base BOH base rate is 4.5%; LIBOR is 2.2%; 6-year federal home loan bank index is 2.39%)	\$ 8,325,704	Option between fixed and variable	During the "Draw Period" (> 4/1/2017) only interest is payable. During the "Term Period" (<4/1/2017), principal and interest are amortized over the term period that is elected. As of 6/30/2018, no principal payments have been made).	Security interest up to \$11,758,000 of all assets held in the Siga Real Asset Strategy account maintained by State Street Bank	Minimum unrestricted net asset balance of \$250M; Minimum liquidity of \$100K;	No prepayment privilege fee
6/28/2013	6/28/2023	10 years	BOH	Line of Credit	Capital improvement: Finance renovation of Na Lama Kukui	\$6,758,000 (max draw)								

OHA Revenue Bonds

White Paper



JULY 2019 .

700 Bishop Street | Suite 2001 | Honolulu, Hawaii | 96813

Section 1

Introduction

This white paper summarizes the origins of OHA's revenue bond authority and describes the conditions necessary for an OHA revenue bond issuance. This white paper is a research summary and should not be considered legal or financial advice.

Short summary

OHA has statutory revenue bond authority to finance its projects. However, in order to consider revenue bonds as a financing option, OHA must have enough reliable revenue streams to support the bond issuance, as well as the fiscal, human and infrastructure resources necessary to support the bond through its life. Until OHA can meet these conditions, it should consider more conventional means of financing, provided debt policy requirements can be met.

OHA's Revenue Bond Authority

The authority for OHA to issue revenue bonds¹ is statutory, and not constitutional. This authority was granted by Act 283 of the 1994 State Legislature and was codified as Part II of Hawaii Revised Statutes ("HRS") chapter 10.

Act 283 defined OHA revenue bonds as "revenue bonds, interim certificates, notes, debentures, or other evidence of indebtedness of the board authorized by or issued under this part" and stated that the purpose of granting OHA revenue bond authority was to "enable the office to maximize the trust funds without eroding the trust corpus by providing another alternative to leverage the trust funds."²

¹ Revenue bonds are a form of debt, secured by revenues of the issuing entity.

² It is noteworthy that prior to the passage of Act 283, OHA filed a lawsuit on January 14, 1994, against the State based on the failure of the State to fully compensate OHA for its share of State revenues. Andrade, Troy J.H., Changing Tides, A Political And Legal History of the Office of Hawaiian Affairs (May 2016), page 100.

previously committed funds from inclusion in the definition of "revenues of the office." Revenues are now defined in HRS §10-21 as:

"Revenues of the office" or "office's revenue" means all rates, rentals, fees and charges, and user taxes, received by the office of Hawaiian affairs, and all money and revenue derived from the operations of the office, other than:

(1) General appropriations; and

(2) Funds, the terms of which preclude their being used for payment of the costs of acquisition, purchase, construction, reconstruction, improvement, betterment, extension, or maintenance of an office project or the costs of a loan program or the payment of principal or interest of revenue bonds.⁷

⁷ Consideration of "loan programs" was added in 2013, by Act 171.

Assessing debt capacity			Balance sheet measures		Cash flow measures
Level of EBITDA			Debt to equity		Total debt / EBITDA
Volatility and hence stability of EBITDA			Complications include		Senior debt / EBITDA
cyclical	technology	entry barriers	Acquisition adjustment to assets	goodwill	Cash interest cover
					EBITDA-Capex interest cover

Source: <https://corporatefinanceinstitute.com/resources/knowledge/finance/assessing-debt-capacity/>

By using the ratios captured above, OHA, with its financial specialists, can assess the amount of bonds it can realistically manage. This can be achieved as long as the amount of cash at hand from OHA can easily cover the interest expense, and ultimately cover the principle repayments that are required. Bond lenders will look at a combination of balance sheet measures and cash flow measures when assessing OHA's total debt capacity of the bond.

Also affecting the amount of bonds that can be issued is HRS §39-61, which requires that the undertaking or loan program financed by revenue bonds must be self-sustaining:

"Rates, rentals, fees, and charges; undertaking and loan programs to be self-sustaining. (a) The department issuing revenue bonds pursuant to this part shall impose, prescribe, and collect rates, rentals, fees, or charges for the use and services of, and the facilities and commodities furnished by, the undertaking or for the use and services and benefits of the loan program for which the revenue bonds are issued, and shall from time to time whenever necessary, so that, together with the proceeds of the user taxes derived with respect to the undertaking pledged to the payment of those revenue bonds, the undertaking or loan program shall be and always remain self-sustaining. The rates, rentals, fees, or charges imposed

interest of the bonds and any economic or other trends that may impact revenues. The MSRB was established by Congress in 1975, to protect municipal securities investors, municipal entities and the public interest. In support of their mission to protect public interest, MSRB provides educational resources to help inform potential investors about municipal securities. Per MSRB "a credit rating is the evaluation or assessment that a rating agency assigns to a bond to indicate the likelihood that the issuer will repay the bond."⁹ Investment grade bonds are rated as BBB-/Baa3, and without an obvious stream of revenue to repay the bond issuance, being rated as an investment grade bond may prove difficult.

Unlike other government agencies with substantial tax or fee revenues, OHA might not have enough reliable revenue sources to support the kind of issuance it needs.¹⁰

2. Assess adequacy of infrastructure for bond issuance

Considerable resources and infrastructure are needed to support a bond issuance. First, fiscal resources are required. OHA must pledge adequate funds for the punctual payment of revenue bonds and interest (from the revenue of the office project or projects or loan program or programs for which the bonds have been issued, or the revenues of the office, or both), and for reasonable reserves to back these payments.¹¹ In addition, OHA, as an issuer, will also incur other issuance expenses, which vary according to the nature, size and complexity of the financing. These include underwriting costs and insurance. Issuance costs must be paid for by OHA under HRS §10-22, which provides that "OHA must advance such moneys of the office, not otherwise required, as are necessary to pay the expenses incurred in making the preparations for the initial issuance of revenue bonds under this part."

⁹ <http://www.msrb.org/~media/Files/Education/Credit-Rating-Basics-for-Municipal-Bond-Investors.ashx??>

¹⁰ The PLT revenues are now capped at \$15,100,000, and are not immune to future (downward or upward) adjustment by the State Legislature.

¹¹ HRS §10-22.

- Rigorous due diligence analysis, including assessing the sufficiency of revenues dedicated to debt service, consideration of the operating cost of capital assets and the impact on OHA's ability to provide future services
- Debt Affordability Study (if one has not been done in the last two years)
- Financial and credit impact of new debt

HRS §10-36 requires OHA comply with the State constitutional requirements for bonds in Article VII, sections §§12 and 13, therefore, these requirements will prevail over any contradictory language in HRS chapter 10. Also, as a State agency, OHA is required to follow the requirements applicable to State agencies, unless specifically exempted.

OHA must submit the BOT resolution to the State legislature for approval to issue the bonds. It is significant to note that by Act 146, 2009 SLH, the State legislature amended HRS §10-4(6) to remove the language that stated the principal amounts of OHA's revenue bonds needed to be "authorized from time to time by law." The reason for this removal was that OHA's authority to issue revenue bonds would be strengthened, because the BOT could "[i]ssue revenue bonds without legislative authorization and approval."¹⁵ However, the same legislature inexplicably added back the requirement for legislative approval in an amendment to HRS §10-22(2), by inserting the requirement that revenue bonds issued under HRS chapter 10 needed to be in such principal amounts "as may be authorized by the legislature from time to time." There is no written legislative history that appears to directly address this discrepancy.

If other State agencies issue bonds for capital improvements, they must receive capital appropriation authorization. In OHA's case, there is no requirement in HRS §10-22(2) that the cost of the "office project" funded by the revenue bond must be "as authorized by law."¹⁶ To be certain about the applicability of the capital

¹⁵ Conference Committee Rep. No. 161 on H.B. No. 899, H.D. 1, S.D. 1, C.D. 1 (2009)

¹⁶ The requirement for legislative approval was in H.B. No. 899, but was removed from H.B. No. 899 (2009). See, Conference Committee Rep. No. 161 on H.B. No. 899, H.D. 1, S.D. 1, C.D. 1 (2009).

Section 3

Other Bond Options

HRS §10-31 states, in part, that:

...the revenues of the office project or the loan program, and the revenues of the office shall produce revenue at least sufficient to:

* * * *

(3) Reimburse the general fund of the State for any bond requirements on general obligation bonds issued for an office project or projects or for a loan program or programs to the extent required by law;

This language implies that OHA can request that the State issue general obligation bonds for its projects or loan programs. General obligation bonds of the State must be authorized pursuant to the State Constitution by a majority vote of the members to which each house of the Legislature is entitled. The Legislature enacts laws specifying the amount of such bonds that may be issued and defining the purposes for which the bonds are to be issued.

Office of Hawaiian Affairs
560 N Nimitz Hwy. Ste. 200
Honolulu, HI 96817

- Action Item

COMMITTEE ON RESOURCE MANAGEMENT (RM)	DATE: Sept. 25, 2019 Motion: Vote:																																																																												
AGENDA ITEM: III. NEW BUSINESS B. Action Item RM #19-15 - Action Regarding the Debt Management Policy Implementation Procedures																																																																													
MOTION: Administration recommends the Board of Trustees (BOT) approve the Debt Management Policy implementation procedures as detailed in Attachment A.																																																																													
AMENDMENT:																																																																													
MEANS OF FINANCING:																																																																													
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">TRUSTEE</th> <th style="width: 15%;">1</th> <th style="width: 15%;">2</th> <th style="width: 15%;">‘AE (YES)</th> <th style="width: 15%;">A‘OLE (NO)</th> <th style="width: 15%;">KANALUA (2 kanalua’s =ABSTENTION)</th> <th style="width: 15%;">EXCUSED</th> </tr> </thead> <tbody> <tr> <td>LEI AHU ISA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>KALEI AKAKA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>KELI ‘I AKINA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>BRENDON LEE</td> <td style="text-align: center;">1</td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>HULU LINDSEY</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>ROBERT LINDSEY</td> <td></td> <td style="text-align: center;">2</td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>COLETTE MACHADO</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>JOHN WAIHE‘E</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td>CHAIR DAN AHUNA</td> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">TOTAL VOTE COUNT</td> <td style="background-color: yellow;"></td> <td style="background-color: yellow;"></td> <td style="text-align: center;">9</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	TRUSTEE	1	2	‘AE (YES)	A‘OLE (NO)	KANALUA (2 kanalua’s =ABSTENTION)	EXCUSED	LEI AHU ISA			X				KALEI AKAKA			X				KELI ‘I AKINA			X				BRENDON LEE	1		X				HULU LINDSEY			X				ROBERT LINDSEY		2	X				COLETTE MACHADO			X				JOHN WAIHE‘E			X				CHAIR DAN AHUNA			X				TOTAL VOTE COUNT			9			
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MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

DISCUSSION:

PHONE (808) 594-1888
Committee on Resource Management
Trustee John Waihe'e IV, *At-Large* - Chair
Trustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair
Members

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*



FAX (808) 594-1865

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, May 25, 2021
TIME: 1:30 p.m.
PLACE: Virtual Meeting
Viewable at www.oha.org/livestream OR
Listen by phone: (213) 338-8477,
Webinar ID: 941 3011 4084

Due to the threat of COVID-19, Governor Ige issued the recent Emergency Nineteenth Supplementary Proclamation dated April 9, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 941 3011 4084

AGENDA

- I. Call to Order
- II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- III. Approval of Minutes
 - A. April 20, 2021
 - B. May 11, 2021
- IV. Unfinished Business – None
- V. **New Business**
 - A. ACTION ITEM RM #21-06: Approval of FY21 Budget Realignment #3 –
Core (Personnel and Non-Personnel) and Non-Core Budgets†
 - B. Workshop: T-Trustee Level Draft Policies related to Endowment Strategy:
Endowment Investment Policy, Spending Policy, Debt Policy; and
C-CEO Level Draft Policies related to Treasury Management
 - C. Workshop: Preliminary OHA Biennium Budget for the Fiscal Biennium Periods
2021-2022 (FY22) and 2022-2023 (FY23) – pre beneficiary sharing
- VI. Announcements
- VII. Adjournment



OFFICE OF HAWAIIAN AFFAIRS


Interoffice Memorandum

Date: May 21, 2021

To:

Ke Kauhuhu Carmen Hulu Lindsey
Ke Kua Leina‘ala Ahu Isa
Ke Kua Dan Ahuna
Ke Kua Kaleihikina Akaka
Ke Kua Keli‘i Akina

Ke Kua Luana Alapa
Ke Kua Brendon Kalei`āina Lee
Ke Kua Keola Lindsey
Ke Kua John Waihe‘e IV

From: Sylvia M. Hussey, Ed.D., Ka Pouhana, Chief Executive Officer 

cc: Casey K. Brown, Ka Pou Nui, Chief Operating Officer
Ramona G. Hinck, Ka Pou Kihī Kanaloa Wai, Chief Financial Officer

Subject: Workshop: Preliminary OHA Biennium Budget for the Fiscal Biennium Periods 2021-2022 (FY22) and 2022-2023 (FY23) – pre beneficiary sharing

Attachment: Presentation Deck

The purpose of this memo is to transmit the draft FB22-23 presentation deck in preparation for sharing the biennium budget information with the beneficiaries for feedback in accordance with Chapter 10-14.5—see excerpt below:

[§ 10-14.5.] Budget preparation and submission; auditing.

