

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

**Minutes of the Office of Hawaiian Affairs Committee on Resource Management
January 19, 2017 at 10:00am**

Attendance

Trustee Dan Ahuna	Trustee Carmen Hulu Lindsey
Trustee Rowena Akana (departed 11:15am)	Trustee Robert K. Lindsey, Jr.
Trustee Keli'i Akina	Trustee Colette Machado
Trustee Peter Apo	Trustee John Waihe'e IV

Excused

Trustee Leina'ala Ahu Isa

Staff Present

Kamana'opono Crabbe, CEO	Lehua Itokazu
Lisa Victor, COO	Dayna Pa
Albert Tiberi	Claudine Calpito
Derek Kauanoe	Paul Harleman
Everett Ohta	Maria Calderon
Jocelyn Doane	Melissa Wennihan
John Kim	Liana Pang
Kawika Riley	Makana Chai
Miles Nishijima	Kama Hopkins
Momilani Lazo	Kauikeaolani Wailehua
Raymond Matsuura	Lady Garrett
Sterling Wong	Imiola Gora-Aina
Timmy Wailehua	
U'ilani Tanigawa	

GUESTS:

Rodney Lee	Keali'i Makekau
Lucas Sayin	D.J. Hay
Maria Su	
Allison Holt Gendrean	

I. CALL TO ORDER

Committee Chair Hulu Lindsey – Calls the Committee on Resource Management to order on Wednesday, January 19, 2017 at 10:01am noting that Trustee Leina‘ala Ahu Isa is excused.

		Present	Excused	Comments
TRUSTEE LEI	AHU ISA		X	
TRUSTEE DAN	AHUNA	X		
TRUSTEE ROWENA	AKANA	X		Departed at 11:15am
TRUSTEE KELI‘I	AKINA	X		
TRUSTEE PETER	APO	X		
TRUSTEE ROBERT	LINDSEY	X		
TRUSTEE COLETTE	MACHADO	X		
TRUSTEE JOHN	WAIHE‘E	X		
CHAIRPERSON HULU	LINDSEY	X		
TOTAL		8		

At the Call to Order, there are eight (8) Trustees present.

II. APPROVAL OF MINUTES

Chairperson Hulu Lindsey asks for a motion to approve all minutes dated January 4, 2017.

Motion is moved by **Trustee Rowena Akana** and seconded by **Trustee Colette Machado**.

	1	2	‘AE (YES)	‘A‘OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI AHU ISA						X
TRUSTEE DAN AHUNA			X			
TRUSTEE ROWENA AKANA	X		X			
TRUSTEE KELI‘I AKINA			X			
TRUSTEE PETER APO			X			
TRUSTEE ROBERT LINDSEY			X			
TRUSTEE COLETTE MACHADO		X	X			
TRUSTEE JOHN WAIHE‘E			X			
CHAIRPERSON HULU LINDSEY			X			
TOTAL VOTE COUNT			8	0	0	1

MOTION: UNANIMOUS PASSED DEFERRED FAILED

Motion passes with eight (8) YES votes and one (1) EXCUSED vote.

III. COMMUNITY CONCERNS / BENEFICIARY COMMENTS

Committee Chair Hulu Lindsey notes that there are no Community Concerns or Beneficiary Comments.

IV. NEW BUSINESS

A. Updates with Spire concerning the implementation of the Fiscal Sustainability Model and Implementation Plan

Committee Chair Hulu Lindsey turns the time over to Pouhana and Spire.

Ka Pouhana Kamana‘opono Crabbe extends his mahalo to Trustee Hulu Lindsey and greets the Board, introducing Spire and a presentation update. The purpose of this conversation is in light of the new Board leadership along with the Board’s past actions in September of approving the plan with now moving into the implementation phase – giving an update as well as next steps needed for the Board to consider moving forward. In a number of meetings with Spire and the Executive team, they have looked at some of the major challenges – as will be presented today by Rodney and his team. He turns the time over to Rodney Lee and Spire.

Rodney Lee greets the Board, introducing his colleagues, Lucas Sayin, Managing Partner and Audit Lead, along with Maria Su, Senior Manager and Analyst. He also introduces two other team members, Lani Nakazawa, an Attorney with deep experience in Local Government and Paul Shiraga, Senior Manager and Analyst.

Rodney begins with a recap before moving into updates, reminding the Board that the last time Spire appeared at the Board was October 2016. He states that Spire has always been on the same team as OHA in respect to financial management – which includes the management of the cash and asserts of the organization, but also the risks that are associated with that. Spire’s job is to provide a balanced and objective approach to looking at those concerns; providing trade-offs or options going forward. Over the years working with OHA, there are several principles and themes. Fiscal Discipline – concern over rising costs, operational budgets, and in 2013 the 7% average increase was curtailed. Also dealing with cost associated with every action taken – the opportunity cost of making one decision over another. As well as Time-Value money - how time factors into the value of money itself.

