

**STATE OF HAWAI'I
OFFICE OF HAWAIIAN AFFAIRS
560 N. Nimitz Highway, Suite 200
Honolulu, HI 96817**

**Minutes of the Office of Hawaiian Affairs Committee on Resource Management Workshop
Wednesday, September 14, 2016 9:30 a.m.**

ATTENDANCE:

TRUSTEE COLETTE MACHADO, CHAIR
TRUSTEE HAUNANI APOLIONA, VICE-CHAIR
TRUSTEE LEI AHU ISA
TRUSTEE DAN AHUNA
TRUSTEE PETER APO
TRUSTEE CARMEN HULU LINDSEY
TRUSTEE ROBERT LINDSEY
TRUSTEE JOHN WAIHEE

ADMINISTRATION STAFF:

KAMANA 'OPONO CRABBE, CEO
LISA VICTOR, COO
HAWLEY IONA, CFO
JOHN KIM
MOMILANI LAZO
MEHANA HIND
RAY MATSUURA
MILES NISHIJIMA
DYLAN ZHENG
LORNA LOEBL
KAWIKA RILEY
STERLING WONG
LORNA LOEBL
FRANCINE MURAY
DEREK KAUAO
LISA WATKINS' VICTORINO
GLORIA LI

EXCUSED:

TRUSTEE ROWENA AKANA

BOT STAFF:

LADY ELIZABETH GARRET
U'ILANI TANIGAWA
DAYNA PA
LAURENE KALUAU-KEALOHA
REYNOLD FREITAS
LEHUA ITOKAZU
LOUISE YEE-HOY
LIANA PANG
CLAUDINE CALPITO
DAVIS PRICE
HAROLD NEDD
NATHAN TAKEUCHI

GUESTS:

RODNEY LEE, SPIRE
LUCAS SAYIN, SPIRE
MARIA SU, SPIRE

I. CALL TO ORDER

Chair Colette Machado – Called to order the Fiscal Sustainability Plan Workshop of the Committee on Resource Management for Wednesday, September 14, 2016, at 9:43 a.m. There is one excused absence from Trustee Akana.

Trustee	Present	Excused	Comments
TRUSTEE LEI AHU ISA	X		
TRUSTEE DAN AHUNA	X		
TRUSTEE ROWENA AKANA		X	EXCUSED
TRUSTEE PETER APO	X		

TRUSTEE HAUNANI	APOLIONA	X		
TRUSTEE HULU	LINDSEY	X		
TRUSTEE ROBERT	LINDSEY	X		
TRUSTEE JOHN	WAIHE'E	X		
CHAIR COLETTE	MACHADO	X		
TOTAL		8	1	
At the Call to Order, there are Eight (8) Trustees that are Present.				

II. OFFICE OF HAWAIIAN AFFAIRS' FISCAL SUSTAINABILITY PLAN PRESENTATION BY SPIRE HAWAII LLP

(For details, refer to material distributed at the table: OHA Fiscal Sustainability Plan dated September 14, 2016 RM Committee #2)

Chair Machado – Thank you members, we have quorum. Now we would like to proceed with the continuation of a discussion relating to our fiscal sustainability plan presentation by SPIRE Hawai'i Limited Liability Partners. I'd like to turn this over to Rodney or Kamana'o.

Ka Pouhana Crabbe - This is the second of four workshops, the other two remaining will be in executive session. Today Rodney and his team will go further on the different types of scenarios or stresses.

Rodney Lee - Let me go over the day's agenda. Yesterday, we went over the overall structure of the effort to put together the financial model; we talked about what it is and what it assumes. Today we are going to look at the current state of the financials based on the current commitments made, but before we do that we're going to look at some of the assumptions we had to make in order to build the model the way it is so you understand the basis of how the figures represent themselves. We're also going to review the risk and stressors that we found as a result of doing the analysis, as well as discuss an overview of all the scenarios that we've been discussing in workshop three. We'll be looking at more numbers, more diagrams which will represent numbers and discussions on what they mean and how the results are coming out in the current state.

The current state of the financial conditions are based on the following representations:

- The numbers given to us and the amount of disclosure that administration was willing to cooperate with us; the level of details given so that the numbers are substantiated.
- The financial calculations were in many cases with supporting details
- We used and referenced the audited financials that OHA has produced over several years
- Any amount of proposed plans and supporting documentations for the proposed plans moving forward

- Any compliance information available at this time, I say available at this time because there are a number of ongoing efforts that are still continuing till this day that we don't have available right now, but we have factored in what we could factor in as a result of that.

I want to spend some time on the assumptions to help understand that the assumptions are based on the model and built into the model itself. All of the forecasts are based on the combination of OHA's budget historical financials, including the audited financial statements and OHA's estimations and various scenarios. What that means is we're taking OHA's data, not manufactured data, data that OHA's administration has been working on and that the organization possesses within its own assets. We have worked with admin to create forecasts, and those forecasts are based on actual budget detail or estimations and various scenarios of that detail, meaning that in all cases, it is based on some substantiated proof that those activities occurred. None of the numbers are fictitious; these numbers exist.

There are cases in which we have had to take averages of the previous years or used trend-lines to estimate out forward because of things like overall net cost of insurance, or things that escalate based on a trend or average, because that's the most prudent thing to do.

As we started to create scenarios, again, we used OHA's data, and in many cases OHA's own analyses, we went through a validation of those analyses, and applied the recalculation based on the model's requirement. We took any type of analyses that were there, made sure they were satisfactory, and they were, and applied those figures to the model itself.

We put on a macro economic factors, like inflation rate or adjustments, into the model as a way to calculate future years. I want to be clear on the assumptions. When we get into the details, you have to understand why the results of the results are, going forward. That's what a model does. It gives you some predictive modeling for what the future could hold. Any questions on this one?