(a) The budget, six-year program and financial plan, and the variance report of the office of Hawaiian affairs shall be submitted by the board to the legislature and to each member thereof in accordance with the budget submission schedule specified for the governor in chapter 37 and shall contain the program information specified in that chapter that is applicable to the office of Hawaiian affairs. Not less than twenty days prior to the convening of each regular session of the legislature, the office of Hawaiian affairs shall submit to the legislature an accounting of the expenditures made in the prior fiscal year, by account code and budget program. By November 1 of each year preceding a legislative session in which a budget is to be submitted, the board shall provide written notification to the governor of the proposed total expenditures, by cost categories and sources of funding, and estimated revenues of the office of Hawaiian affairs for each fiscal year of the next fiscal biennium.

(b) The board shall provide opportunities for beneficiaries in every county to participate in the preparation of each biennial and supplemental budget of the office of Hawaiian affairs. These opportunities shall include an accounting by trustees of the funds expended and of the effectiveness of programs undertaken.

(c) The office shall be subject to governmental audit.

HISTORY: L 1990, c 221, pt of § 2

DRAFT FOR BOARD WORKSHOP PURPOSES

Mana i Mauli Ola

OHA's 15-YEAR STRATEGIC PLAN
FOR 2020-2035



Fiscal Year 2022 and 2023
Preliminary Biennium Budget
For Community Input

[DRAFT FOR BOARD WORKSHOP PURPOSES]



Executive Summary

DRAFT FOR BOARD WORKSHOP PURPOSES

Two thousand twenty (2020) saw the adoption of the Office of Hawaiian Affairs’ (OHA) new Strategic Plan, entitled Mana i Maui Ola (Strength to Wellbeing). This plan includes three foundations: ‘Ohana (family), Mo’omeheu (culture), and ‘Āina (land and water). OHA recognizes these foundations have the power to affect the wellbeing of Native Hawaiians. Therefore, they are woven into OHA’s plans to affect change in the areas of education, health, housing, and economics. Over the next 15 years, OHA will be implementing strategies, aligned with our foundations and directions to achieve our envisioned outcomes for a thriving and abundant lāhui.

The Fiscal Years 2022-2023 biennium core budget is the financial expression of OHA’s plans to implement this Strategic Plan and includes aligned spending priorities and contributing funding sources. The spending priorities for this biennium are to **Increase Grants & Beneficiary Services** to support Native Hawaiians, ‘ohana and communities within Hawai’i’s current systems; and to **Streamline & Re-Focus Personnel and Contracts** to advance the work needed to transform Hawai’i current systems. Therefore, annual grant budget is increased to \$15.1 million, which now represents the largest share of OHA’s core operating budget and is equal to OHA’s current funding from the Public Land Trust Revenues.



OHA’s funding sources dedicate the financial resources available to implement Mana I Maui Ola, and annually include: 5% of the Native Hawaiian Trust Fund investment portfolio; a fixed \$15.1 million of Public Land Trust revenues; appropriations of State of Hawai’i general fund decreased to \$2.25 million; and Kaka’ako Makai’s resource allocation estimated at \$1.4 million. As OHA is able to increase these sources, so to will the services to Native Hawaiian beneficiaries be able to be expanded.

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Purpose	Structure	Strategic Plan	Budget Process	Spending Priorities	Key Constraints	Funding	Operating Budget
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Purpose



The purpose of this document is to explain more about the Office of Hawaiian Affairs (OHA) and its proposed budget for the next two years. OHA acknowledges its accountability to beneficiaries and communities, therefore, provides this explanation of the preliminary biennium budget for Fiscal Year (FY) 2022 and 2023. This description is part of OHA's community input phase and will allow greater accessibility, transparency and detailed level of information to beneficiaries.

Comments and questions are important and OHA welcomes them. This feedback will serve as an assessment of the preliminary budget and may inform revisions prior to Board action.

Please send your questions and comments to ohabudget@oha.org or visit www.oha.org for more information.

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The Office of Hawaiian Affairs

OHA grew out of organized efforts in the 1970s to right past wrongs suffered by Native Hawaiians for over 100 years. Hawaiian's newfound activism brought their plight to the consciousness of the general public, leading grassroots leaders to propose that income from land taken from the illegal overthrow of the Hawaiian Kingdom be used to benefit Hawaiians. After voters of all backgrounds agreed, OHA was born in 1978.

Nu'ukia (Vision)

Ho'oulu Lāhui Aloha - To Raise a Beloved Lāhui

He 'ōlelo mākia 'o "Ho'oulu Lāhui" na ke Ali'i Nui Kalākaua; a he kia ho'omana'o 'o "Aloha" no ko ke Ali'i Nui Lili'uokalani 'ano kū a mau.

"Ho'oulu Lāhui" was King Kalākaua's motto. Aloha expresses the high values of Queen Lili'uokalani.

Ala Nu'ukia (Mission)

E ho'omalua i ko Hawai'i kanaka me ona mau waiwai honua a pau – pau pū nō me ko ke Ke'ena mau waiwai lewa me nā waiwai pa'a iho nō – e ō aku ai ka nohona mo'omeheu, e 'oi aku ai ka nohona kū i ka wā, a e malu iho ai ka nohona welo ho'oilina ma ka mea e ho'olaupa'i mau a'e ai he lāhui lamalama i 'ike 'ia kona kanaka mai 'ō a 'ō o ka poepoe honua nei he kanaka ehuehu, he kanaka ho'ohuliāmahi, he kanaka Hawai'i.

To mālama Hawai'i's people and environmental resources, and OHA's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and lāhui, recognized nationally and internationally.



Governance Structure



The Office of Hawaiian Affairs is a public agency with a high degree of autonomy, responsible for improving the well-being of Native Hawaiians. OHA is governed by a Board of Trustees (BOT) made up of nine (9) members who are elected statewide to serve four-year terms, setting policy for the agency. The agency is administered by a Chief Executive Officer (Ka Pouhana) who is appointed by the BOT to oversee operations, including staffing.

Board of Trustees

Four of the nine positions on the Board are designated as at-large seats representing the state as whole, while the five other trustees represent each of the following districts: Hawai'i Island, Maui, Moloka'i and Lana'i, O'ahu, and Kaua'i and Ni'ihau. While there are residency requirements for candidates seeking the district seats, all voters, statewide are permitted to vote in each of the OHA races.

The BOT is responsible for setting OHA policy and managing the strategies of the agency's trust. Prior to COVID-19 restrictions, the Board met regularly at the agency's headquarters in Honolulu, and at least once annually on each of the major islands. Board meetings are currently held virtually and proceedings live streamed.

Each of the trustees sits on the Board's two standing committees: Resource Management (RM) and Beneficiary Advocacy and Empowerment (BAE).

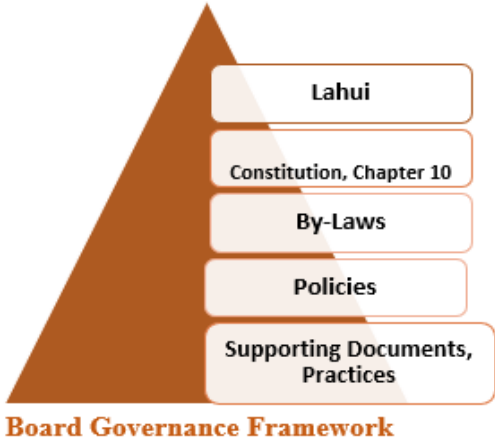
The RM Committee handles all fiscal and budgetary matters and ensures proper management, planning, evaluation, investment and use of OHA's trust funds, including policies, related to land use, native rights and natural and cultural resources.

The BAE Committee focuses on the agency's legislative and advocacy efforts, that encourage Hawaiians to participate in governance; as well as programs that address issues relating to beneficiary health, human services, economic stability, education, housing, environment and natural resources.

DRAFT FOR BOARD WORKSHOP PURPOSES

The RM and BAE Committees convene regularly and approve actions and recommendations that are forwarded to the full Board for consideration and final approval.

In April 2019, the BOT approved a new Board Governance Framework to better align the establishment of policies and related decision making. The new Board Governance Framework articulates OHA's dual identity as an organization serving the Lāhui balanced with its legal mandates as a state agency, its fiduciary duties as a trust, and its operating values, policies and practices.



Operating Structure



OHA is in the midst of reducing and realigning its number of full-time organization wide positions (from 179 to 153) to better align the organization to the implementation of its new Mana i Maui Ola Strategic Plan. The reorganization considered several design elements including increasing beneficiary and community centric operations, and public policy orientation and focus.

Executive Leadership Team

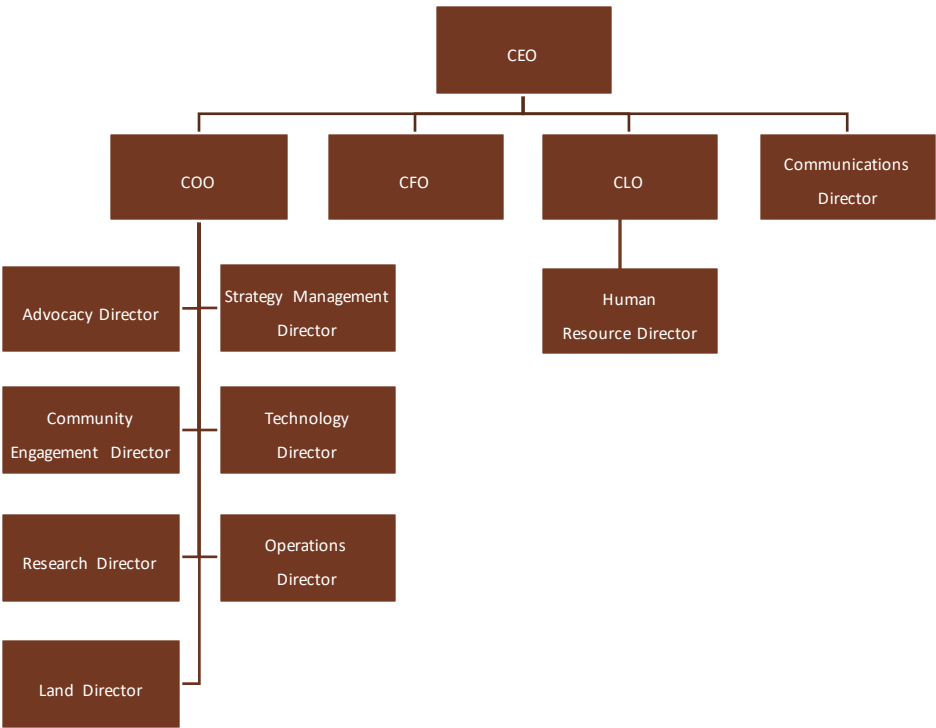
Five executives make up the administration leadership at the Office of Hawaiian Affairs. OHA’s Executive Leadership Team provides the authority needed to guide the implementation of the strategic direction of the organization. This team is led by a Chief Executive Officer (CEO), who is appointed by the Board of Trustees. The CEO selects all of the other members of the executive team, which include the Chief Operating Officer (COO), the Chief Financial Officer (CFO), Chief Legal Officer (CLO) and the Human Resources Director.

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Ka 'Aha

The Executive Leadership Team is supported by the Ka ’Aha Team comprised of eight directors, seven of whom report to the COO and the Communications Director reports to the CEO. Together, OHA leadership all work as a team to bring the right combination of skills and experience to implement policies, perform various functions of operations, and help the organization achieve its goals.

OHA’s Administration consists of four divisions or Paia, including Advocacy, Community Engagement, Research, and Land Assets, and three offices, including Strategy Management, Technology, Operations. The work of these units are supported by various programs throughout the agency. The following chart is the organization of the Office of Hawaiian Affairs effective 7/1/2021.