In 2015, OHA dealt with a number of unfortunate events: the 3rd quarter decrease to the portfolio value, rising and active litigation costs, as well as notification of the increase in the Fringe Benefit Rate. This is how Fiscal Sustainability came to the forefront – it was a way to take a comprehensive look at all of the financial activities OHA was concerned with, as well as the

inflow/outflows. The first task was retrieving all this information from and in cooperation with Administration. We also went through the diligence of validating and substantiating the data that was collected in accordance with our own accounting practices. From there, moving to the analysis, ensuring adequate assessment over time, structure, and conducting a risk assessment on the organization itself to discount the values. A Stress Test was also conducted alongside of it – which is typically done by Governments and Banks to understand what will cause it to fail. A number of stressors were found, ultimately finding that any continuous subsequent increase over time was the most damaging to the trust itself. Though self-explanatory, it also reveals that the cumulative effect over time was much more significant and detrimental.

Subsequent to that, the Fiscal Sustainability Model was constructed with all of the integrated information and concerns, creating scenarios.

Lucas Sayin states that this is where all the information provided by OHA Administration was validated by looking historically, the clean audit opinions provided by external auditor, and were presented in a way that encapsulated the entirety of all the decisions and liabilities faced by OHA. Some items, in their current accounting structure, are programmatic; however, if they were committed for multiple years, it was represented as a liability in order to understand the entire impact on future decision making. Once aggregated and presented in the current state, the analysis team then began to take this data and project out to the future. This helps to consider the timing of the cash needs, carrying the liabilities, discounting to present value, and taking a conservative adjustment to it in order to refrain from overstating any future over-earnings and present an overall picture that led to the overall understanding sustainability of OHA.

Ka Pouhana Crabbe further clarifies for Trustees that an example of the data discussed by Lucas included the investment funds, contracts within operations (paia, legal, etc.), grant funding through multiple years, lines of credits for Nā Lama Kukui, Kaka‘ako Makai, and multi-year board initiatives. Administration provided years of data (expenses out and income) to Spire.

Maria Su expands with the example of Nā Lama Kukui, where administration provided 200 contracts, of which we reviewed, re-calculated rents, and compared to their own projections to highlight any discrepancies. These are the types of analyses that were done in order to verify the data provided by Administration to Spire. From there, inflation rate, historical data trends were considered and adjusted these factors to create the scenarios for the next years.

Lucas Sayin adds that ultimately, all the data in its present state, was not for the intent of identifying error in the accounting. The audited opinions rendered were clean, but in order to present a Fiscal Sustainability Model, data was recorded in a programmatic way for accounting, but for planning purposes, must be shown as a liability in order to show tracking of inflows and outflows. This, however, does not mean or imply that there have been any accounting errors.

Rodney Lee states that the largest conversion was one from OHA’s recording of expenses which is consistent with Government practices and then to convert it into management terms; recording

liabilities, cash demands, and expenditures. At the end, we did a bunch of workshops. The first explained how the model was being built, what the rationale was. The second was to understand the current state, where we saw the health of the organization at the time. The analysis showed that some of the themes and principles mentioned (reduction of budget, adjustment to spending, etc.) was increasing the horizon. There were two metrics, the main asset value, and the horizon – the number of years funding was available to allow OHA to exist. From there, workshop 3 reviewed the scenarios available based on OHA’s current status (Nā Lama Kukui as an entity and financing options, Kaka’ako Makai proposed plans, Department of Hawaiian Homelands liability). Workshop 4 discussed larger principles – recommendations to the Board that it pay more attention to the Balance Sheet, taking a balance sheet management approach (Management of liabilities, building intergenerational equity). On October 12, 2016, we presented our findings and recommendations. The first of which being that OHA focus on Assets Value creation, looking for additional sources of revenue (Investments were not performing, managers reporting market was volatile, State’s intent to report a deficit, increasing Public Land Trust payment). This was important to be able to derive sources of revenue that OHA would have more control over.

Trustee Peter Apo discusses the current governance model seems to be “us versus them;” Trustee versus Administration. Speaking as a past ARM chair, Trustees look at the budget and see things different than Administration does. As a result, they moved to try and give Trustees more capacity as individuals to analyze the budget; even though it was contentious. Administration had some concerns about how this would happen. Spire comes along and Administration likes them; as do the Trustees. For the first time, we have a conversion model that has a single approach to analysis and oversight of our numbers. More importantly from the Trustee level, it is helpful to have people like Spire interpret for us rather than getting on Administration for things we don’t understand because of the way they are required to structure the budget. Ultimately, bringing the Board and Administration together through a third party consultant is significant.

Rodney Lee moves on to the second finding by looking at OHA’s adjusted total liabilities to include other obligations. The recommendation, as a management tool for the board, was to look at the liabilities as they should – namely DHHL. Also, to expand that further, beyond the stated value of the commitment at face value versus the actual value that it should have been weighed against in the decision. If you are going to take on a liability, know what those are as well as the repercussions going forward. The recommendation would be to establish a Debt Management Policy to manage the way liabilities are incurred; not only to include financial instruments, but to any other commitments to any other organizations for a longer period of time. DHHL is a liability, not a programmatic expense on the management side.

Finding three is that the greatest threats to OHA, as disclosed in the stress test, are multi-year commitments that affect the man-per-capital; including working capital, equity capital, and

investment capital. Any type of long-term fiscal drain that doesn't actually have a return, are the ones that actually affect OHA more. The recommendations include OHA being much more aware and increase its ability to forecast or adjust to fluctuations in demand for capital. This includes procedures and tasks in place to be able to do so.