Trustee Robert Lindsey - So Rodney, (inaudible) ...on policy decisions which were made at this table.

Rodney Lee - Yes. Only those that were approved and reviewed and the commitment was made. That's where it has to be very clear. Anything that's not approved, we put those out and those are going to be discussed in sessions three and four. These are just the facts of where the commitments are today; where the contracts are held, the commitments are there, the liabilities are there; it's only the ones that are documented, we're going to show you that's what the current state represents and there is no change to what is made and what the net effects would be. Any other questions or clarifications?

Rodney Lee - The first one is the current state, this is net position, net position is basically assets minus liabilities. What we're showing you are the assets in total and that includes not just the financial assets but the estimated value of the additional assets like land assets, and we show you the total liabilities. Know that the liabilities are restated liabilities to include the DHHL commitment. Currently and correctly so, the representation of where the DHHL payments are coming from, it's through a grant, but actually it's a 30 year commitment and so we restated it as a liability as a pay-down. Several observations from this chart itself, on the benefits side...

Trustee Hulu Lindsey - I just wondered if we can get out of the 30 year debt?

Rodney Lee - We're going to have to discuss that.

Trustee Hulu Lindsey - Now that they're loaded in millions. Do we have to give up our money?

Ka Pouhana Crabbe - Perhaps we should save that discussion for executive session, Trustee.

Rodney Lee - I want to discuss the nature of the lines. You notice that the lines are very steady, it shows very little variations in the movements of that line and we attribute that to several things. One of those is fiscal discipline. Fiscal Discipline is being exercised not just today but is being forecasted out in greater amounts. It is also attributed to additional diligence, and that diligence is exactly what we're doing now, being diligent about the decisions itself.

These are the pros. You can see the reduction in liabilities that OHA is making good on its commitments and reducing its liabilities and is committed in reducing its liabilities going forward.

The cons of this, is the declining nature of it. You start to see that the total asset value is decreasing over time over years. Much of that is due to the strains on cash, overall the paying out of liabilities or just the increase of expenses and operating expenses. That's the con.

- The pros; the liabilities go down. Increasing the asset value and increasing the total equity is always something we're going to have to address. Any questions?

Rodney Lee - The second chart is something we talked about yesterday in our recap of our analysis before which in January 2015 we had that converging line where you had 27 years out, at least the estimation at that time of January, was there. Part of that recalculation is including more detail, as far as more detail within the revenue to minimize it. What's good is, that years of 27 is 59 so you basically have one generation of assets available to liquidate, you can survive to 59 years. I think that's a good positive, changing the forecast within a two year period. Part of that is really the data but it is also exercising fiscal discipline, much more diligence, much more process, following procedures which I think are very good trend change. Moving anything out that many years is always an accomplishment. Obviously, changing the trend line is something we're going to have to deal with and parcel to that is OPEX starts to increase. A lot of that OPEX cost is something we talked about, fringe benefits, upcoming adjustments, those increases of OPEX over time and the general increase in cost of actual operating cost, so we added a factor in there that adjust for the cost of inflation itself. We are being realistic in the calculations of the solvency. So the years of solvency is kind of giving us a measure.

I forgot to mention that each one of these charts are part of the dashboard. In other words, every time a decision is made or things aren't moving forward, budget season comes through, the readjustment of the dashboard will give and reproduce these figures as I go along. This is something that we hope the Board and Organization feels is valuable to gauge the performance of their organization going forward. These are factors of what you are looking for. The first is how much equity do you have, the next is how many years you have to run on the assets that you have, how many years out are you looking at that the funds are available; this is taking everything to zero, liquidate whatever you are going to liquidate.

Trustee Hulu Lindsey - This reflects our portfolio?

Lucas Sayin -It's the cash on hand in the investment portfolio.

Rodney Lee - Several things. The portfolio decline, and we'll talk about the portfolio performance; several things, one is forecasted adjustments and earnings, there's an adjustment in the total earnings and the draws on the portfolio. The importance here is why does it go down, every time it keeps getting drawn down, the earning potential is lessened, if the earning rate is lessened, less plus less equals less. You can cut expenses but it's really about increasing revenues.

Lucas Sayin - Diversifying the types. The vast majority of the current revenue stream is the portfolio drawdown. If that can be diversified so the pressure is taken off the portfolio, then the investment value can start to hold over the long term.

Rodney Lee - Right now we're showing cash on cash equivalents, basically cash on-hand. Simple math, if your portfolio is earning 6% and you are drawing 5% and costs are increasing by 2%, you're down 1% and that's the trend. It doesn't have anything to do with the portfolio performance in as much as it is the amounts that's being drawn down and the strain on the portfolio, to account for operating costs itself. This will give you a long term effect of it. The positive is it's flattening out. In the past, you saw the diagram, it was pretty steep, but that's no longer the case partly due to much more fiscal measures and much more discipline. The differences are pretty extreme.

Ka Pouhana Crabbe - Rodney, just to clarify. This assumption, if we do nothing, this trend is the blue line?

Rodney Lee -The assumption here is, if that is the only resource that you tap into, and that's only resource generating revenue, you keep drawing down from the portfolio, and the portfolio is only gaining 6% gross; it's the adjustment, apply inflation and all the other costs, when we pie (referring to the chart) the pressures on the operating expenses, fringe benefit increases, FOSA adjustments, increase in cost like insurance, that's what's driving them together. The discussions on the scenarios are how do you relieve the pressures, by relieving some of the symptoms.

Trustee Apo - Aggregate.

Rodney Lee -Yeah, on aggregate. We'll get to the details in a later sessions. The sensitivity of the information is there.