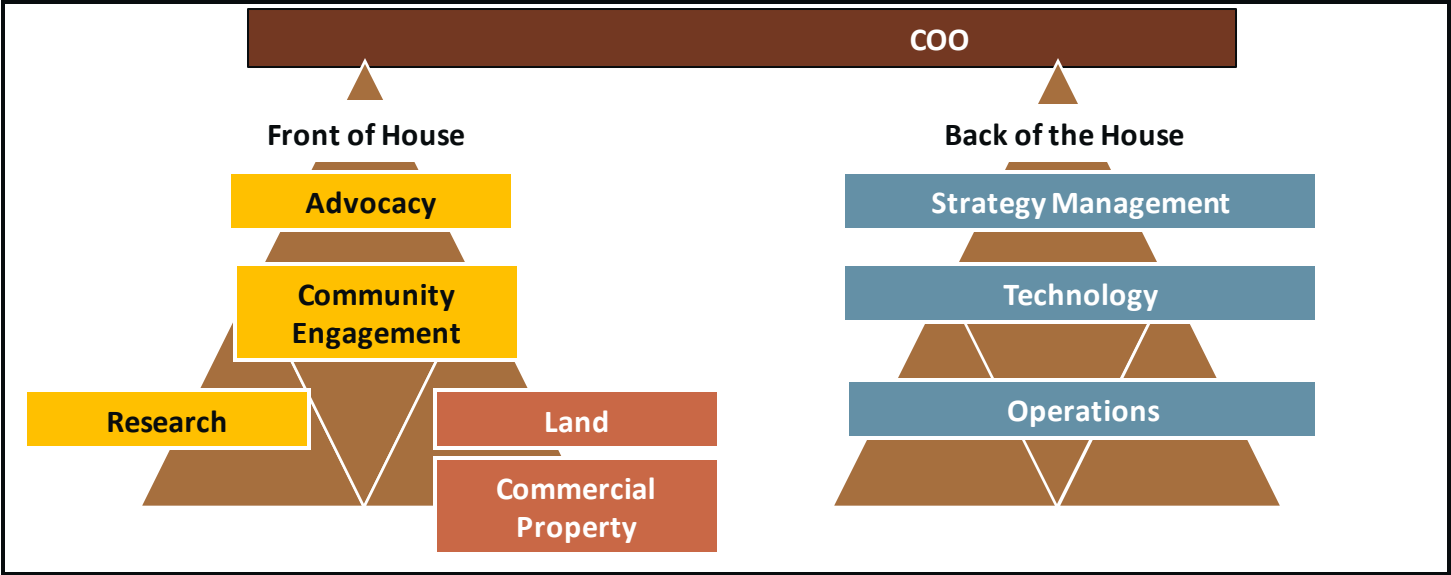
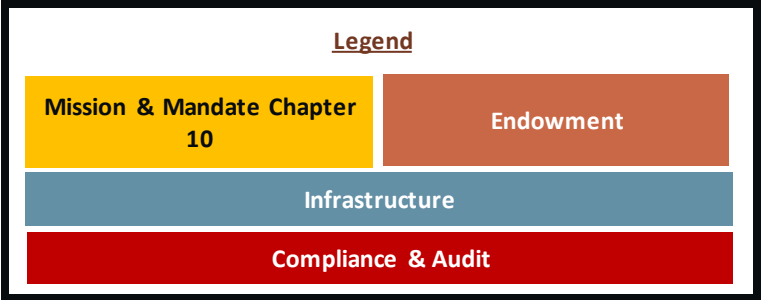
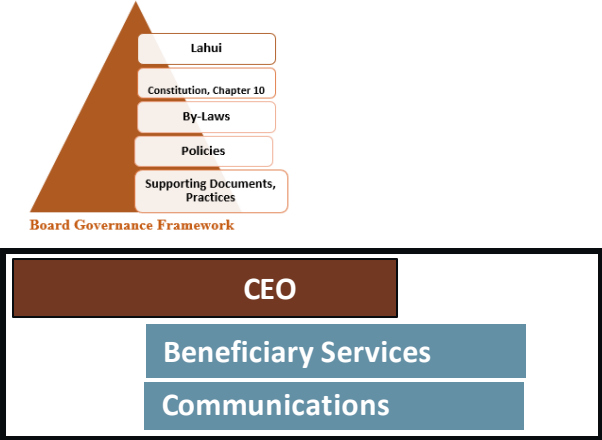
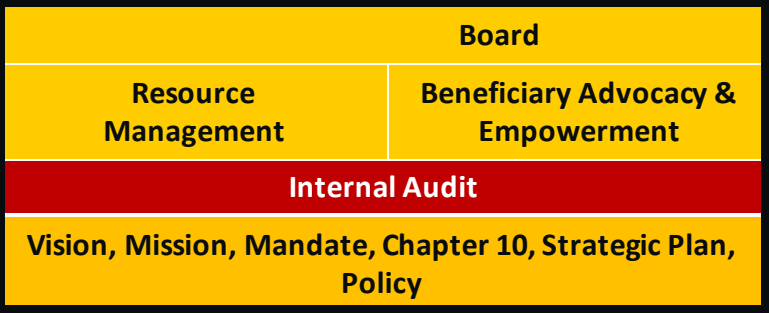
Functional Structure

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Functional Org Chart

For the purposes of OHA’s structure, the terms “function” and “functional” are used both as a noun and a verb to describe purposes, operations, parts that contribute to the whole.



Mana i Maui Ola: OHA's 15-Year Strategic Plan For 2020-2035

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OHA's Strategic Plan "Mana i Maui Ola" (Strength to Wellbeing) includes three foundations: 'Ohana (family), Mo'omeheu (culture), and 'Āina (land and water). OHA recognizes these foundations have the power to affect the wellbeing of Native Hawaiians. Therefore, they are woven into OHA's plans to affect change in the areas of education, health, housing, and economics. These four directions will be used to guide OHA's work to better the conditions of Native Hawaiians.

Over the next 15 years, OHA will be implementing eight (8) external strategies, aligned with our foundations and directions to achieve our envisioned outcomes for a thriving and abundant lāhui. These strategies include:



Direction: Educational Pathways

STRATEGY 1: Support development and use of educational resources for all Hawaiian lifelong learners in schools, communities and 'ohana.

STRATEGY 2: Support education through Hawaiian language medium and focused Charter Schools.



Direction: Health Outcomes

STRATEGY 3: Advance policies, programs, and practices that strengthen Hawaiian wellbeing, including physical, spiritual, mental and emotional health.

STRATEGY 4: Advance policies, programs and practices that strengthen the health of the 'āina and mo'omeheu.



Direction: Quality Housing

STRATEGY 5: Advance policies, programs and practices that strengthen Hawaiian resource management knowledge and skills to meet the housing needs of their 'ohana.

STRATEGY 6: Support implementation of the Hawaiian Homes Commission Act and other efforts to meet the housing needs of 'ohana.



Direction: Economic Stability

STRATEGY 7: Advance policies, programs and practices that strengthen 'ohana's ability to pursue multiple pathways toward economic stability.

STRATEGY 8: Cultivate economic development in and for Hawaiian communities.



'Ohana



Mo'omeheu



'Āina

Biennium Budget Construction Process

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The development of OHA's biennium budget begins with the strategic plan. The budget is a financial expression of the activities the OHA intends to undertake in a given period. These activities are guided by the Strategic Plan and reflect tactical and operational implementation plans and activities. The budget construction starts with all the funding sources available, i.e., a percentage of OHA's Investment Portfolio, Public Land Trust allotment, General Funds appropriations, and Commercial Property revenue. These funding sources create the ceiling for budget expenditures. Recurring expenses, which account for normal on-going operations, are accounted for first. Any remaining identified funds at this stage are considered, managed and deployed by the Office of Strategy Management aligned to the OHA's Strategic Plan, and related tactical and operational plans and activities.

In alignment with Board approved strategies, Administration determines where resources are optimally deployed to achieve strategic and tactical outcomes. We are determined to strengthening our lāhui through these plans. Biennial 2022 and 2023 will be the first fiscal period to lay the foundation to implement the Strategic Plan. We are seeking community input on this development. This step will help to inform Administration of observations and mana'o prior to the submission of the final biennium budget to the Board of Trustees for action in June 2021.

Please send questions and comments to ohabudget@oha.org or visit www.oha.org for more information.



Funding



As part of the budget construction process, the Executive Leadership Team balances the budget based upon the following priorities and constraints.

Spending Priorities

For this biennium period, OHA identified two primary spending priorities needed to implement the new Strategic Plan, Mana I Maui Ola. These priorities include:

1. **Increasing OHA Grants & Beneficiary Services** to support Native Hawaiians, 'ohana and communities within Hawai'i's current systems.
2. **Streamlining & Re-Focusing Personnel and Contracts** to advance the work needed to transform Hawai'i current systems.

Each direction within Mana I Maui Ola contains two distinct Strategies. The first Strategy in each direction outlines OHA's work to improve Native Hawaiian conditions through supporting individuals and 'ohana level change.

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The second Strategy within each direction outlines OHA work to change the systems that create or contribute to inequitable or unjust conditions for Native Hawaiians. Therefore, this budget proposes a balance between individual support and system change. To create this balance, the annual grant budget is increased to \$15.1 million, representing 57% increase from the FB20-21 preliminary budget annual amounts and equal to 100% the Public Land Trust Fund revenue. Grant funds are allocated to traditional grant programs and used to support the Department of Hawaiian Home Lands. This change moves the grant allocations to become the ***largest share of OHA's core operating budget.***

Correspondingly, personnel and contract costs are streamlined and re-focused to provide the greatest impact to our current systems. This work includes research to identify systemic disparities and barriers to Native Hawaiian equality and justice; advocacy to implement policy change and protect Native Hawaiian rights and land; and convening community groups to amplify Native Hawaiian voice in all public spheres.



↑ **Community \$**
To Support Beneficiaries and Communities



Personnel & Contracts
To Transform Systems



Key Constraints

Once spending priorities are identified, constraints on funding sources and spending decisions are considered. Constraints include both restrictions on the funds that OHA receives, as well as previous commitments the agency has made to further the mandate and mission. Therefore, constraints need not be viewed as negative, but rather a part of the process to determine the additional budgetary decisions that must be made.



First, in 2006, the state set the native Hawaiians’ pro rata share of Public Land Trust revenues at \$15.1m annually. This amount is outdated and represents about half of what native Hawaiians should be receiving, thereby significantly restricting OHA’s budget.

Second, OHA adheres to a Spending Policy, that is calculated at 5% of a rolling 20 quarter average of the Native Hawaiian Trust Fund.



Third, the budget accounts for the actual calculated fringe benefit rate of 52%. This adds a significant amount to Payroll. Every \$1 of salary requires \$0.52 of fringe benefits. The approved rate from the state was 63.28% which was lowered to 50.98% then increased to 52.83% due to COVID.

Fourth, OHA honors large standing commitments, including grant proviso from the state general fund appropriations with matching funds from OHA; DHHL debt servicing agreement, and pledging dollar-for-dollar of the \$15.1m from the PLT revenue to grants.



HAWAIIAN HOME LANDS
DEPARTMENT OF LAND AND NATURAL RESOURCES

Funding

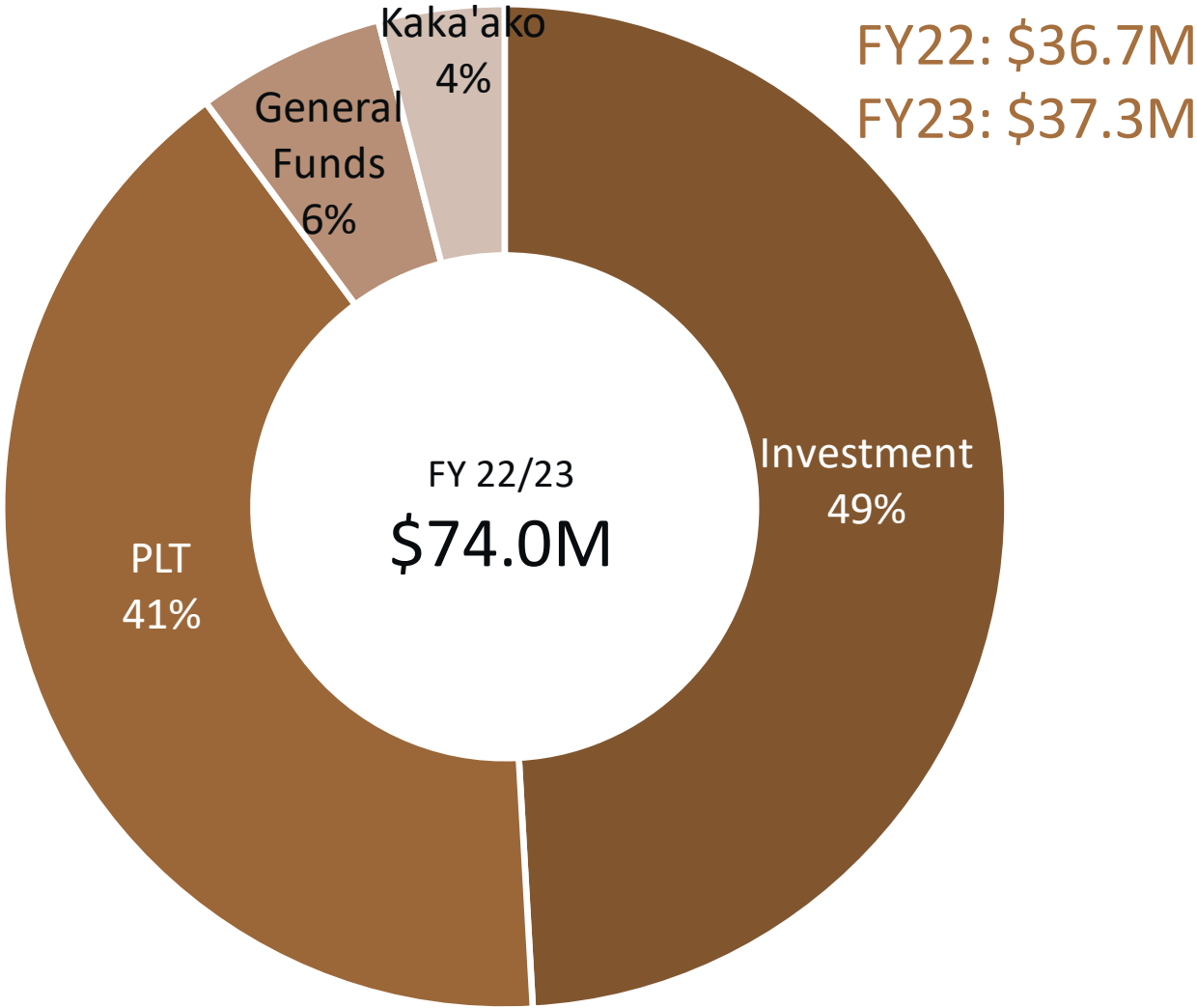


OHA operation consists of “core” and “non-core” budgets. Items in the non-core operating budget have their own designated funding sources, these include revenues from commercial leasing activities and federal grants received. OHA’s core operating budget is dependent upon four sources of funding including:

- 1. A percentage of the investment portfolio (Native Hawaiian Trust Fund);
- 2. Public Land Trust (PLT) allotments;
- 3. Appropriations of State of Hawai’i general fund; and
- 4. Kaka’ako Makai allocated resources.