Chair Hulu Lindsey asks if he has any handouts prepared for the Trustees.

Rodney Lee apologizes that he does not have any materials today but did pass out relevant materials on October 12, 2016. He continues, in addition, prepare for additional compliance and implementation challenges – the fringe issue being a reflection of an example.

Finally, to make sure the projections that are there, especially those that are within budget understand the way the calculation of the Spending Policy is made. Any adjustment, positive or negative, has a net carryout effect on the following five years. This is a pattern. The importance of managing the finances by having that outlook over five years, gives you better insight to what the spending should be over time. How to improve performance thereafter is something we've been discussing with Administration.

Trustee Keli'i Akina asks about item three, dealing with the greatest threats to OHA in multi-year capital needs, could you repeat item four in terms of the information that you provided on the October 12th meeting to the board?

Rodney Lee replies that it refers to the decrease in portfolio value and decrease in the available amount that can be drawn overtime – this includes the way the draw is calculated by a draw over twenty quarter rolling average.

Trustee Akina confirms that this is a "Dynamic Balance Sheet."

Rodney Lee confirms that it also includes an individual year focus in the sense of performance.

Trustee Akina asks about the October 12th briefing – if this was the meeting that a power point was presented to the board?

Rodney Lee replies, no – this meeting provided a document with data; which he will distribute to Trustee Akina.

Trustee Akina Shares that he did see the PowerPoint with the recommendations listed here, but was not given the actual data. He asks if the data was actually provided to the Board?

Rodney Lee shares that what was presented was just a finding using the model but can provide Trustee Akina with data if he would like.

Continuing on, he shares it was an emphasis on understanding how to manage the finances through looking at a single year, but also understanding the years prior to and after this single year. Also, balancing out the performance of the organization as well as the projected cash using inflows/outflows. This recommendation attempts to ensure that OHA is more fiscally disciplined.

Asks for any questions.

Pouhana Crabbe reminds the Trustees that Rodney previously provided Recommendations as well as specific steps/actions that were proposed to the Board. He summaries:

1. 5% Spending Policy
2. Consideration of Financing or Reconciling DHHL Debt-Consolidation Loan
3. Debt Consolidation Management Policy – also including consideration/discussion on Fiscal Reserve Policy

Chair Hulu Lindsey asks if the question of DHHL status is a question that should be addressed now. Is there any report on the status of that?

Pouhana Crabbe responds by saying that since the last meeting, they have not heard back from Jobi. Considering OHA's position along with further discussion by the Board, would OHA be in a better position of looking at a new financial structure that would benefit our portfolio? OHA would still be able to fulfill the commitment, but terms may perhaps be different.

Trustee Akina asks if these recommendations included plans that outlined what department or items would be cut? Or with debt consolidation, was it matched with what particular financed entities we would work with? Were there action steps or plans?

Rodney Lee responds by saying that in respect to the Spending Policy, what would be done is look at the organization's affordability, or ability to afford the draw down over time; this includes what the net effect would be over time. For example, if looking at the overall portfolio earnings to date, which are much lower than the net, or the real return of 6.5%, you are receiving more like 4.75% over the last year. So then, what is the effect of the draw down to this level, but also taking into consideration some of the liability commitments that are coming up. What would happen if you adjusted the Spending Policy but you needed to withdraw additional

Trustee Akina thanks Rodney in answering his question of whether these were general recommendations – which are sound recommendations – or whether they are actual action plans with specifics?

Rodney Lee responds by saying he will address that in implementation part of his presentation.

Trustee Robert Lindsey shares his memories of when Governor Burns was in office and there was conversation at D.O.E. regarding the lower education budget. He remembers very clearly

Governor saying “If I had to choose between the dollar and the child, he would always choose the dollar.” He appreciates that we are focusing on the financials, but wants to ensure that as OHA moves forward in executing the Fiscal Sustainability Plan, that we are paying attention to the impact that this will have on our people and the programs we have in place to serve their needs.

Trustee Rowena Akana shares that she thought OHA was reducing it to 4.5% over time, come July 1st?

Rodney Lee responds by saying there was consideration of looking at the potential possibility of doing this, but it was alongside seeing if we could reduce some of the other funding or increase some of the other revenue sources over time. The aim was not to affect the portfolio as a draw-down, but to replace that with other funds that would compensate for it. For instance, part of the request to the General Funds Budget was an increase to the State’s contribution to the Fringe Benefit Rate based on the 5% contribution for the 62 positions held forward. It went from 2.7-2.8% to 3.6% this year to make that adjustment – so how can we increase in some areas and decrease in others?

Trustee Akana shares that she thinks it’s very clear that OHA will not be generating any kind of new income in the next 24 months (rentals, investments, etc.). Given the testimony at the Legislature last week, they were very clear that they were upset that they had to pay for Fringes, especially questioning the high salaries given at the top of OHA’s food chain. They thought it was egregious and if OHA could pay these kinds of salaries, then why would they have to pay these compensations? They are not happy, so we may not be able to count on them. She does not see a silver lining here and if we don’t do the 4.5% in July as we planned, it is going to get worse – we cannot wait for economic development since it is not happening quick enough, we must look at cutting costs.