Chair Machado - Rodney, describe to me the 59 years. If we stay the course now...

Rodney Lee - Do nothing don't change anything, the commitments you made, the efforts being made with the portfolio and managing of the cash, you have 59 years till it meets and you need money.

Lucas Sayin - That's the point where your operating expenses would exceed your cash and investments on hand, 59 years.

Chair Machado - When you figure out what year that will be, 2085

Ka Pouhana Crabbe - 2075

Trustee Hulu Lindsey - Well in 11 years we losing 60 million

Rodney Lee – Yes. You can see that the decline is significant in that, and the positive thing from our initial forecast, and correcting our initial forecast in January 2015, you go from 27 to 59.

Trustee Apo -Rodney, as we develop the sustainability plan, I understand the word sustainability, I was wondering if we need to build in; you know one of the things unique about us is that our measure of success are not duplicated by any other agency or even government. So in measuring success, I see this page on investment, setting up a structure where we can begin to measure geo-cultural footprint gains, the legacy properties plus properties we own, Native Hawaiian Legal Corporation, the impact of our support for that organization and the impact it's had on major court decisions, political advocacy heals, from the work that we do with the Legislature, and the impact of the OHA contribution expenditures for the Hawaiian economy, because the money is color-blind, it goes every place. To measure that, to be able to actually chart it and to matrix it would be fascinating. When we look at our spending, the traditional model of spreadsheet, which is important, where people understand exactly how all this works and that what we do is really very different. Are we going to be able to create that kind of a...

Rodney Lee - We haven't for this effort, this effort was focused on the financial. We will talk about those subjects in the way of risk and stressors against the financials itself. Those are operational measures of matrixes that should be incorporated, especially in the strategic plan so that you can actually chart a course.

Ka Pouhana Crabbe - Trustee Apo, I think you've clearly articulated the totality of OHA's work over the years, and I think when administration presents the update for the strategic plan, we'll hopefully capture as much of that as we can. It's a work in progress. I think you have a really good point because the more we have a clearer direction and focus, our challenge will be how do we articulate that through a messaging campaign in terms of the total impact, not just to the Hawaiian community but to broader Hawai'i.

Trustee Apo –That's my whole point.

Ka Pouhana Crabbe -Thank you.

Rodney Lee – I'm not sure if we answered all your questions.

Trustee Apo -You did.

Rodney Lee - Every slide is going to have a positive pros and cons to each one. What we're seeing so far based on the current commitments, is encouraging and also there are some things we really need to work on in changing that blue line, in many cases that has to be changed (in reference to the chart).

Ka Pouhana Crabbe - Rodney, if you could just comment because when you look at the downward trend, especially from 2017 to 2022, the next five years, what is your assessment of contributing such a sharp, in the next years and why? In a way it's really good that we are addressing this issue now.

Rodney Lee - So the next chart we are going to be discussing the demand for capital; to pay off any type of liabilities or investments in general. Some of the downturn, to answer your question, there is going to be increase or demand for capital, in a sense that you're going to have a good amount of liabilities that are going to be paid off from fiscal year, basically 2023/2024. That's based on the current commitments, not

changing anything, not changing the path, not putting in alternatives for extensions or anything like this, repeating it. This is what we discussed yesterday, the difference between just looking at revenues and expenditures vs. revenue expenditures, assets, liabilities and equity. These are balance sheet actions, this are where you pay down. The balloon payments, for instance, for the line of credit; on expenditures, you record interest expense today, but when you start to pay these down, that takes cash out but it doesn't hit expenditures, this is where it hits the overall value of the assets itself.

Understanding that pressure is coming, we're not sure if it can completely change the trend on the liquidity because that's just earnings overall. Potential solutions are adding additional revenue streams that can add additional lines that can be drawn upon. We're talking about this in the case of debt, specifically within the line of credit in regards in improvements to the building, or to the line of credit in respect to any type of governance. It was taken but there was no dedicated revenue stream to pay that down. This has to come out of the portfolio. There's no stream to pay that off. Right now, currently, interest is being paid by the operating expenses, and that's being covered. But these are big principal payments that can't be covered by the core operating budget and it is forecasted as a cash train going forward.

Trustee Hulu Lindsey -What principal payments are you talking about?

Ka Pouhana Crabbe - This is for Na Lama Kukui.

Rodney Lee - Improvements to the building as well as the governance line of credit.

Maria Su- Do you see the hike? That's when the balloon payments are due.

Trustee Hulu Lindsey - I was wondering about that.

Rodney Lee - These are current commitments made and the current path of the commitments made. This is one part of it, so part one of your answer is this. Any questions before I move on?

The second impact is financing. In financing we include all liabilities, basically. To answer your question, if you look on the bottom there is a bar chart of where the liabilities and payments are being made; notes payable, Na Lama Kukui, any additional lines of credit that was held out, ex: DHHL revenue bond..

Trustee Hulu Lindsey -You know we have loan programs where people have defaulted.

Ka Pouhana Crabbe - It's part of the Revolving Loan Fund. That comes out of that pot of money which is very separate from the total operating cost.

Rodney Lee - On a positive note, the downward trend in the debt means that OHA's making good on its commitment and that is a great thing. It impacts the cash on hand up until the point where the interest expenses are incurred or additional expenses are incurred. You can see that most of these are concentrated on one liability, and we're going to have to discuss that in detail as we go into session three. It's not the time to discuss the solution but to understand the nature of it so when we go back to these other charts, you see the downward motion on the liabilities could be shaved off. The total amount on what you're carrying is really a third on a traditional line of credit. You're under the leverage, meaning you have a lot of equity to possibly borrow against, and I want to state that's the best thing to do if you want to establish

rules to debt, as we discussed yesterday, when do you take out financing. Generally, you don't finance unless there is a dedicated revenue stream to pay that down. You invest through financing and you expect revenues to come back to cover the investment.