These sources are projected to generate approximately \$74.0 million in FY22 and FY23.

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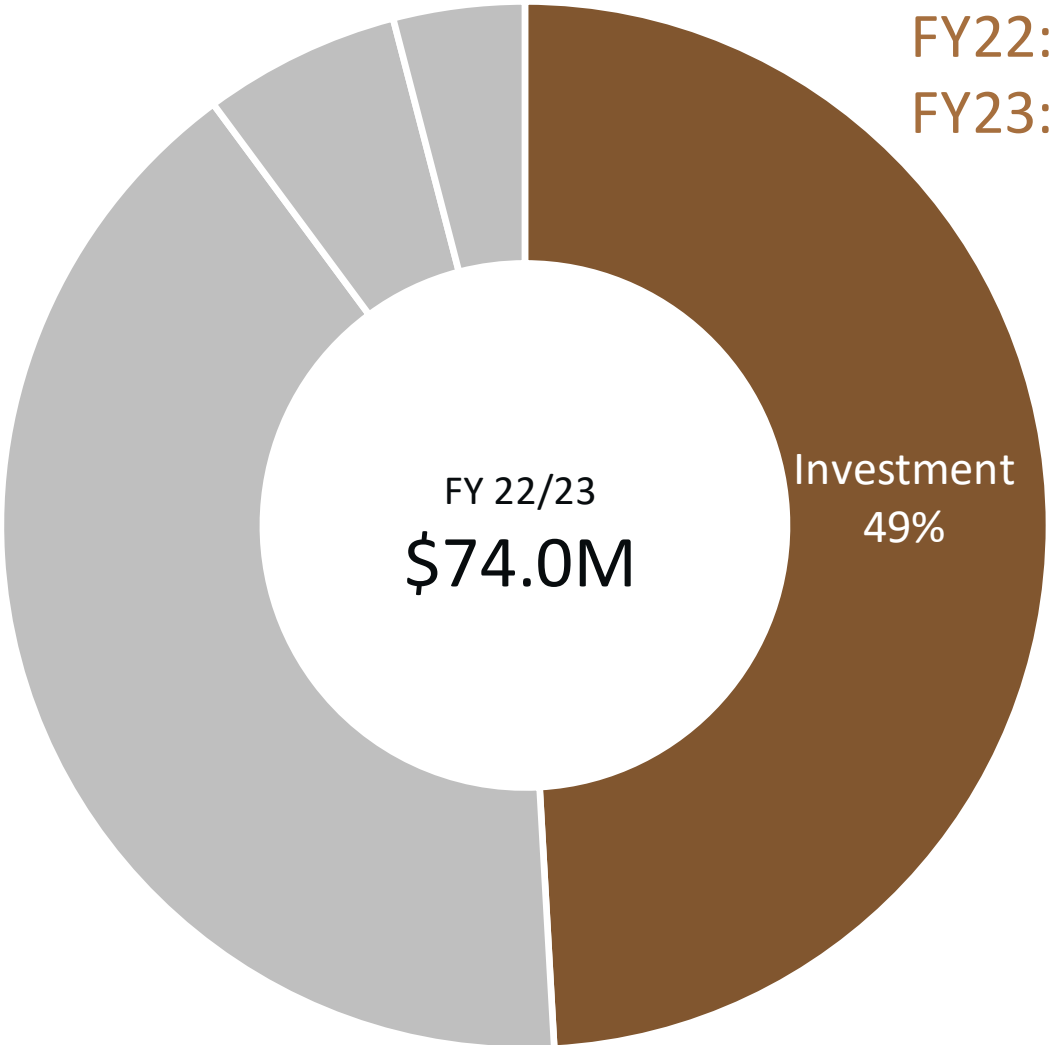
Funding



1. Investment Portfolio

The largest source of funding is OHA's ability to spend 5% of its investment portfolio, pursuant to its Spending Policy, which allows for a maximum 5% allocation of funding based upon a 20-quarter rolling average market value.

For FY22, the 5% spending amounts to approximately \$18.0 million. For FY23, the computed 5% spending increased slightly to \$18.6 million for a total of \$36.6 million over the two-year period or 49% of OHA's total core operating budget.

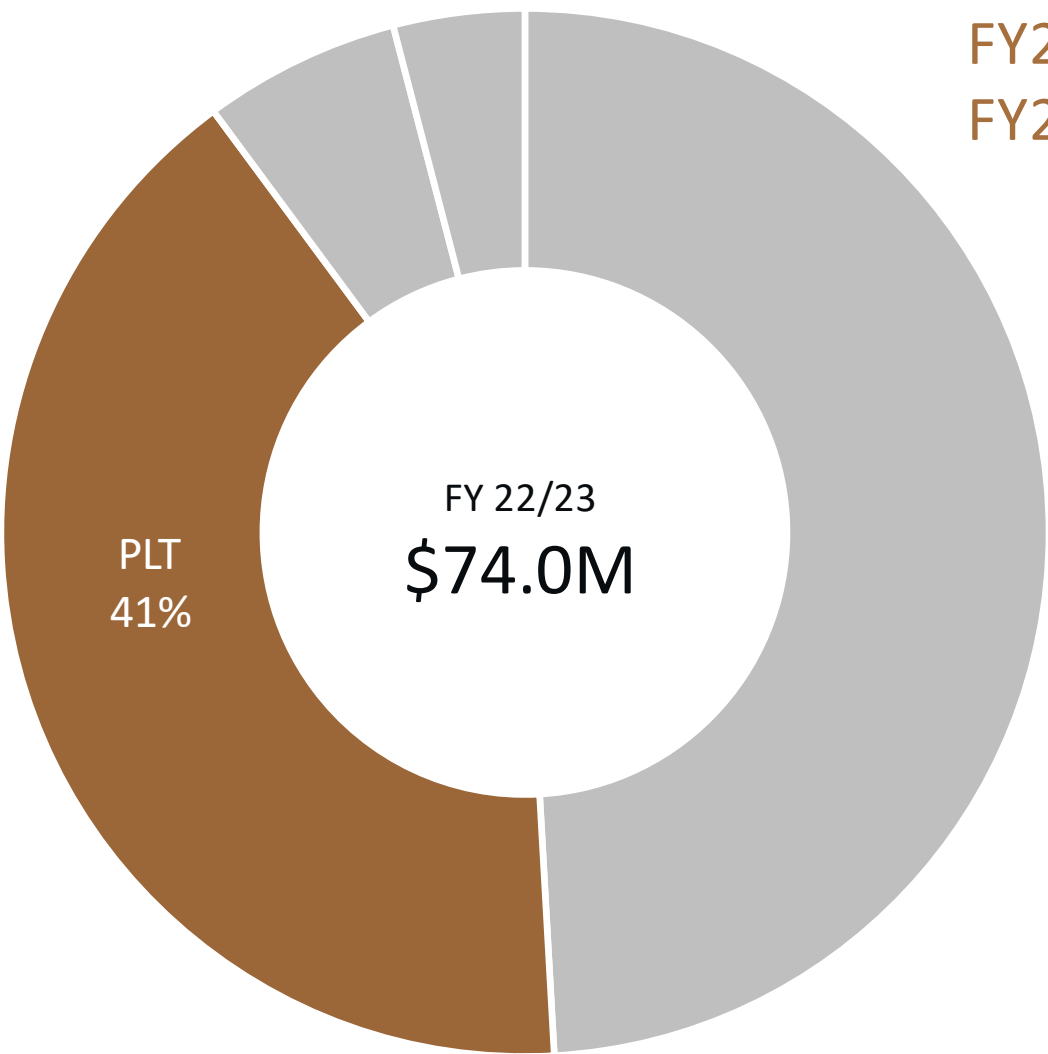


FY22: \$36.7M
FY23: \$37.3M



2. Public Land Trust Revenues

The Public Land Trust (PLT) is a subset of state lands which is held in trust for the betterment of the conditions of native Hawaiians, and the general public. PLT lands are comprised of former Crown and Government lands of the Hawaiian Kingdom. Hawai'i's constitution establishes OHA in part to receive and administer native Hawaiians' pro rata share of revenues derived from the PLT. The pro rata share is generally understood to be 20% of the revenues from PLT lands. How this 20% should be calculated is a matter of longstanding debate between OHA and the State. In 2006, the State of Hawai'i agreed to pay OHA a fixed \$15.1 million per year as a temporary approximation of the PLT share. At 41% of OHA core operating budget, this is the second largest source of funding.



FY22: \$36.7M
FY23: \$37.3M

Funding



DRAFT FOR BOARD WORKSHOP PURPOSES

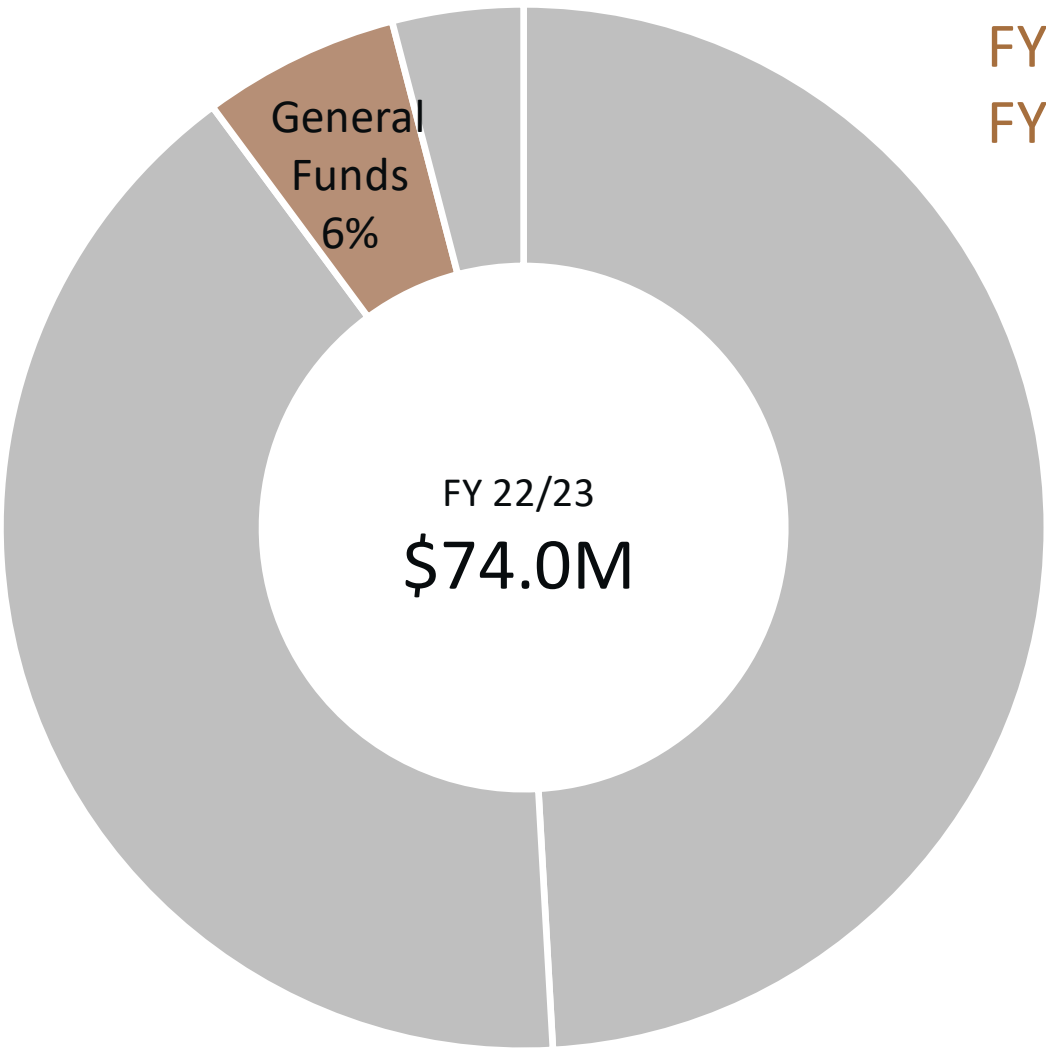


3. State of Hawai'i General Funds

The third source of funding is provided through the State of Hawai'i General Funds. OHA fulfills its fiduciary responsibilities to beneficiaries by advocating at the state legislature each year for general fund appropriations.

In the past OHA has received \$3 million in general fund appropriations annually. During the 2021 legislative session, OHA restrained from requesting any increases, but continued advocacy efforts to maintain the previous \$3 million.

For FY22 and FY23, OHA received an annual funding of approximately \$2.25 million; for a total of \$4.5 million over the two years, constituting 6% of OHA's core operating budget.



FY22: \$36.7M
FY23: \$37.3M

Budget data presented are preliminary and subject to change

Funding



4. Kaka’ako Makai Revenues

The third source of funding, albeit a small percentage of OHA’s total core operating budget, reflects a commitment by OHA’s Board of Trustees to ensure maximum funding for stewardship of legacy lands.