Rodney Lee responds by saying he thinks Trustee Akana’s comments are fair, but adding a caution in respect to the legislature, as there are a number of inherent differences between OHA’s contributions to the Fringe Benefits versus any other agencies covered under the general fund in that OHA must take out, not out of reduction of services since OHA is not allowed to do, but rather, cash-out. This was the increase in pension liability in the way it was managed. Secondly, OHA must be able to manage building different revenue streams. After October, we continued to look at implementation as instructed by the board. We have already noticed that there were significant opportunities that OHA could have made additional revenues. This contributes to looking at Implementation Planning. Under the current procurement restrictions, OHA is actually the worst person to purchase Real Estate, especially because it is such a slow, arduous process. The question is then, how do you create a legal entity to acquire these assets? We had hoped there would be significant progress in identifying additional revenue streams. If they don’t appear, Spire would agree that the reductions would have to occur. Projecting out cash demands it is clear it is not sustainable. The concern is that there should be a Beneficiary

focus – the question is how do we fund all of these commitments while remaining in compliance with State and Federal laws and regulations?

Spire would have to calculate a scenario that includes no additional revenue and a reduction of the budget – including if it affects personnel. Any offset of pension liability owed to the State - for example, with Maui Memorial, in the transfer of assets, they forgot about the pension liability being continued. Their settlement was \$121 million dollars. To calculate this, OHA's actual liability would have to be calculated and included in OHA's negotiation of responsibilities.

Trustee Robert Lindsey comments on the recent reflection of the overthrow of our Kingdom and Queen and that he does not view the pension liability as a big deal, but if we want to be a nation again, self-determining, and sovereign, the reality is that today, we live in a capitalistic economy. The sooner we can get ourselves on our feet economically, we will have economic sovereignty that we need.

Trustee Akina follows up on Trustee Akana's question to Spire. In regards to OHA underestimating their Fringe Benefit liability and consequential adjustments, the unanticipated increase of cost is now at 7%. Also now considering the EUTF recently announcing an additional adjustment due to the unfunded liabilities, have you incorporated that in the material you are presenting today? And has Spire addressed the process by which we missed this aspect?

Ka Pouhana Crabbe responds by correcting Trustee Akina's statement that OHA falsely calculated...

Trustee Akina insists that he did not accuse them of falsely calculating.

Ka Pouhana Crabbe continues explaining that Administration received information from Budget and Finance, who also reported the information to OHA late. He cautions the interpretation of Administrations work, emphasizing that from mid-summer until now, it was caught, reminding the board that this information provided by the legislature to OHA was based on their responses. OHA actually responded to the State Auditor in terms of reports that were receiving regarding the EUTF.

Trustee Akina clarifies that his question was not to point blame, though the fact stands that it was an underestimation, and that this underestimation must be corrected by data. His question addresses the capability of OHA to respond to these dynamics, asking Rodney to respond.

Rodney Lee responds by saying that their calculations included the stated values at hand. He agrees with Trustee Akina that there is always the suspicion because at the time, a sufficient calculation on the unfunded liability had not been done. What can be done is applying the adjustment. The adjustment, however, is fairly new. Based on the reports that were afforded to Spire, and in respect to Kamana'opono' comments, his interpretation is that OHA does not receive the information in a timely manner. Notification is more about improving relations with the state to get timely notification and in return, make timely adjustments.

Lucas Sayin adds that part of the model included a Stress Test, which included Fringe. The biggest risk is the escalating year over year cost – and the stress test did an analysis.

Trustee R. Lindsey adds that when it comes to OHA's unfunded liability, it is small and manageable. If you look at the unfunded liability facing the state, it is massive. OHA should be thoroughly grateful that our unfunded liability was fortunately dealt with soon enough. He does not understand why we continue to harp on this subject.

Maria Su adds that in addition to Lucas' comments, Spire moved steps forward and analyzed additional scenarios to accommodate the increase – including conservative, moderate to aggressive risky scenarios. All the data is available to the board to analyze.

Rodney Lee appreciates Trustee Lindsey's comments but insists on the Board requesting an actual request of OHA's actual liability. This would go against the claim that was made at the legislature. Because of the way OHA's compensation and participation has gone, there has been a very large difference in the contribution OHA has made to the EUTF and pension based on the types of employment agreements. This must be looked at in detail to understand the actual liability. His sense is that it is smaller than they think is – the memo states that the percentage is the same across all agencies. But the participation rate based on the number of retirees actually receiving the benefits from OHA is much smaller than it should be – it should be adjusted. This is not a subjective conversation, but is based on contracts, terms, etc. and is mandated by the Federal Government. The calculation of actual liability should be made; this is an issue of compliance. This recommendation was also made by the Auditor in 2015 for a variety of important reasons.

Chair Lindsey asks if there are any further questions before moving into implementation?

Ka Pouhana Crabbe clarifies concerns made by Trustee Akina – because of OHA's semi-autonomous status, we are a part of the State structure, but is not necessarily a part of State communications. The reality is that Budget and Finance's responsibility to inform OHA did not come until much later. Following that, OHA Administration had to adjust their calculations.