Lucas Sayin - One of the trend to highlight, chart 5, 7 and 8 correlate, is the payment of the debt repayment, where you see the larger decrease liabilities on slide 5, between fiscals 19 and 23. Debt drops off as those loans are paid off. And now carries forward the demand for capital flattens out.

Rodney Lee - Just want to remind you that this doesn't factor in, at this point of the discussion, the options that are being put out through the Master Plan for Kaka'ako Makai or even the options that are being put out for the Legacy Lands. It does maintain the status quo based on the commitments made today. Those decisions are forthcoming, for this Board understanding the spending policy and the impact of what the spending policy is going to be and what to do about that, how to deal with debt itself, how the organization is structured as the organizational structure does impact its finances, and then priorities itself, as we talk about prioritization overall. As we drill down, you can see the net result of these activities. Any questions so far?

Trustee Apo leaves the meeting at 10:17 a.m.

Trustee Robert Lindsey - My question, Rodney, is on the revenue side. Have you folks factored in the possibility of future downturn in the market as happened in 2008? Or no?

Rodney Lee - What we have done is perform the stress test and that is one of the scenarios; a 20% adjustment in the market, to see whether or not that adjustment, the adjustments usually in the last case it was a quarter, how that net effect would affect OHA's finances.

Trustee Robert Lindsey - The only reason I asked is when it comes on the revenue side, we are so dependent on the portfolio. 60% of our revenue comes through that door.

Trustee Apo returns to the meeting at 10:19 am.

Rodney Lee - A lot of what we are showing you today is not new news but we're re-emphasizing that diversification is going to be needed as we start to go further and further out. Trustee Apo had said yesterday that it's amazing how OHA's around this long. But as the organization gets older and the years go on, the demands and the type of activities have to be considered growth. Yes, we did factor that stressor in and we'll discuss what the impacts are going to be. A lot of this message is, diversify or create additional revenue streams. Any other questions?

Chair Machado - The tall tale on your slide 8 is the commitment to DHHL.

Rodney Lee - It is very significant. This DHHL liability is directly affected in your operating budget monies. From our understanding of the commitment, it's going to question a lot of things in our upcoming sessions. It's about what the agreements are and what can OHA do.

Ka Pouhana Crabbe - Just to be broadly thinking, DHHL in addition to other strategy, is how to address the symptom to get more forward thinking and proactive in the totality for the investment portfolio, revenue streams, fiscal discipline and maintaining the core operating budget and other initiatives like the

Public Land Trust (PLT). We have two years to try to work that out with the State which certainly can add to the different trend's upward slope.

Rodney Lee - Yes, absolutely! One of the possible scenarios would be to adjust the PLT payments; you adjust the trend line to afford the ability to pay some of these obligations. It's going to be, what activities OHA needs to undertake to be able to address these matters going forward, and one of them is an option for the PLT.

There are many things we're going to go through in session three. Those scenarios all exist from what we can see. It's now going to be, how do you make that decision, what to do and when. Timing is going to be the issue, especially since there is so much overlap. Any other questions or clarifications?

We went from the high macro of assets vs. liabilities, now we're looking at the impact of demand for capital, cash on-hand. The next is looking at cash flow trends. We're basically tracking the cash inflows and outflows of the demands for cash, as an operating basis. We have a shortfall because of the fringe benefits adjustment or if there's an impact because of litigation fees, but based on the specific commitments based on the forecasts, you can see the spikes. There's a ramp-up on the nation building line of credit, a ramp-up on the interest fees in fiscal 2017/2018, and then finally in 2019, 2020, 2021 until 2023. Na Lama Kukui and the nation building line of credit starts to have balloon payments. That's the stressor. So the fiscal year 2020 is where the nexus point kinda gives in to. Right now it's been relatively low interest payments, made on both payments, but as you can see out in the next bi-annual, the stress starts to happen, where just having the necessary cash to pay those are going to need to be addressed. The solution could be the extension of it, but also additional revenues to help compensate for the adjustment itself. Any questions on this? It goes from macro to micro, down to operating budget to cash on hand, and you know that cash on hand starts to get impacted.

Ka Pouhana Crabbe - Can you explain the six positive years?

Trustee Robert Lindsey - That's the number of years before you hit the nexus.

Ka Pouhana Crabbe - Oh. It's the projection.

Rodney Lee - And you want to change those numbers to be bigger, like 20 positive years. Overall, we see a need for better solutions to be able to address these cash demands. All of these are impacted by all of those factors above. This is not in isolation, it is what are the different streams of revenue, how do you handle the obligations that are there today, as in slide five, how do you address that so that you can change the trending on the years of solvency. On slide six, what do you do to address the demand for capital, and that may be looking at alternatives rather than just using cash. Going back, also too, the demand for capital, with respect to investments, especially within land and others. We talked a lot about building the credibility and the integrity of the organization, especially to attract other partners, that's also a way to supplement so that OHA doesn't have to do it alone. OHA has been doing it alone for a long time. It's now time to start to think, what's the framework that needs to be built and what are the responsibilities. As we start to have more and more of these discussions, we're going to keep encouraging that the organization, as a whole, is going to get more and more involved with the activities of the organization itself. Whether it's structuring, at the very top end, partnerships, alliances or recognition; those are big topics, but the execution at the bottom end is contracting, implementation, policy actions

and procedures that are going to be there. We want to make sure that there's a way to manage cash then we can reduce the amount of budget realignments going forward because we're projecting out forward in managing more responsibly. Next slide. We did budget to actuals and this is budget to actuals based on what the budgets were set and the actuals plus the encumbrance. The good news is you're managing to it.