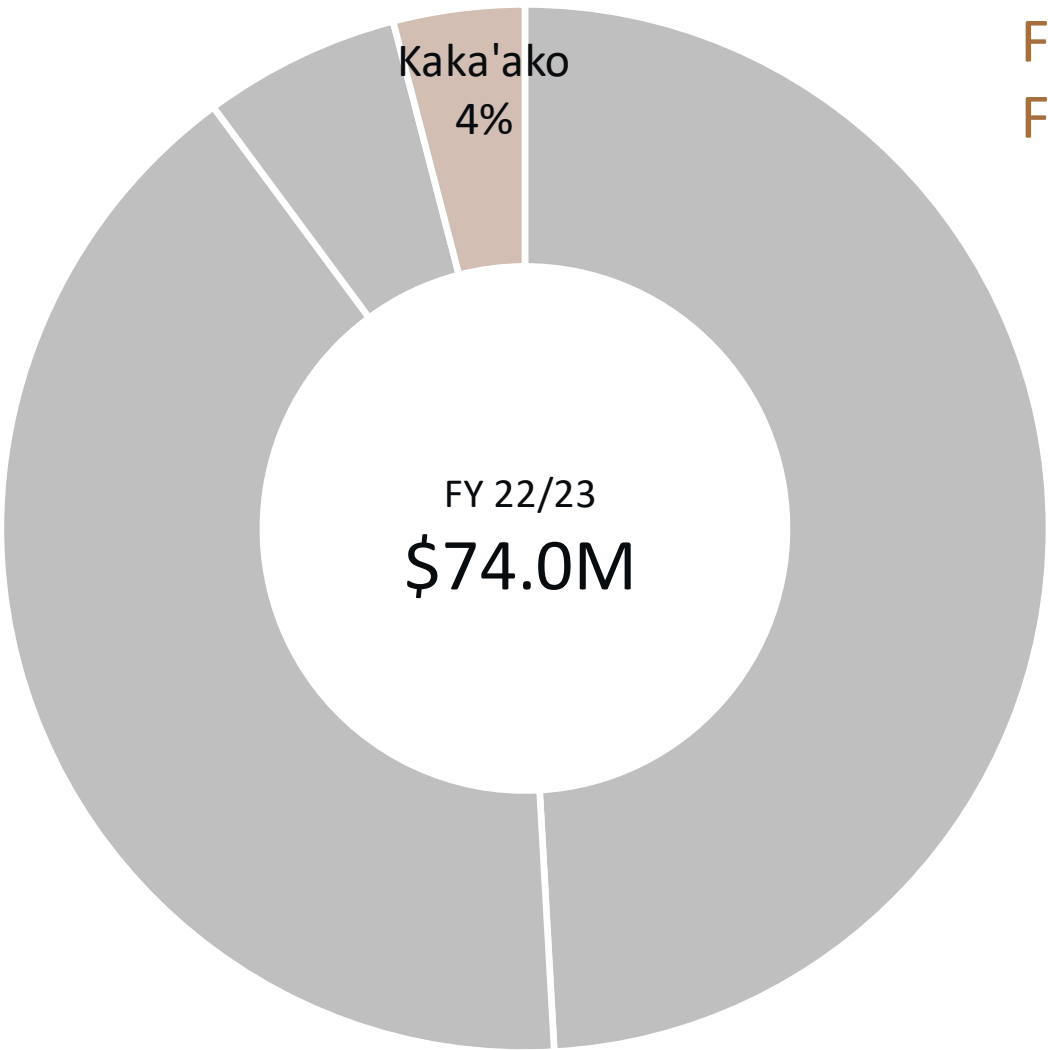
In 2012, OHA officially took title of 30 acres of prime real estate in Kaka’ako Makai as a settlement amount from the State of Hawaii. Annually, these parcels are expected to generate more than \$4.4 million in net income to OHA over the biennium (prior to any substantive development activity). The estimated amount is approximately \$1.4 million in FY22 and \$1.4 million in FY23, for a total of \$2.7 million. Beginning in FY22, by policy, 60% of Kaka’ako Makai’s net income, or approximately \$1.4 million will be transferred to OHA's core budget for the Legacy Land Program.

DRAFT FOR BOARD WORKSHOP PURPOSES



FY22: \$36.7M

FY23: \$37.3M



Budget data presented are preliminary and subject to change

Total Operating Budget

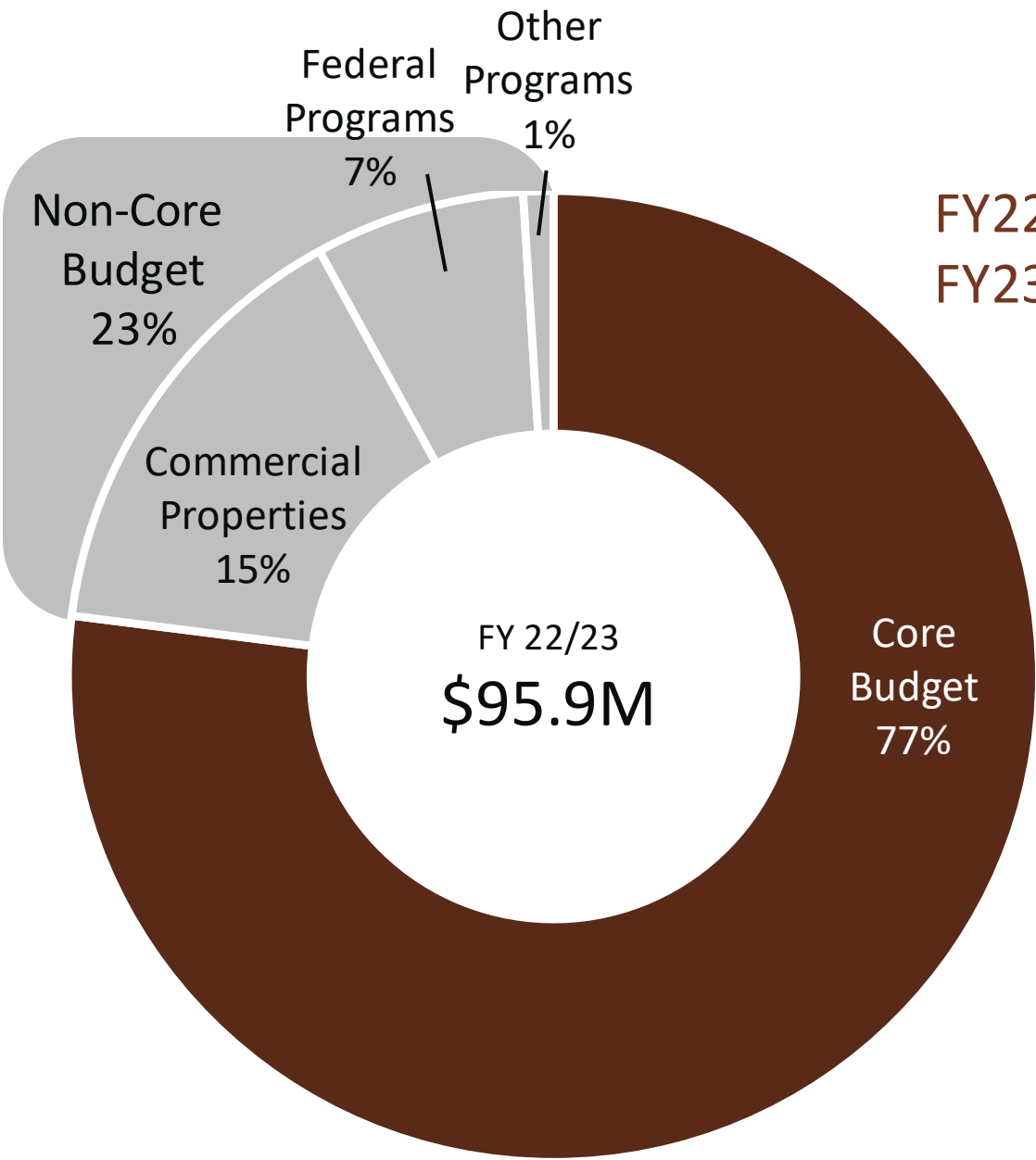


OHA’s total operating budget consists of core and non-core budget items. The core operating budget is the focus of this document, as the non-core operating budget items are those that have their own designated funding.

This designated funding includes separate revenue sources, such as commercial properties and other programs, which is primarily made up of federal grants received.

OHA’s legacy land program expenses, with the expectation of \$1.6 million in contracts, are not reflected in the core operating budget, as they are covered by a portion of commercial property net income.

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FY22: \$49.1M
FY23: \$46.9M

Historical Operating Budget

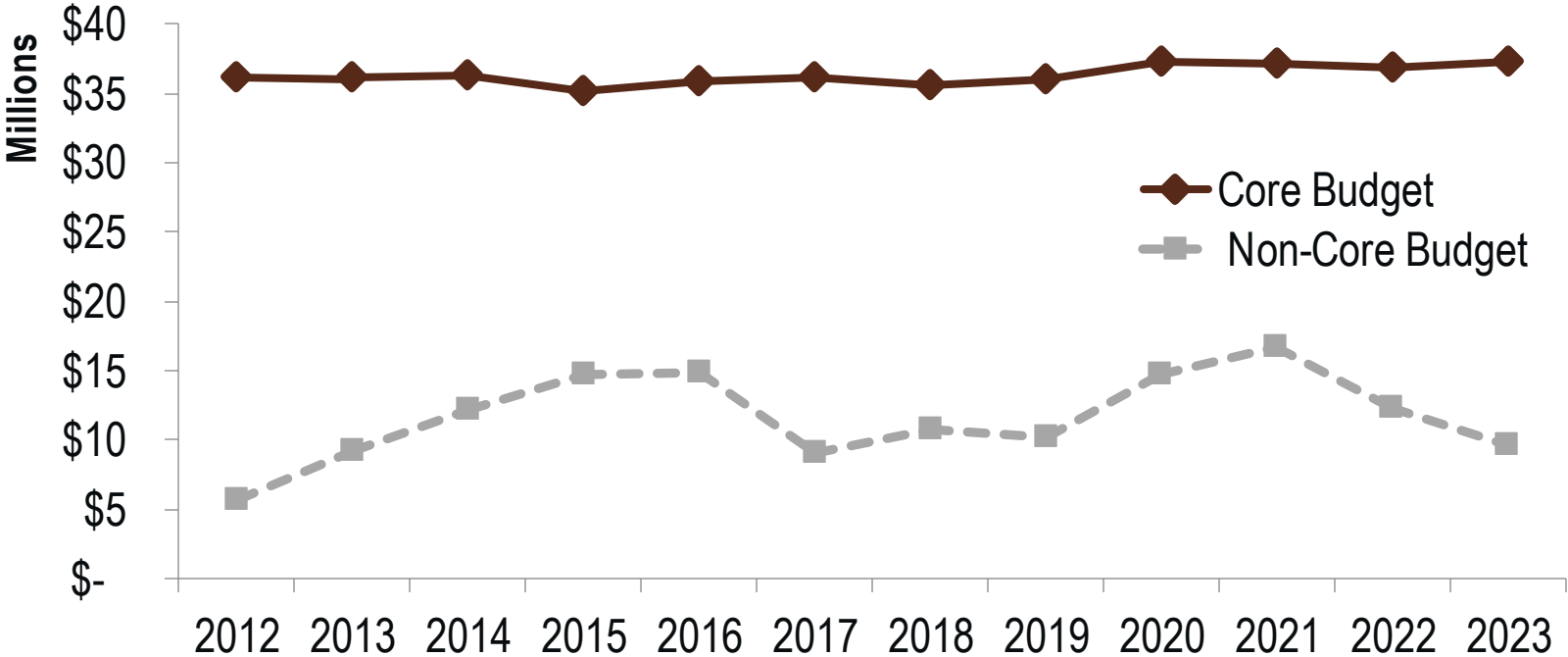
DRAFT FOR BOARD WORKSHOP PURPOSES



As shown in the figure below, the core operating budget has remained fairly consistent, ranging between \$35-37 million. With the increase in inflation from 2012 to 2021, the operating budgets have absorbed the increasing costs without a corresponding increase in an overall amount.

The non-core budget has fluctuated over time, increasing from \$5.6 million in 2012, to \$14.8 million in 2016, primarily due to increased revenues and expenses in our commercial properties and federal funds. Since 2016, these amounts dropped in 2017 and then steadily increased until they reached \$16.7 million in 2021.

Moving forward, OHA projects another decrease in the non-core budget to approximately \$12.3 million in 2022 and \$9.6 million in 2023. Again, commercial properties and other program budgets are based on their own revenues and thus self-sustaining and does not reflect any commercial development activities .