The second point is that we are currently looking at 10,000 foot issues, but the aim of the Fiscal Sustainability plan is to be looking 100,000 foot level – where we would like OHA to be as a trust not 5 or 10 years, but beyond. The conversation has been, what direction is the board going to increase trust assets? We have great opportunities in terms of commercial properties. There are strategies on the table from the Governor. These are strategic matters that complement the Fiscal Sustainability Plan moving forward. Trustees' fiduciary duties includes taking a high-level scope on how OHA will sustain the trust, but what steps will be taken and when. This is a sophisticated approach, but will increase our level of prudence, fiscal discipline, and long-term-range planning for fiscal sustainability. While we have concerns about past work, Spire has shared that they have intricately analyzed OHA's finances, and this discussion is catered towards moving forward and what the board would like to do.

Trustee Akina comments that he understands what ka Pouhana says – that any underestimation of liabilities is because the rest of the State government didn't communicate data to us. He recognizes that that may be so, but keep in mind that this is not something new. Ka Pouhana claims that it is largely because we are semi-autonomous, but this has been the case for years. The real question, therefore, is how do we anticipate public policy situations such as the unfunded liability of the state and its impact upon our finances? It has been no secret that the ERS and the EUTF have had unfunded liabilities. Public policy organizations and government agencies have been practicing best practices to incorporate that into their financial projects. He is pleased with many of the things heard from Spire and affirms the need to incorporate these dynamics in future models.

Chair Lindsey has two questions for Pouhana. In regards to the Public Land Trust, what is the status of the group that was supposed to be working on a possible solution?

Ka Pouhana Crabbe explains that there was a initial meeting in October with former Chair Bob Lindsey with the Governor, Speaker Souki, representatives from Senator Galuteria's office. The recommendation was for OHA to share their Financial Reports with Budget and Finance. Budget and Finance met with OHA's staff, there was a workshop held at the state capitol and a briefing. OHA made proposals to the Governor's office as well as Budget and Finance in terms of a report – which is part of the resolution to submitted by the opening of the legislature – but we have not heard back from Budget and Finance or the Governor's office.

Chair Lindsey responds by recalling a discussion four years ago where the board thought that when working with the Public Land Trust – as revenue for OHA – that there should be an inventory. At the time, you mentioned that the inventory would be soon ready, but I am wondering what the status of the inventory is today as it would help us in these working groups to justify our share of money.

Ka Pouhana Crabbe responds by saying it would and would not help us. The Ceded Lands inventory goes back to 1848 and we would look at certain periods in terms of when the Mahele Lands were divided up. The negotiations with the Governor includes re-negotiation of Act 178, which calls for an interim amount (\$15.1 million annually). These monies are from the Public Land Trust, which is only part of the entire Ceded Lands inventory – these are carved out by state constitution – and this is how OHA was formed in receiving these funds to improve conditions. In that respect, the Ceded Land inventory will be of minimal use in these negotiations. What we do know, is that is we change the interim revenue to 20%, the income will increase significantly. This, however, must be a discussion and then approved by the Executive branch along with the House and Senate.

Trustee Akana states that she has had a meeting with Senator Kouchi, Speaker Souki, and Senator Galuteria regarding this matter. She states that they are committed to work together to resolve this issue hopefully during this legislative session. As for the Ceded Land inventory, it seems we have several. This board commissioned the Hawaiian Studies Group that now has a

completed inventory at their library. OHA has several of their own that have been done. To her understanding, Administration gave a contract out to do a ceded land inventory and asks what the current status of this contract is.

Ka Pouhana Crabbe responds by confirming that Administration has given out a number of these contracts.

Trustee Akana asks specifically about a contract given out and OHA has not received the product yet. She asks ka Pouhana to inform the Trustees on the status of this contract. She insists that there are copies of several inventories available to us already. From the point of \$15.1 temporary interim, we know that the State owes OHA much more than this figure, but it is a matter of identifying those departments that are not paying into this inventory.

Chair Lindsey asks Pouhana about the \$15.1 million dollar cap, asking what the 20% would be based on?

Ka Pouhana Crabbe responds by explaining that the 20% would be based on the total revenue of the state agencies that receive revenue on Public Land Trust. He confirms that this is much more than the \$15.1 million. This would include negotiations with the House and the Senate, but the convening is done by the Governor. OHA is doing another fiscal report as part of OHA's position and argument that the figures are true and accurate. Budget and Finance is still analyzing OHA's 2012 Financial Report but they do concur in terms of the general trend of lack of reporting. Based on that, OHA would continue discussions and negotiations regarding the increase to 20%.

Chair Lindsey asks if there is a deadline?

Ka Pouhana Crabbe responds by saying that they submitted a draft report by opening of legislature as required by the Resolution. There is another report required by January 2018. As far as OHA is concerned, we have done all that is being required thus far.

Trustee Apo asks if there is an agreement on what lands are included?

Ka Pouhana Crabbe responds by saying that there is a majority agreement on the lands that are part of the Public Land Trust. There is disagreement on lands that are not included, such as the airport.

Trustee Apo asks if there is a resolution to that?