Chair Machado - What was the good news?

Rodney Lee - You're managing to it. Before it was just the budget to actual expenditures but now the budget to actuals seem to be fine. Balancing that blue line out and the red line out would be much better so it's not as erratic. It's taking more responsibility, not just the activity of managing expenditures, but balancing out the overall revenue.

In the existing way of calculating the 5% (inaudible) average, I know that's been stated time and time again as a historical fact, what we found, and is re-supported by our analysis in the financial model, is it's not just a historical fact but a forecasting fact. In other words, in as much as the amount you can draw on the portfolio to contribute to operating expenses are based on the last five years. The next five years is dependent on this year. It's a five year backward effect fire a five year forward effect. That's important to understand because a downturn in the earning, or the investment portfolio itself, say the dip had been last year, that effect last year will continue to be affecting your ability to draw for five years later because the calculation is an average. Example: if you get four C's and one A, you're still a C; it's the average. Balancing out that blue line is extremely important, because otherwise, management of the red line is highly dependent on the ability to draw, at this time. So, the blue line; managing the budget but the budget is dependent on what type of revenue streams you have, so making sure that we are not only looking at the five year historical but the five year in the front. That's the five year effect; every year has a five year effect.

Trustee Robert Lindsey - Rodney, I'm a real strong advocate for variance reports to make sure that the blue line and the red line is good. It's a key way for us to manage our financial use of assets and resources, and helping us with our spending, our budget planning and our budget implementation, and budget performance based on all of that.

Rodney Lee - Yes, I think it's all of the above. Budget performance is okay. What we see is overall planning needs to even out the lines so you have the definitive trending. You got to fill the values; know that the values occur; that's where the volatility comes and the discussions about funding.

Chair Machado leaves the meeting 10:30 am

Trustee Apo - Like government, you either raise taxes or you cut spending, we either got to get more money or we cut spending. When we come out of this, I'm interested in having an

approach that says, “Here’s what we need to do and this is what it’s going to cost. How do we raise the money to do it?” Is that the direction we’re going?

Rodney Lee - We’re going to head into that discussion; yes. It’s going to be expense management, identification of opportunities to approve revenue, but those are all going to have to be discussed after you get into all the details. As we move into sessions three and four, there are plans in place that admin has put in place to address a lot of those options. The ones that are not in place are around policy, governance; that dictates direction, and until the direction is clear, there are not many levers.

Trustee Ahu Isa - Government side, that’s the fiscal policy. Taxes or expenditures, the monetary side, we cannot control so it’s the interest rates and the supply of money. We’re in a volatile time now.

Rodney Lee - Yes, we’re taking in the inputs that we have available to us. It’s a volatile time in a sense that you are in a unique situation to be able to put strategies in place to be able to change the trending and some of the trending can only be changed with some policy adjustments. Understanding where you are in the current condition; the current conditions are not bad. There are controls that have been put in place, there’s the discipline that showing so that the lines are flattening on the macro scale. These are positives, meaning transformations are already occurring. Now it’s proactive decisions.

Trustee Robert Lindsey- Rodney, you folks will give us a model, and accompanying that model will be suggested policy changes that we will need to make at this table to help make that model work?

Rodney Lee - It’s going to be discussing the existing policies that are there and whether or not the components of those policies will work based on the forecast or not. We can tell you all the symptoms and the consequences but ultimately, it’s for this Board to make the decision. With respect to the debt policy, it just doesn’t exist and OHA needs one.

Ka Pouhana Crabbe - Just a comment. I think what we have learned with Rodney and his team, to have helped administration, is that the discussions and decisions that policy and how it impacts operationally. Yesterday we talked about potential organizational structural changes, the strategic plan is coming up to completion in 2018. So the totality, the more outward vision and forward thinking is not just planning for the immediate scenarios but the longer term, like we go in four year periods; like four, eight, twelve, and beyond, and how we establish some goals to increase the intergenerational equity and really address some of these fiscal measurable outcomes.

Chair Machado returns to the meeting at 10:37 a.m.

Rodney Lee - Yes. I'm going to restate the fact again, that the current spending policy is impacted, not only historically but in the future. So any downturn you see on earnings, you know it's going to be another five years. That's the importance of addressing the nature of investments. It's not about their performance it's the way the strategy's used and not just the investment strategy, but the organizational strategy used to balance that out.

Trustee Hulu Lindsey - What I'm thinking is, after learning from this whole scenario, it means that we should change our strategic direction sooner than 2018.

Rodney Lee - It's imminent! You have some real challenges, yes.

Trustee Ahu Isa - That means we have to set the policy before they can look at restructuring the organization?

Rodney Lee - The discussion has to happen. Without a debt policy, if there is a discussion around Kaka'ako Makai in the development, there is no way for the organization, today, to move forward to get financing to do something.

Trustee Ahu Isa - Economic innovations, if you're an organization that didn't focus on that type...revenues got to go up, we have a higher population of Hawaiians, families are getting larger, and we need more grants, scholarships out there. The OHA administration has to look at restructure, depending on policy.

Rodney Lee - Right! There's no statement! There's no direction!

Ka Pouhana Crabbe - Right! With the help of this fiscal sustainability plan and SPIRE, the goal is to have a discussion between the Board and administration to acknowledge that this is our current state. And that these are all of the different areas we have to address regarding the symptoms. Out of those symptoms we have to prioritize which ones we want to address first. Do we want to reduce our liabilities and risks? Second, how we want to look at the investment strategies moving forward, with some of it, we already have. We're going to have to make those decision points, and I think what SPIRE is trying to identify is in order for administration to move, either have that discussion to deal with the policy so that the Board is aware, we are aware, a clearer direction and then we can move. I don't want to say a slow process but it's going to have to be one at a time...