Budget data presented are preliminary and subject to change

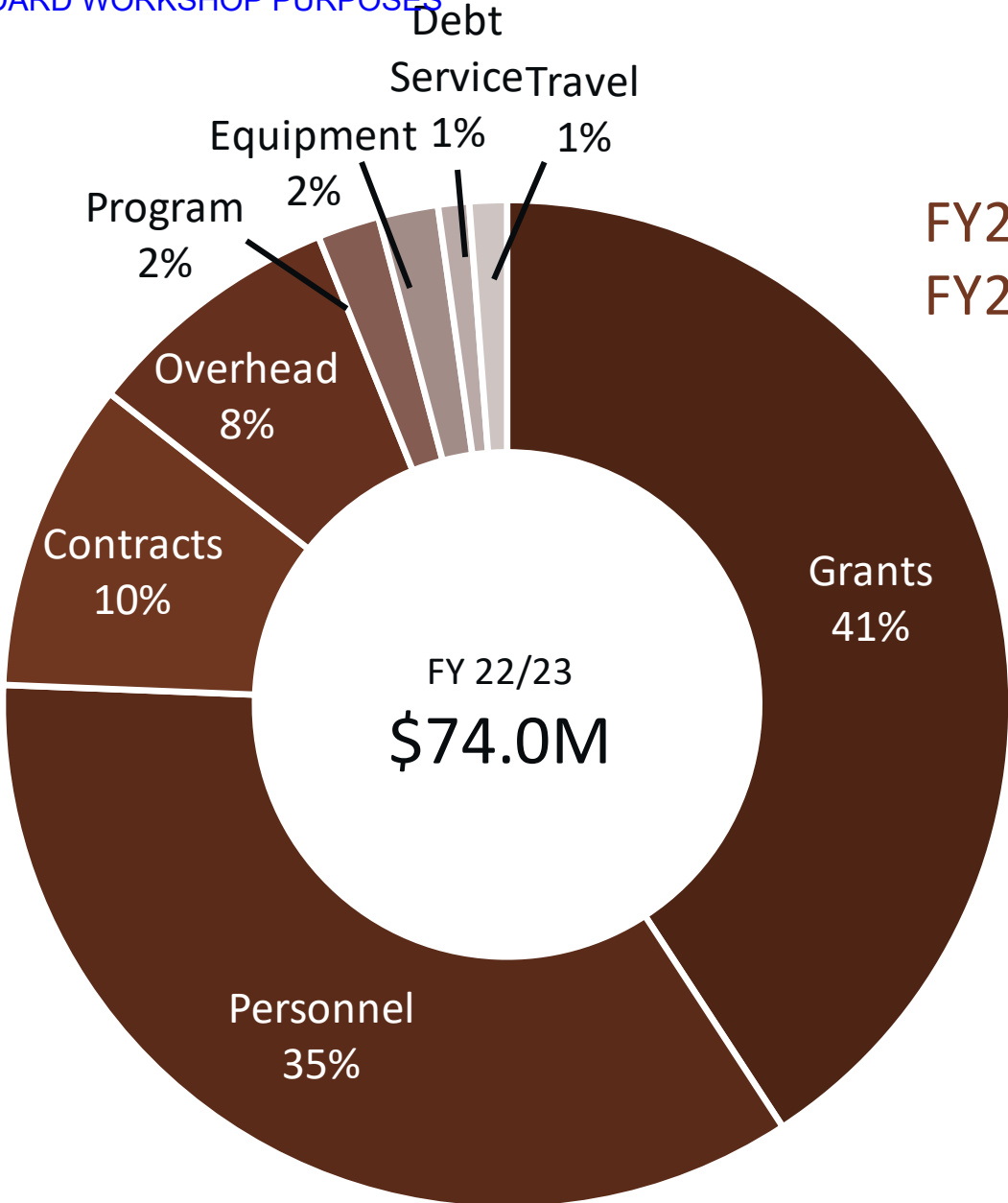
Core Operating Budget



OHA allocates 41% of its core operating budget to its grants program, 35% to personnel, 10% to contracts, and 8% to overhead costs. The smaller categories include 2% for programs, 2% for equipment, 1% for debt service, and 1% for travel costs.

The next few slides will provide a more detailed breakdown of each category, with the exception of travel and debt service. Debt service represents principal and interest payment on a mortgage loan and lines of credit. Payments of \$553K for FY22, and \$532K for FY23, for a combined total of approximately \$1.1 million over the two-year period. Although, travel was dramatically curtailed in 2020, OHA estimates some need to resume travel in FY22 and FY23 in order to conduct regular business operations. Travel cost are estimated to total \$447K annually in FY22 and FY23.

DRAFT FOR BOARD WORKSHOP PURPOSES



FY22: \$36.7M
FY23: \$37.3M



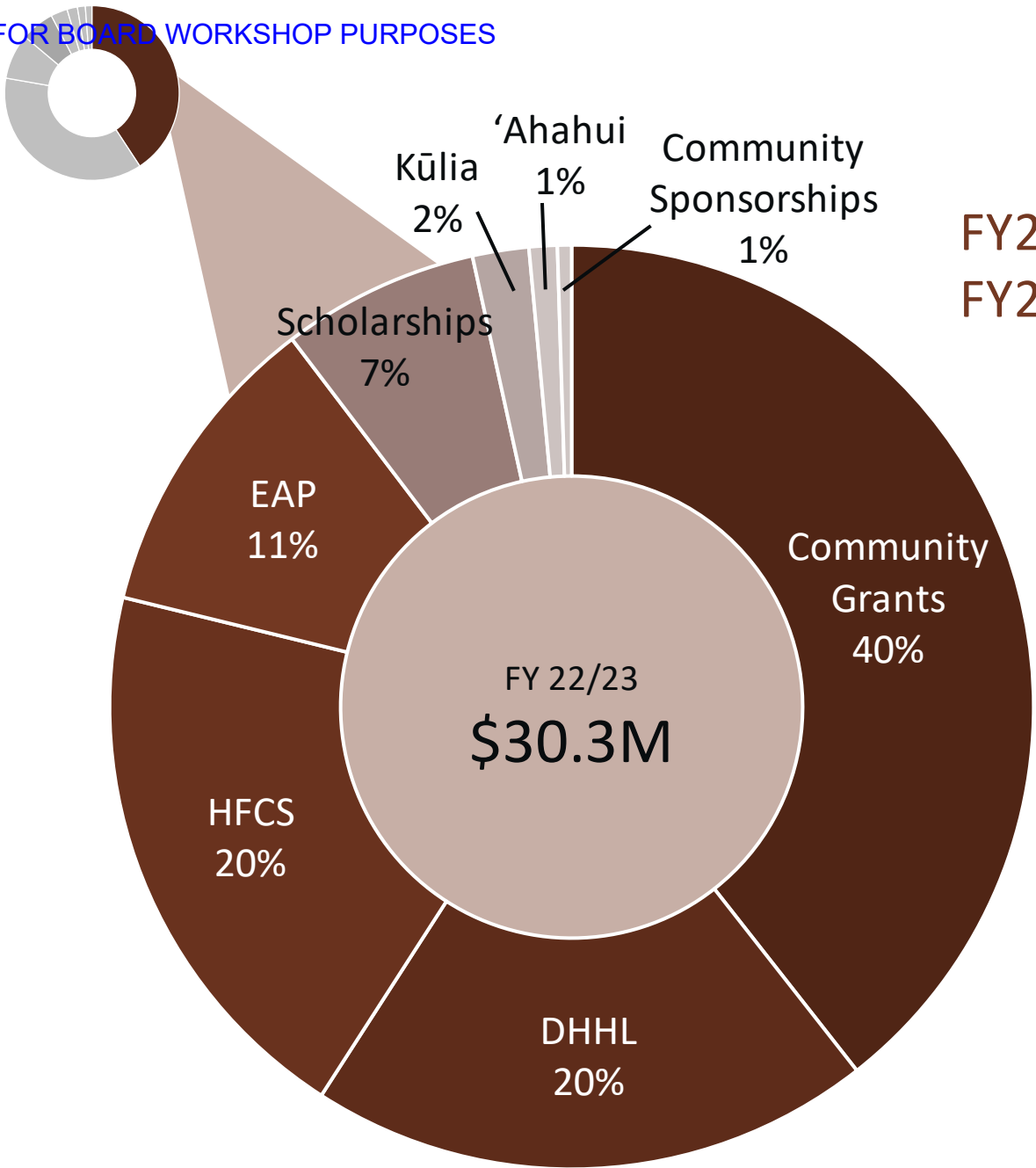
Grants



OHA allocates \$30.3 million over the biennium budget to various grant programs, which constitutes 41% of the core operating budget. Of this budget: 40% is allocated for grants aligned with implementing the new Mama i Maui Ola Strategic Plan Framework. Funding is also allocated to long-term commitments to DHHL revenue bond debt service for housing infrastructure (20%).

20% is committed to supporting Hawaiian Focused Charter Schools (HFCS), 11% is allotted for an Emergency Assistance Program (EPA) so beneficiaries may address unexpected crises, and 7% is allotted for Higher Education Scholarships. 2% is allocated to the Kūlia grants, which are awarded to innovative projects with a broader focus on bettering conditions of Native Hawaiians. OHA also allocates 1% of grant funding to ‘Ahahui Events grants and 1% to Community Sponsorships.

DRAFT FOR BOARD WORKSHOP PURPOSES



FY22: \$15.2M
FY23: \$15.1M

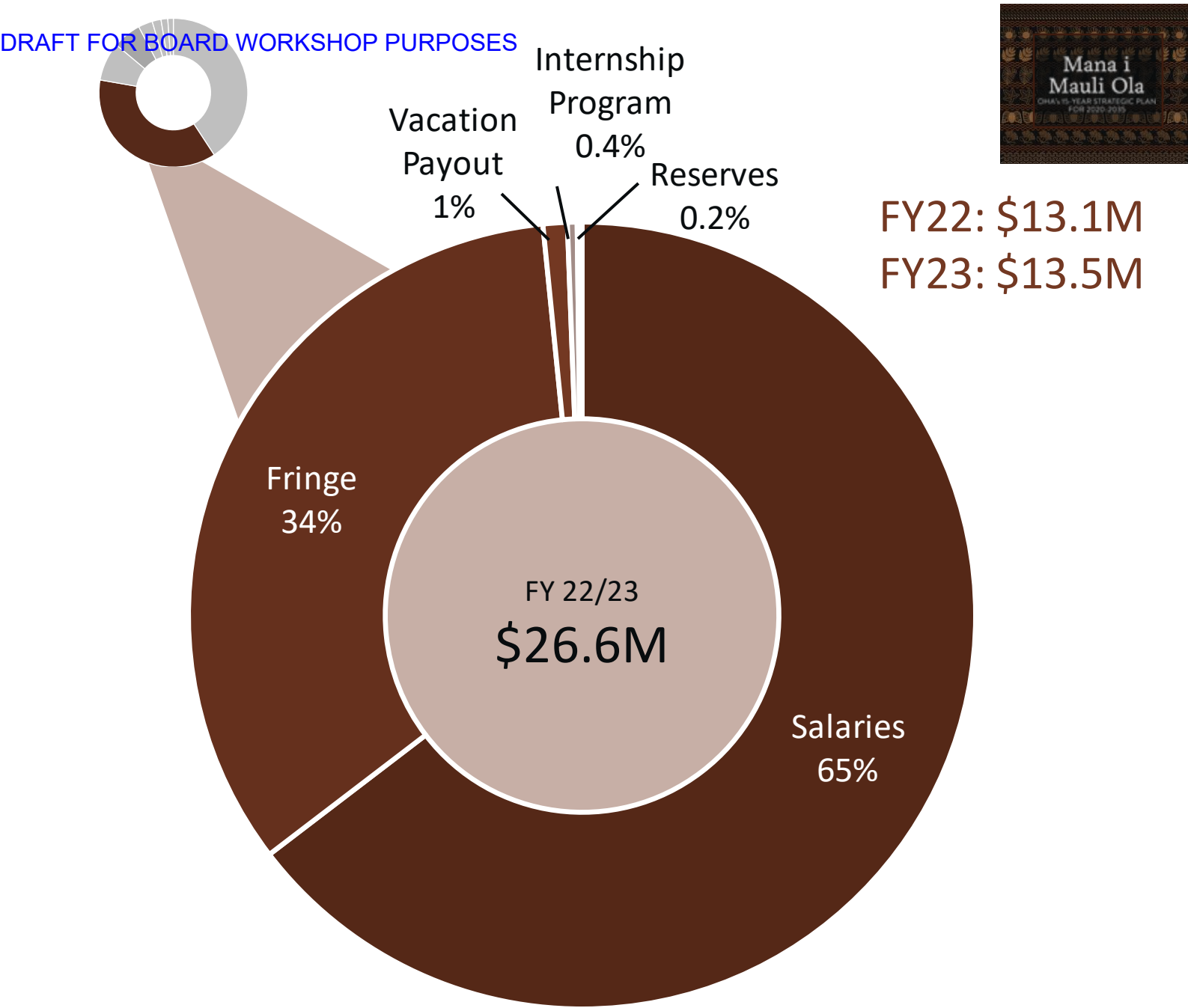
Budget data presented are preliminary and subject to change

Personnel



OHA allocates approximately \$13 million a year of the biennium budget in support of 144 (out of 153 total) employees under the core budget; constituting 35% of the core operating budget, including the 52% fringe benefit rate. This core budget does not include 9 non-core employees whose positions are either funded by commercial properties or federal grants. OHA’s 144 full-time employees from core budget represents a decrease from FY20/21 budget, as a result of OHA’s reorganization activities.

Sixty-five percent (65%) of the personnel cost is employee salaries, while a full 34% of personnel cost goes to fringe benefits, based on the actual benefit load rate of FY21. Small portions are allotted to fund vacation payouts, the Student Internship Program, and reserves for overtime and other costs.