Ka Pouhana Crabbe responds by saying that that is a component of the negotiations taking place – whether or not the state would consider airports and additional harbors in it. Our legal team and our working group has provided substantial legal arguments to demonstrate that the revenues do come from these places. It has been a back and forth legal battle throughout the

years. With the 2012 financial report, along with the most recent, there is very convincing evidence in support of OHA's position.

Trustee Apo asks if he is correct in assuming that this has been fundamentally the problem for years. Sometimes, we blame the departments for failing to follow through with their reports, but when they have no guidance on what lands are included, it is difficult. He hopes that there will be closure to it soon. He asks ka Pouhana asks if they will resolve the issue of which lands are included this year?

Ka Pouhana Crabbe responds by saying that this is the major discussion.

Trustee R. Lindsey confirms that Administration has done a great job in getting OHA ready to have these negotiation conversations with the State of Hawaii. He also confirms that the \$15.1 million is far less than what OHA should be getting.

Chair Lindsey brings up the question of refinancing Nā Lama Kukui and asks ka Pouhana if he could give Trustees the status on this?

Ka Pouhana Crabbe responds by saying that he would have to ask John Kim to further respond as they have been in contact with Bank of Hawaii. He recalls that there was discussion of different options that would allow OHA to pay off, but perhaps prolong payments. He confirms that Administration will report back to the Trustees on the manner.

Rodney Lee discusses that as a result of the October 2016 meeting based on the instruction given by the Board, Spire continued to move forward on structuring the Implementation Plan itself. On November 18th, four Administration guidance documents for work plan examples reviews were submitted. These reports covered 12 topics that are believed to be relevant to the implementation itself. Also includes a review of programs and grants that OHA administers. Looking at these from a realistic viewpoint – what are the priorities and the most effective way to do these.

Number four is not as popular, but is something that needs to be done. We believe that a new financial system that would be able to convert relevant information and would be important to the reporting aspect of it.

Trustee Akina asks if the the 12-point item list is available to the Trustees now?

Rodney Lee responds by saying that it was still under review, but can submit it to the Trustees for comment if that's what he would prefer. Spire apologizes, as they were just planning on having a conversation at the table today since they were waiting for feedback from Administration at the time.

Chair Lindsey confirms that Rodney did provide this document to the RM chair.

Rodney Lee explains that Number 5 is important – understanding if there are any benefits to the Department of Interior’s Federal Recognition. There could be a potential benefit if OHA is considered under the Tribal Treaties, to form different entities. This is an important aspect to understand and look into.

Number six discusses the legal and reporting structure for business development. How does OHA take advantages of the opportunities that it is afforded? But under the current procurement restrictions, how does it work to its best interests?

Lucas Sayin adds that in respect to real estate, how does OHA protect itself? The most common we see through businesses is joint-venture or subsidiary LLC’s. Ultimately, how does OHA minimize its risks and protect the trust in any of its business dealings? And what is the best structure to do so?

Rodney Lee highlights Number 7 - Human Resource Planning. This has been a discussion on the Board table for a while. Not only looking at today in terms of affordability, but into the future. This includes training and development, professional pathways that shows that OHA grows financial and programmatically, but also how the people grow alongside of it.

Number 8 – Investment Committee Structures. Can OHA take advantage of things that it already has – like Investment committee expansion? Spire suggests going back to the table with DHHL with a little more aggressiveness. Are there better financing options other than a Revenue Bond? The last meeting with DHHL, they agreed that they would show a report of direct benefit. Spire would contend that the representations need to be corrected.

Number 10 – Kaka’ako Makai. How can OHA progress? Make decisions around it so that the budget can be adjusted to what the plans will be. Also, considering Nā Lama Kukui. Looking at Real Estate investment and management - this was a part of the 2009 Audit finding. OHA must understand financial securities and real estate are two different kinds of returns and how this melds with the investment policy.

Outside of the implementation, but related to it, updating the Investment Policy – updating what the aggregate target would be based on the plans of both financial securities as well as real estate investment returns. Aligning the policies all together to make sure there are no conflicts between policies. The reason why this is important is because Biennium Budget is coming through and this is not just a disclosure to the Legislature, but also a disclosure to its beneficiaries on what it is going to spend.

If OHA can cover these 12 items plus the policy itself and be prepared for the Biennium Budget, it would be great. This is, however, a very aggressive timeline. This is where we are with Implementation Planning. The Workplan Examples have been submitted to Administration for review – since then, the election, holidays, etc. took place bringing us here.

We have steps that we believe must get done, but this is not a decision for us to make since Spire does not have the authority to act on OHA's behalf, but should be a conversation with Administration to do so. At that point, after revisions, Spire plans to submit that and any other progress.

Trustee R. Lindsey asks Rodney to summarize the recommended policies that the Board would look to put in place.

Rodney Lee responds by outlining the four policies that Spire recommends implementing this year:

1. Spending Policy – Accurate estimation of adjustments
2. Debt Policy – because there is no way to define the way debt is taken out, why it is taken out, and the terms by which they are taken out.
3. Investment Policy – A comprehensive policy with segments into 2 different classes and how the both contribute to the investment policy goal. This should be evaluated every year. The 2 classes are:
 - 1) Financial Securities
 - 2) Real Estate
4. Fiscal Reserve Policy – Examination of Fiscal Reserve and what the appropriate uses/funding are

Another consideration is policy alignment. Along with Administration's efforts to update all the policies, there should be also be a vertical alignment so that there can be a review that there is no conflict between the policies themselves.