Rodney Lee - Progressive.

Trustee Ahuna leaves the meeting 10:45 am

Ka Pouhana Crabbe - Over several years because the implementation that we have anticipated is going to be about two to three years

(discussion indiscernible)

Rodney Lee - One more very important point. We also are tracking these financial investment returns and basically the conclusion here is yes there are volatilities and you can see the one year volatility, but for the most part, and this is making a different point, they are performing for the benchmark. That means you're not squeezing more money out, it's already performing the way you expect it to, it's not going to squeeze more money. Looking for additional revenue streams, diversification of the revenue itself is going to have to be more important because it's not something that OHA has ever had to deal with before, but it's going to probably be the evolution of what OHA has to move toward cause it's not like the benchmark. It's not meeting benchmarks in this case; ex: seven years benchmark, exceeding it. Overall, it's working the way it was designed to work. Knowing that all of these other pressures within all of these other charts, whether it's demand for capital, the years for solvency, or the assets, it's changing the trend line but knowing full well that what you are asking for of the investments against the market performance, and that's the benchmark, you are reaching the expectation, but now, what do you do. What do we do to make the adjustment going forward? That is the importance of that slide on page 11. What you've implemented is hitting the benchmark but expecting it to do that much better is not in OHA's control, that's the global market. The global market is going to have to stabilize for that to change to the positive. That's a real thing that can be addressed.

Lucas Sayin - Again, that one year number lives for five years into the future.

Trustee Robert Lindsey - I just wanted to make a comment. I think we're very fortunate because two years ago, administration had to make some tough decisions managing the budget and I think it was good they started to put us on that road for financial sustainability.

Rodney Lee - What we found, at least from the differences in our analyses in year January 2015 which goes back 2014 and beyond, to where we have seen today, there is a big shift and that's a positive news. Now there are big headwinds that are coming. There's a pat on the back for what we've seen in the last two years and that was literally fiscal discipline that has been exercised much more than what we have seen previous years. You should all congratulate yourselves for it!

So this is the summary of the current state. Cash on hand, cash equivalents, you see the downward turn in the liquidity decreasing by 1% over the next twelve years forecasted based on the demands on cash. The balance will be decreasing over a twelve year period by 2% because of a number thing, the flow on expected returns, increased cash demands, increased draws. That's a common theme and we will have to define what that is. Demands for capital in fiscal year 2019, 2023 and 2027 increase due to balloon principal repayments, and that's actually in the periods between, as well as some legacy land expenditures, and even more so, by increased fringe benefit costs as we go through. Possibly, the debt is estimated to reduce 8% over the next twelve years, which is great. Unfortunately, operating expense is estimated to increase 2%, and that is just the trend line. That's down, by the way, from 7%, our initial calculation, by 2% because of the increasing costs that we're factoring in: fringe benefits, liability, FLSA, overall net inflation; it's

just going to cost more just to maintain status quo. If we freeze at the level today, doesn't matter, it's just going to keep going.

Chair Machado - Rodney, on the second to the last bullet, on the debt estimated to be reduce by 8% over the next twelve years, if you had to factor in the DHHL grant.

Rodney Lee - Oh yes. Then the percentage would increase tremendously. Why it's only 8% is because the liability, the DHHL commitment is such a large portion of it, it's such a long period of time, 24 years.

Trustee Hulu Lindsey - How did you guys approve of that?

Trustee Apoliona - As a majority.

Chair Machado - We looked at the 90 million as a final end product.

Trustee Apo - I understand the concern, but the only reason we around is because of DHHL. The Homestead Act justifies everything. That's like the "piko", so the question is to what degree do we as an agency have an obligation to support the very foundation of why we all here, still here legally, anyway. It's a tough one.

Trustee Apoliona - The other thing, as I recall, there was high level of expectation for the Native Hawaiian beneficiaries; OHA, what you doing! The opportunity to make something like this happen, within the confines of what the Trustees, through discussions, felt is reasonable for the purpose, these are native Hawaiian beneficiaries. There's so many pulling here, pulling there, you should do this for us, you should do that; that's something that had to be managed by the decision making at the Board at the Trustee level, at the Board level. How are we going to demonstrate this commitment we have for our native Hawaiians on the homestead? That created an opportunity where ultimately, the decision made, collectively made.

Chair Machado - We are finding now, based on your analysis, that we haven't received an annual report from them, there's been no accountability. We've been hearing directly from the beneficiaries that they're not seeing any of these resources that OHA is giving to help develop some of their plans in the various communities as part of the Homestead Association. Some of those things never existed at that time. We're at a good point now to have dialogue with DHHL and the Commissioners.

Trustee Apoliona - Because of that long term commitment, the operationalizing of it subsequent to that decision being made by the Board which I believe was a sound and strong decision as a commitment made to Native Hawaiians that we could've made and was made; it just all moved into those related places that it moved into. In the follow up, the execution side, which falls to administration, I'm not fingering anybody but, administratively that follow through just kind of got gray. Now hopefully, we can get some clarity and a better and true picture of it all. And,

there may be options of how you adjust out and let's hope we can work with our sister agency to make that be a good thing for everybody.

Chair Machado - I believe, in the contract we reviewed under Rodney, we cannot break the agreement and I'm not sure how we can improve the kind of goals that we would want to set up the deliverables. I hear Hulu, and we try to defend our decision, and we know they're not really doing what we anticipated would get down to the beneficiaries. That's the most difficult part.