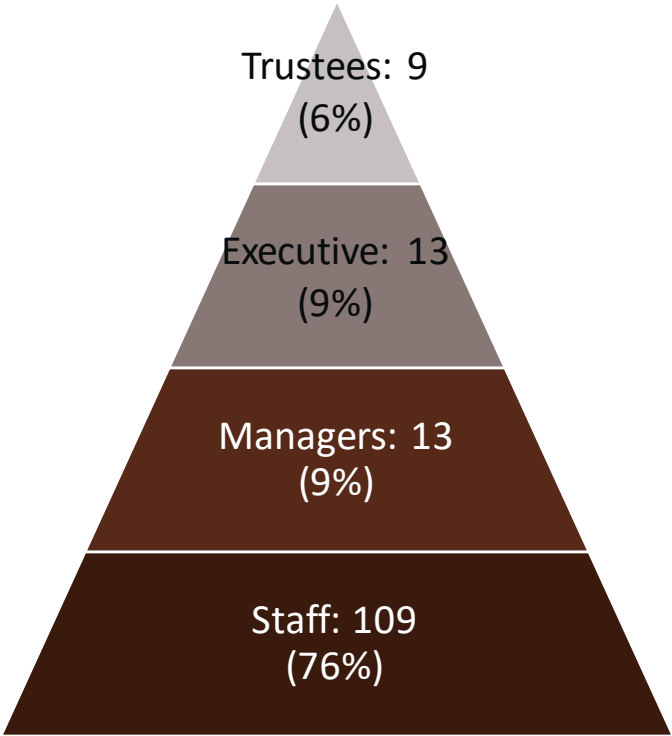


Budget data presented are preliminary and subject to change

Personnel

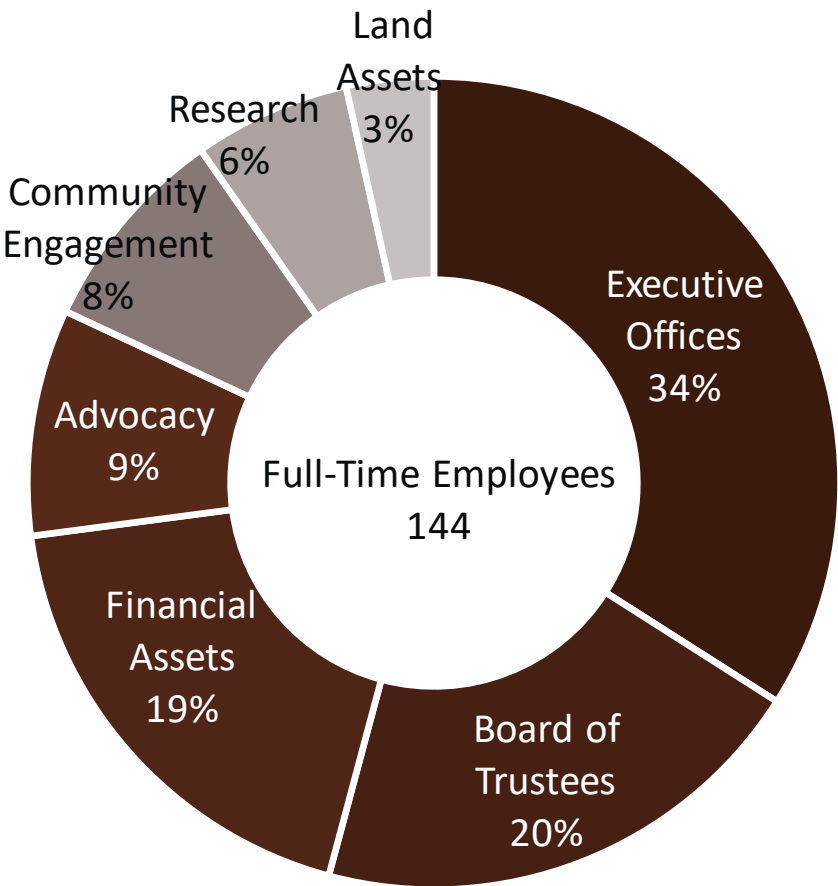


Of OHA’s 144 employees under the core budget, 109 are staff members (76% of employees); 13 are managers (9%); 13 are executives (9%); and 9 are Trustees (6%). The figure below represent an average ratio of approximately 1 manager for every 8 staff.



DRAFT FOR BOARD WORKSHOP PURPOSES

Of OHA’s 144 employees: 49 are within the Executive Office (34%), which includes new support staff to ensure high quality operations within the agency; 29 are within the Board of Trustees Office (20%); 27 are within Financial Assets (19%); 13 are within Advocacy (9%); 12 are within Community Engagement (8%); 9 are within Research (6%); and 5 are within Land Assets (3%).



The core budget also supports the nine (9) Trustees and related Board support staff for a total of 29 positions and are not impacted by reorganization activities.

Budget data presented are preliminary and subject to change



Personnel Cost

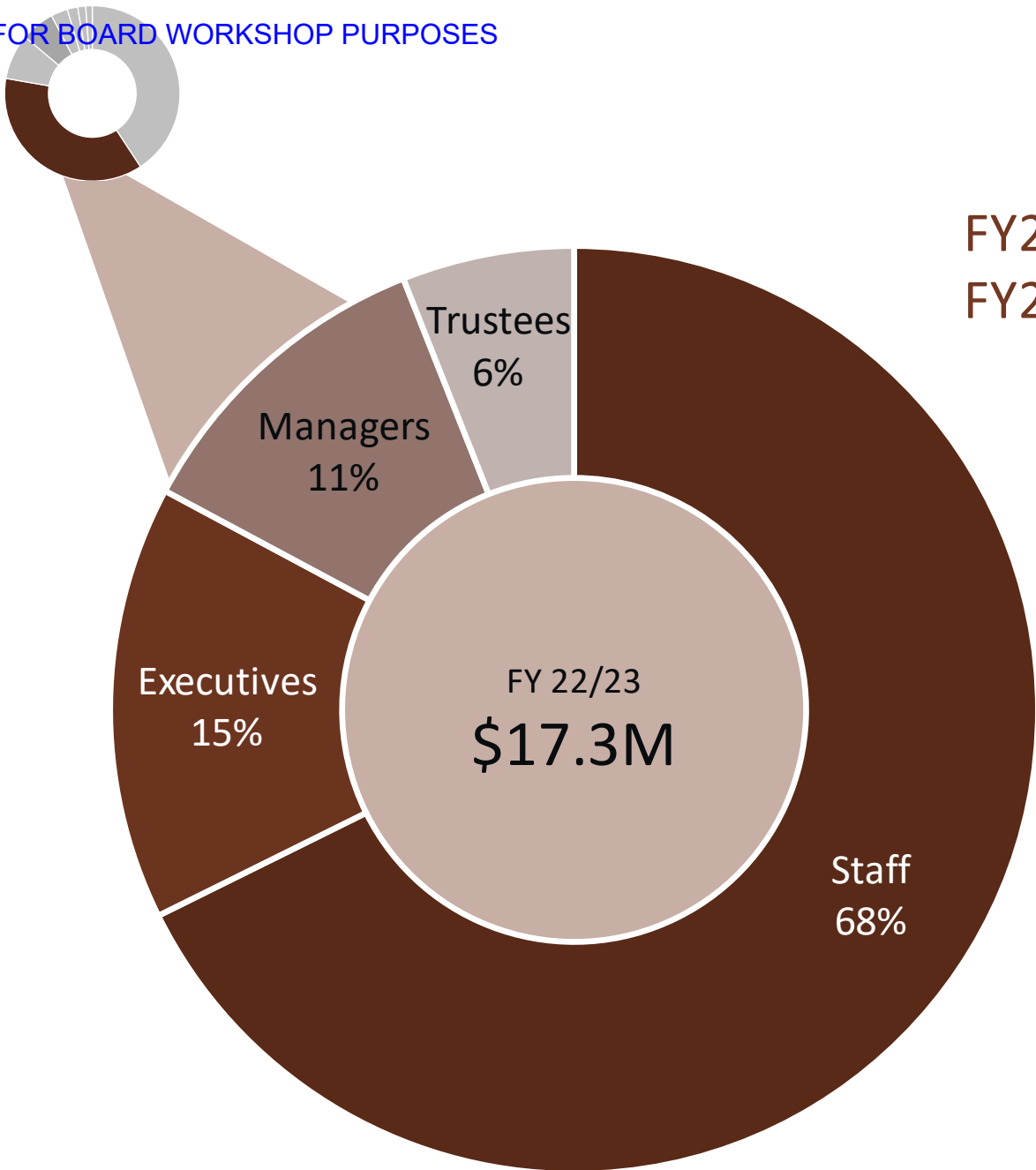


Of the \$17.3 million allotted for personnel salaries; 68% is allocated to technical staff member personnel costs; 15% to executive personnel costs; 11% to manager personnel costs; and 6% to Trustee personnel costs.

DRAFT FOR BOARD WORKSHOP PURPOSES



FY22: \$8.5M
FY23: \$8.8M



Contracts

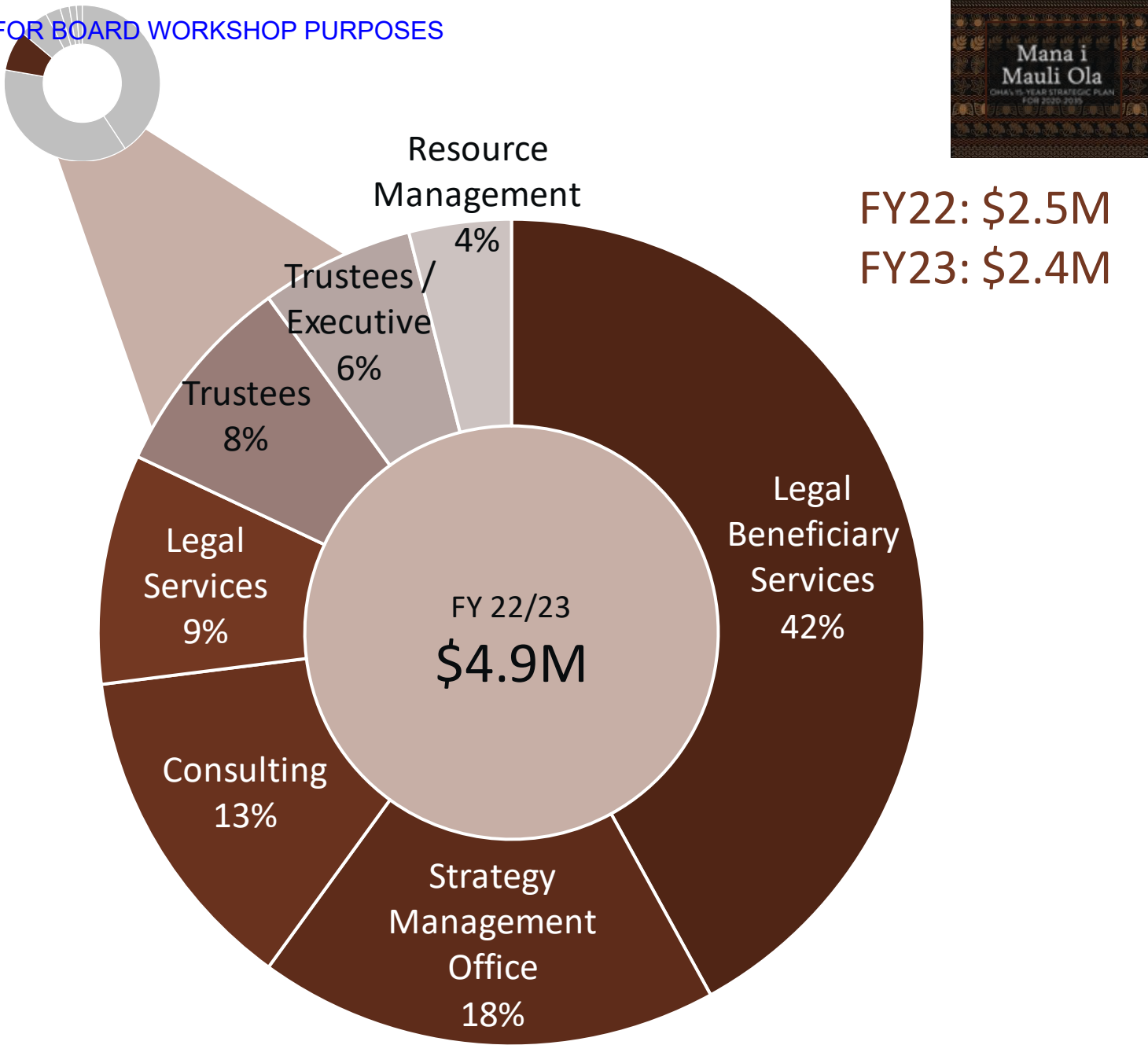


Contracts constitute 10% of OHA’s core operating budget and is comprised of all costs used to implement the Strategic Plan and serve beneficiaries through contracted work.

42% of the Contracts budget is allocated a legal services contract, of which 72% provides legal services directly to the beneficiaries. Funds dedicated to implementing additional aspects of the Strategic Plan constitute 18% of the Contracts budget through the Strategy Management Office.

13% of the Contract budget is used for consultation, 9% for OHA’s Legal Services, 8% for Trustee contracts, and an additional 6% for Trustee and Executive contracts. 4% of the Contract budget is allocated for Resource Management contracts.