Trustee Apo addresses the Investment Policy and measuring returns/revenue – is there a way that other institutions that are mission driven (Harvard, Yale, etc.) have a return category that are non-revenue, like Legacy Lands for example?

Rodney Lee responds by saying that to his understanding, those are separated out as programmatic goals on an organizational level. These non-financial programmatic goals have a separate governance rules and reporting in order to further understand funding and budgeting these programs.

Trustee Apo specifies what he is addressing – for example, making an investment in local businesses through direct investment. Is there a way for the Trustees to provide entrepreneurship opportunities that don't take OHA into the red, but will not yield highest and best use, but it is consistent with our mission to build the capacity to help our people become economically self-sufficient.

Rodney Lee responds by saying that he gives an example of Kamehameha Schools aligning it under community outreach or Programmatic Lands. They provide assistance with the cooperation with business professionals to determine logistics. He shares that there are certainly

structures that exist that can be referenced, but it is indeed separated out. To his knowledge, he doesn't know of one that is combined.

Trustee Akina addresses the implementation presentation and shares that he will ask a series of questions to gain clarity on the scope and nature of the work, but that there are many aspects of Spire's work that he commends. As a new Trustee, he and his team created crucial recommendations for Fiscal Sustainability using existing data, validating the same conclusions highlighted by Spire. The nature of his questions are on the definitions provided today in terms of Implementation – are they guidelines, plans, etc.? This is coming from the perspective that OHA has commissioned Spire.

What Spire presented today, was not a plan, but rather 12 areas where conversations must take place. These identify backgrounds, objectives, models, policy suggestions, and so forth. First question is, in these 12 areas where we should have discussion, you have not presented an actionable plan but rather suggestions as to models we could follow and policies we could implement – but we have yet to see the actionable plan to ensure Fiscal Sustainability. Would that be correct?

Rodney Lee responds by saying that based on Spire's position and the way they are contracted, they believe their best use is limited to advising and guiding by providing examples towards execution. Going from there, participating in conversations with the organization on where to go from there. What was provided on November 18th was a Guidance Document of exact work-plan examples. He apologizes that they do not have that in their hand, but will work to do so. In those plans, and in every topic, are steps Spire believes Administration should take – and they are detailed steps including considerations and process to be able to go through the particular exercise.

While he agrees with Trustee Akina that there is no plan in that there are no findings from the exercise to ensure that this is the plan; that it is reviewed by the board and acted up. What we have today, are all the steps to get to the individual plans.

Trustee Akina thanks Rodney for helping him to understand the current product being a Guidance Document. It is not, however, a plan, per se. To clarify, in regards to it not being a plan, he wants to ensure that Spire is not making representation that they are presenting a plan that ensures that we meet the needs of multiple generations of beneficiaries, a Fiscal Sustainability Plan, that includes a new financial structure that has the objective of increasing the value of OHA's assets and endowments to help deliver our mission – you are not specifically representing that this is what you are presenting, is this correct?

Rodney Lee responds that Spire has made representations through the restructuring on the models on how they believe the financials should be reviewed going forward as a management purpose – not as a management or compliance purpose. Now, along with the recommendations

presented, based on the findings, to take specific action to implement to come up with a formulated plan.

Trustee Akina thanks Rodney for the clarification because an Administrator made the representation to Civil Beat on January 11th that this is the product that we have on hand – and I hear you saying we don't have that products.

He asks an additional question in regards to the actual process of work – Spire was contracted to work on giving financial advice regarding fiscal sustainability and fiscal sustainability plan that included the following, and please tell me if this is your understanding of the work that you should do:

1. An inventory of all critical assests and liabilities that are a part of OHA or reasonably expected to be a part of OHA in 10 years – is that your understanding of it?

Rodney Lee replies yes.

Trustee Akina continues:

2. An evaluation of the condition and performance of inventories, assets and liabilities – is that a part of your work?
3. An evaluation of OHA's operating capabilities including but not limited to core services, organizational planning, and resource planning – is that your work?
4. The development of 5, 9, and 12 year plans for the on-going sustainability of OHA?

Rodney Lee replies that they have created 5, 9, and 12 year scenarios...

Trustee Akina interjects – scenarios and not plans, what is the difference?

Rodney Lee replies that a scenario provides a condition to estimate potential options that would occur that would arise from...

Trustee Akina interjects - projections and background and so forth, that we could use to make the plan, but not the plan it.

Rodney Lee replies yes, but clarifies the process itself, the word “plan” itself, if you were to consider a “plan” a document itself, the intention was for Spire to provide the information that was information, take OHA through those discussions as they are not authorized to make decisions, but to recommend, and through those findings and recommendations, to have the Trustees to make a decision going forward...