Trustee Robert Lindsey - Madam Chair, we will have our time with DHHL on the 23rd.

Trustee Hulu Lindsey - I'm not criticizing, I just think that every day we learn something new. I think the thing to learn in this instance, is this long term stuff should not have happened. Maybe give them ten years and then review something like that. Look, now we stuck with thirty years. Live and learn, right?

Chair Machado - You're right.

Trustee Apoliona - But it's only in the execution of it. Maybe following through consistently, some of these things may have been identified earlier. We can't speculate at this point. It is what it is.

Chair Machado - Given this analysis, we would have to revisit this and discuss this at a later time.

Rodney Lee - I want to be clear of what we're representing. We are dealing with the actual funding or the liability that is incurred with it. What Trustee Apo had mentioned earlier, about some of the other metrics that need to be also measured, the overall net impact of the investment, the 30 year commitment, what was the net result that was expected? Is the organization delivering on the expected outcome that was put forth? That's the other piece. We can only tell you what the financials are. The work that has been done is only in the contractual area. All the other work needs to be done.

Trustee Apoliona - Remember too, even in administration wise, there were shifts in administration. We're talking about a thing that got executed in a former administration.

Rodney Lee - And that's why organizational expectations are going to be primary discussions around the outcome required for this type of thing. That's the other side of it.

Trustee Waihe'e - Another thing that happened after we decided to give them the money was that the court made a ruling that the State wasn't funding them. The court said that you should have been getting that money. So, once the State starts giving them the money, can we say, now you guys are getting funded, okay?

Ka Pouhana Crabbe - Right. I think Trustee Waihe'e has a good point because the commitment was made years ago, both administration and the political landscape has changed and evolved. Their current case, DHHL Beneficiaries against the State, and now that the Ige Administration last year did approve for funding, looks like they're going to go in for additional funding. But, I think, at least for our side, we can advocate, at least on the Ige Administration, what is the commitment to fully funding DHHL, which could inform our decision in terms of the assessment and the action we take and the decision regarding our current commitment to them. That's a really good point because of the Ige Administration of trying to address it, their outstanding legal case.

Trustee Apoliona - First and foremost, if I'm correct, we don't have the detailed state of affairs with the Department, as far as I'm understanding it. There's still some questions, has the execution occurred or if not. That is important to me to know what's the landscape, what's the state of affairs?

Ka Pouhana Crabbe - I think we've collaborated with SPIRE and we've actually had a formal meeting with Director Masagatani and her staff to actually go over contractual agreements, measurable outcomes; and I think that information we want to have with you in the next sessions so that you are fully informed of what the status is.

Trustee Apoliona - Collectively, for us on this table, we don't have that info yet, you folks have the info? Staff has been doing their research.

Ka Pouhana Crabbe - Yes. SPIRE has done their own research as well.

Rodney Lee - Yes, we've made clear the representations of OHA and made clear the understanding of the agreements. What we haven't received is the report back from DHHL on the performance of it. That's our expectations.

Trustee Ahu Isa leaves the meeting 11:11 am.

Lucas Sayin - Chair, your point on the second to the last bullet, if that was segregated, that would be a 100% debt payoff in eight years. The NLK and the lines of credit are paid off in the next eight years. Together, in the aggregate, that is the 8% over the next twelve.

Chair Machado - Right.

Rodney Lee - In relation to Trustee Bob Lindsey's question, what happens if there are downturns in the market? We did test stressors and scenarios. For OHA, the following scenarios were used: 20% reduction in the market, that's similar to the 3rd quarter downturn of last year; we put at risk the elimination of the general fund appropriation, that's not just the financial risk, it's a political risk as you know; elimination of fiscal reserve because we see there is more to fiscal discipline, the reserve funding itself is diminishing being less of an impact; commercial

occupancy; increase in fringe by 7% is seen as a real potential increase; legal fees for large law suits; if total expense goes back to 7% what would that effect be. Recession, mortgage crisis.

Scenarios one to four, we found to be very minimal. OHA has enough assets to address that individually, not collectively. If the scenario happened one at a time, OHA can accommodate. The increase in fringe is marginal; significant in the operational factor. Legal fees, minimal effect for the long term and a very significant effect in the short term. Increase in total expenses up to 7% would have a significant impact. This is with no additional revenues, still relying on the portfolio and you have additional demands for cash. With this scenario, it shortens the years to 21 years. We are already showing historical that it is being reduced from 7% to 2% on the incline, but never should go that high, 7%. If all breaks loose and OHA does nothing to bring in additional revenues, and expenses are high, then it drops down to 10 years. These are scenarios to understand the circumstances. Additional revenue streams are important.

Trustee Hulu Lindsey - The moving revenues are NLK and Kaka`ako Makai other than the set 15.1 million from the State, our portfolio about 16 million. The moving revenues are just these two properties?

Rodney Lee - Yes. The two properties make a big impact on the trend line. That requires some investment and significant investment values, in the same years, by the way, as the balloon payments. That's where the nexus comes. You have solutions but you don't have a policy to facilitate the solutions. You have the ability to go after the solution but if a huge demand on cash presents itself, ex: need \$56 million, what do you refer to?

Trustee Hulu Lindsey - We have an HDI policy and that's it.

Rodney Lee - But that's already maxed out. One of the discussions we'll have is how to eliminate these stressors. Mitigate, eliminate, and reduce overtime

Chair Machado - Recommendations for the policy changes are on page 21.

Rodney Lee - We did a risk assessment based on the strategic plans and budgets, financial data. The most amounts of risks exist in political governance and operations. It's all the factors that influence the decision of the organization that either allows it, prohibits it or challenges the organization to take advantage of an opportunity, address the challenge effectively and efficiently, or by public opinion, sway the decisions and pressures on OHA.