DRAFT FOR BOARD WORKSHOP PURPOSES



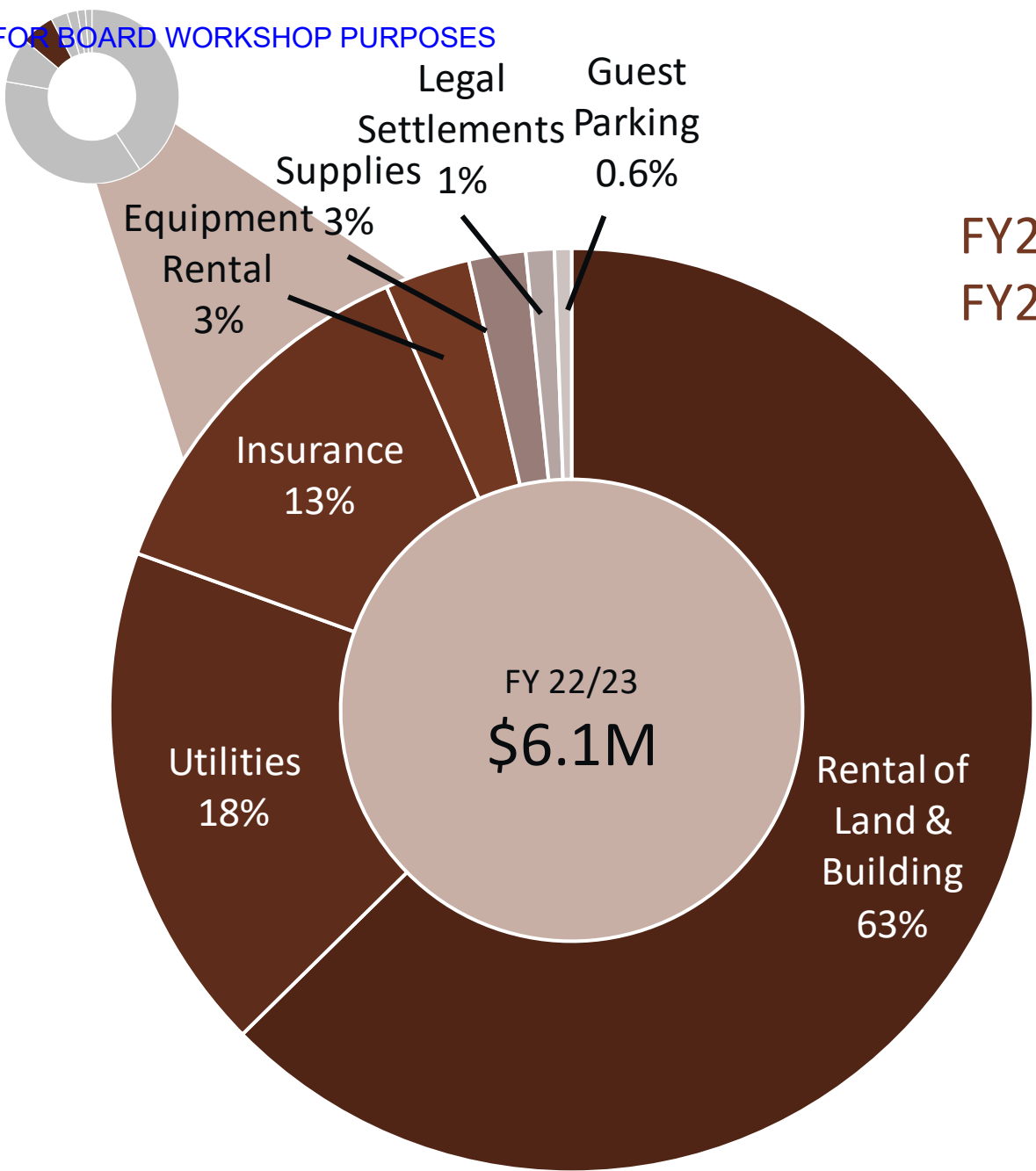
Overhead



OHA allocates approximately \$3 million annually to Overhead or 8% of the core biennium budget. Of these amounts, office leases account for 63%, which support 6 offices across the State of Hawai'i, and 1 office in Washington. Utilities for these offices make up another 18% and include electricity, telephone / internet services, and water.

Thirteen percent (13%) is insurance premiums for liability insurance, workers compensation, board and officers insurance, and other related coverages. Additionally, 3% is allocated to rent office equipment and the remaining 5% to postage, office and other supplies, legal settlements and parking validations for stakeholders and beneficiaries.

DRAFT FOR BOARD WORKSHOP PURPOSES



FY22: \$3.0M
FY23: \$3.1M

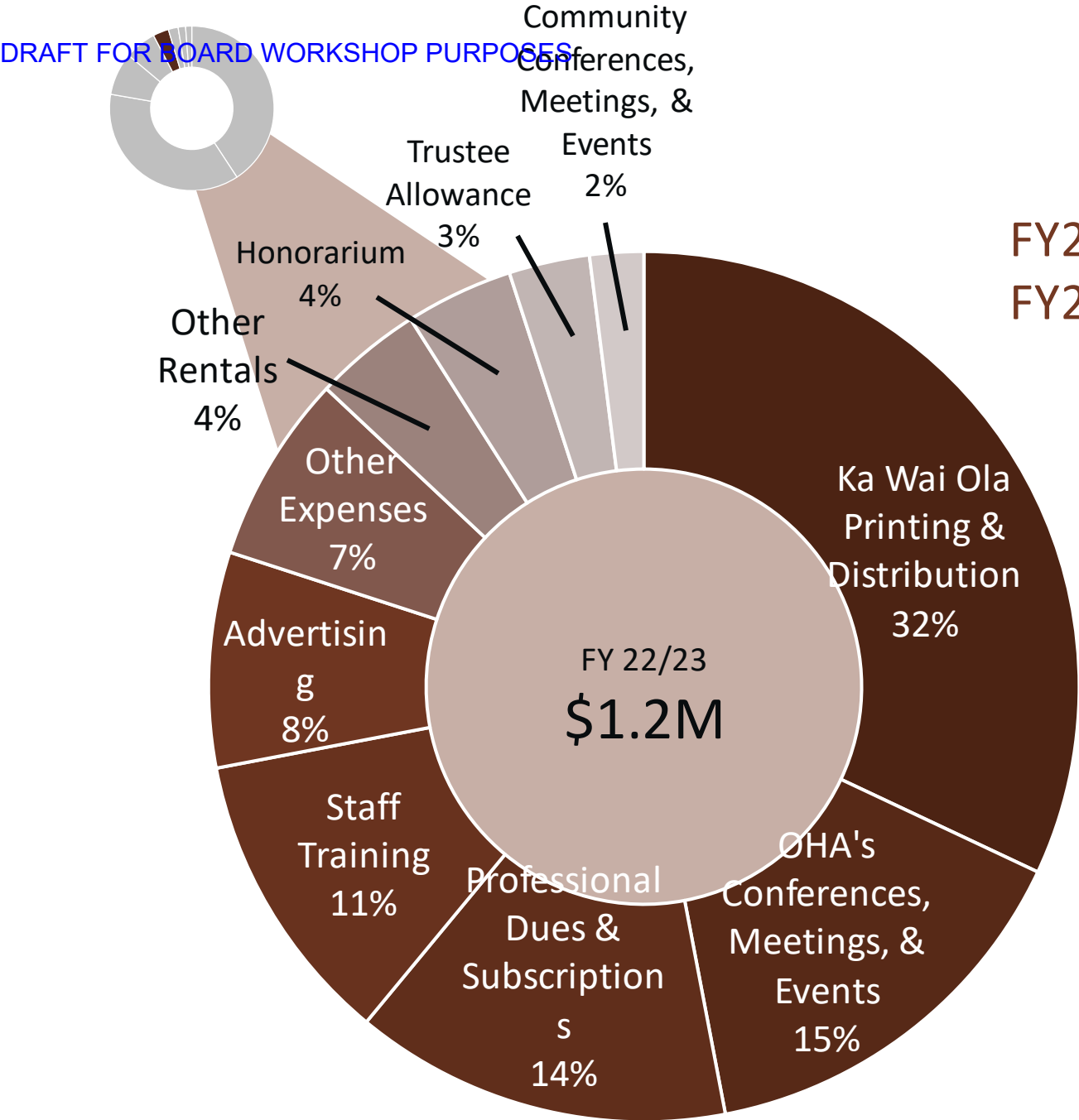


Program



The next budget category is Program, to which OHA allocates approximately \$590K to \$592K annually or 2% of the core biennium budget. These are costs directly related to programs such as printing and distributing of Ka Wai Ola publications (32%), hosting cultural workshops/events (15%), professional dues and subscriptions (14%), staff training (11%), advertising for OHA initiatives (8%), other rentals needed to conduct business (4%), honorarium for OHA event participants (4%), trustee protocol allowance (3%), and partnering with community organizations to host events (2%). Other expenses (7%) include promotional items, books and reference materials, freight and delivery, and automobile allowance.

The quarterly utilization (or non-utilization) of the Trustee Protocol Allowance is reported on the organization's website under the Financial Transparency link:
<https://www.oha.org/financials>



FY22: \$590K
FY23: \$592K



Equipment



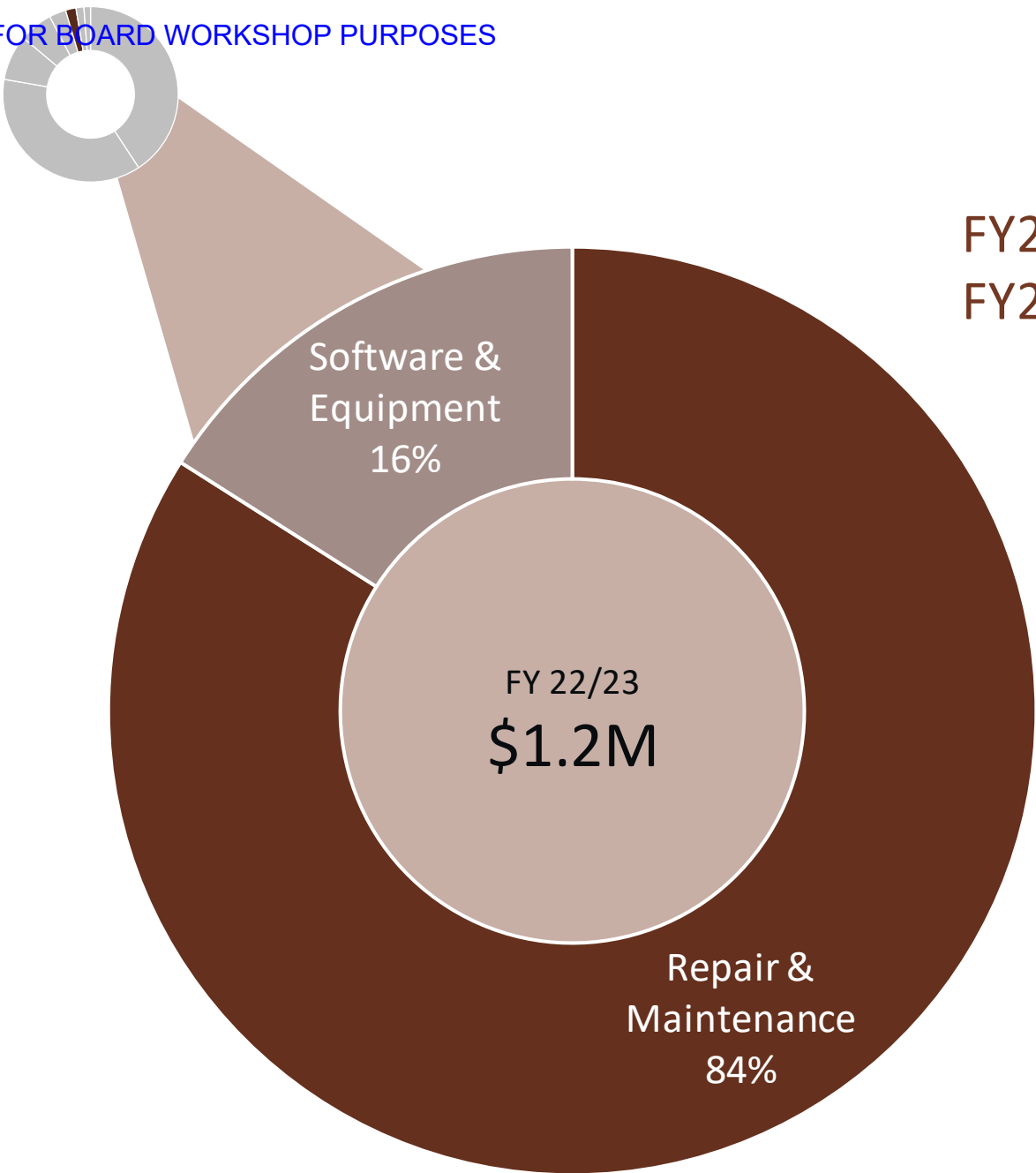
OHA allocates \$1.2 million or 2% of the core biennium budget to equipment; including repair & maintenance, and software & equipment. Repair & maintenance includes various upkeep work for OHA’s facilities.

Software and equipment includes IT software, hardware and other purchases required for on-going operations.

DRAFT FOR BOARD WORKSHOP PURPOSES



FY22: \$583K
FY23: \$583K



Budget data presented are preliminary and subject to change

Please send your questions and comments to ohabudget@oha.org or visit www.oha.org for more information.

A schedule of Zoom meetings (varying days and times) will also be announced for more interactive opportunities to learn about and provide feedback regarding the 2022-2023 biennium budget.