I don't know how we can ask for an actuarial evaluation of OHA's liability; would be extremely important. It's not just for administration but if there's a way for the Board to facilitate, at least we have a number.

Trustee Hulu Lindsey - Who would we put pressure on to get a number?

Rodney Lee - Possibly the Governor, possibly the Controller. The State is obligated to have a calculation for its agencies. Unless sufficient pressure is put forth, it's not going to calculate.

Trustee Hulu Lindsey - That's not fair.

Ka Pouhana Crabbe - I think what Rodney is trying to say is that we, OHA, are in a unique situation to exercise, going back to constitutional mandates, the State's obligation to Native Hawaiians. How we choose to articulate, how we choose to leverage or advocate for that will be dependent or contingent upon the friendly relations at the Capitol. The main primary strategy is really the trust obligation to the public land trust, but we can further influence the Executive or the Legislature, it's a political climate, how we can choose to be more proactive of trying to gather support for friendlies for our cause, again.

Trustee Hulu Lindsey - So you're just talking about PLT? You're not talking about the fringe benefits. Are we being assessed fairly for the fringe benefits?

Rodney Lee - The fringe assessment is uniformed. Not particular to any one agency. It's unique to OHA because OHA has to write a check, that's the deal. So, getting a true assessment of the actual liability would be helpful to inform what options OHA could take in relation to it. Is it really paying what it is; are there other solutions?

Trustee Ahu Isa returns to the meeting 11:24 am

Lucas Sayin - Currently, we don't have the details, that's done at the State level. There's an overall actuarial computation and as we understand it with the audit, that was determined on what was OHA's portion internally. If there could be clarity, OHA could plan and project for how does that get funded based specifically on what is OHA's portion.

Rodney Lee - I know we're having a fiscal discussion but this is where these other risks fold into it. Unfortunately, the political actions can either relieve or create more challenges. Political and governance is where the hotspots are.

Trustee Ahuna returns to the meeting 11:34 a.m.

Rodney Lee - The main considerations that need to be addressed are the spending policy. We talked about the five year back fires the five year forward and how one year effects five years forward. If nothing is done, there will be revenue shortfalls. It's important to find additional revenue streams. Except for DHHL, you're technically under leverage. But the current financing is not being paid by related revenue streams. That's why it's important to create a debt polity.

Trustee Hulu Lindsey - To clarify. The debts that we have are NLK and the nation building loan. Those are the two big debts we have.

Chair Machado - Also the line of credit for the building improvements

Maria Su - Notes payable, that's the big one.

Rodney Lee - What's positive in NLK is that you've seen that occupancy has gone up. There are additional revenues being gained from it, so that's positive.

Trustee Hulu Lindsey - Are the revenues from NLK not paying our mortgage for NLK?

Rodney Lee - It is. NLK sustains itself. The main thing is the nation building line of credit, that's the negative, there's no other inflow. Creating a debt policy will give some structure.

With respect to organizational structure, it's not a financial thing, but how do you achieve the greatest benefits from the limited resources. You have great resources but not endless. Need to look for opportunity windows to be able to deal with challenging demands. Lastly, priorities to achieve the mission; how do you set priorities within the current activities: investments, financings, expenditures, participations, sponsorships; how do you schedule the implementations to avoid overlaps of mass amounts of commitments made in a single year, and how do you continuously assess the results of it. When you make a commitment, you need to assess it and evaluate it and possibly considering streamlining the efforts. Getting these together gives you a more sustainable plan.

Repeated discussions

Trustee Ahu Isa – Did anyone ask the question about civil service for the union? (inaudible) & HGA (inaudible) our employees considered, well there not an HGEA and UPW. Do we follow the civil service scale? If they get raise, we get raise (inaudible).

Ka Pouhana Crabbe – We use the SR rating as a guide, but because of our semi-autonomous, we have the.....

Trustee Ahu Isa – Entry level, we will follow that (inaudible).

Ka Pouhana Crabbe – What we are currently doing and Rodney and his staff is aware, we've been consulting with Anna Elento-Sneed over the past couple of months. We address the pension, the fringe, how do we take in federal requirements, state and then how do we offer the career pathways opportunities for our employees as a package in terms of how we compete as an institution not just with state government but private sector.

Trustee Ahu Isa – Do Trustees have to approve anything (inaudible)

Ka Pouhana Crabbe – With its organizational changes, we have to inform the board, but in terms of that kind of work right now, we're just planning for the outcome as it relates to the whole situation of the fiscal sustainability plan.

Chair Machado – Can you tell us the discussion on the modeling; you have it on the last session. Will we be doing some of that on the 3rd session?

Rodney Lee – We will show you what it is, session 3 is going through all of this discussions and when we get those effects of the sessions back and we make the adjustments and show you the effect on the 4th day. There's a lot of moving parts and you're going to see that in session 3, a lot of considerations and you will probably ask us what happens if I choose this one and we can go back and make sure that the calculations are there and that we calculate all efforts. That's called fiscal sustainability. Thank you.

III. ANNOUNCEMENTS

None

V. ADJOURNMENT

Trustee Apoliona – Motioned to adjourn the meeting.

Chair Machado – There's a motion to adjourn.

Trustee Apo - Seconded the motion.

Chair Machado – Moved to adjourn the meeting and asked if everyone in favor say aye. All in favor. Hearing no objections the meeting adjourned at 11:46 a.m.

Respectfully submitted,

Respectfully submitted,



Laurene Kaluau-Kealoha, Aide
Committee on Resource Management



Trustee Hulu Lindsey, Chair
Committee on Resource Management

Approved: RM Committee meeting on January 4, 2017.