Trustee Akina thanks Rodney reiterates that he is not critical of Spire's leading through the process. He asks Rodney if through his experience in working with multiple corporations and so forth, are the four items mentioned usually items that Administration and CFO have as their on-going charge for the organization; should they be doing that?

Rodney Lee responds by saying that his experience is that it is varied.

Trustee Akina responds asking if in a mature corporation with a large C-sweep, should they have the capacity with a CFO and staff, to perform these items?

Trustee Apo calls for a point of order.

Rodney Lee interjects by saying he can respond to the question. The mature organization...

Trustee Apo calls for a point of order. He states that understanding Trustee Akina's background, understanding his history, his past positions on OHA, and his sincere concern for fiscal sustainability, his line of questioning reminds him a lot of that of a courtroom. The language that he uses and the way he poses the questions, sounds like he is building a legal case of some sort. With that, his point of order is that the Board must be very careful – particularly with Trustee Akina and his record – as to how this kind of dialogue ensues, especially with third party contractors that are at the table. He does not have a problem with questioning Trustees or staff on it, but when it comes to contracts on it, the legal line of questioning disturbs him.

Chair Lindsey asks Rodney to continue answering the question.

Trustee Ahuna asks to be recognized.

Chair Lindsey responds by saying she will get him after.

Rodney Lee continues by saying that in the most mature organizations, those organizations contain a division usually around strategy and strategic planning; specifically to benchmark performance measures as well as to track operational performance as well as overall projective goals that drive the organization forward. This is a critical function of the most successful organizations that he has been privileged to work with.

Trustee Akina thanks Rodney and asks an additional question in terms of the specific questions he asked. In terms of OHA's inventory of assets and liabilities, is that not already paid for and conducted during OHA's annual financial statement audit?

Rodney Lee responds by saying for the purposes of a Financial Audit? Yes. But for the purposes of financial management, incorporating additional things and reclassification of programmatic costs that should be considered liabilities? No.

Trustee Akina defers the time but has one more line of questioning.

Chair Lindsey recognizes Trustee Ahuna

Trustee Ahuna asks a question related to Trustee Apo's – is Trustee Akina saying his own opinion and interpretation of all of this?

Rodney Lee responds by saying he is not sure, he thinks these are his own concerns.

Trustee Akina answers Trustee Ahuna as to his motivation – he assures Trustees that he sits here today taking seriously his fiduciary duty to make sure that OHA is spending their money and getting the product that they are spending their money on in an appropriate way. His questions are not to criticize Spire and makes it clear that he admires the work – but in terms of what is being provided to us, a Guidance Document, they are to be commended. His questions have to do with making sure that OHA are holding our Administration and each other accountable for the actual work product.

He has just one more set of questions.

Trustee Apo makes it clear that what disturbs him is that Trustee Akina's line of questioning is very legal and asking the contractor if he is fulfilling the terms of the contract. He states that he has no problem with Trustee Akina asking these questions but it should be directed towards Administration, so for the record, that the contractor is not being put on record here. Administration or Trustees should be answering these questions. Should there be any legal proceeding, we understand who is where.

Trustee Akina responds that legal proceedings are the furthest from his mind. He is trying to define the work product that the Trustees have. He thanks Trustee Apo for his comments.

Trustee Apo adds that things go on record and we know that what goes on record shows up in the media.

Trustee Ahuna adds that it seems like he is just answering his own questions.

Trustee Akina continues on finishing his question. He asks Rodney if he feels comfortable responding to his questions.

Rodney Lee responds by saying yes.

Trustee Akina responds by saying he is not trying to impute any liability on him and assures that he is doing a great job. The last question has to do with the overall process of Spire's work. When the contract began, and services were provided by the then PKF initially in 2014, \$95,000 was the award from OHA for the work to be done in terms of financial advisement. Between that period of time, the amount of contracting grew from \$95,000 to \$723,000 to include both the ongoing financial advisement as well as the Fiscal Sustainability Plan – does that sound about right?

Rodney Lee responds by saying yes for the 3 years.

Trustee Akina asks Rodney responded to any RFPs or go through any procurement process for the 4 increases since 2014?

Rodney Lee responds by saying that as he currently understands it, the \$95,000 was an annual contracting amount and under the contract, OHA had the ability to extend the contract year after year going forward.

Trustee Akina then directs his question to ka Pouhana – did OHA go through all required RFP processes and all required procurement procedures in the increasing in the contract form \$95,000?

Ka Pouhana Crabbe responds by saying that this is a Board contract so Administration does not have any responsibility in terms of managing the contract. At the time, Trustee Apo was the RM chair that procured PKF at the time.

Trustee Akina asks ka Pouhana to recall a conversation on November 23rd where he made an inquiry as to the data that is behind the PowerPoint of the recommendations that came from our contractor. He asks if ka Pouhana recalls this conversation? He clarifies that the PowerPoint he is discussing is from Spire. He asked ka Pouhana for the data behind the PowerPoint taking it that he did not readily have the data available to provide him. He asks if he recalls what he told Trustee Akina as to the availability of the data?

Ka Pouhana Crabbe responds by saying no.

Trustee Akina states that ka Pouhana said he was unable to provide the data as it was based on a model that was proprietary.

Ka Pouhana Crabbe confirms that this is correct and that the data...

Trustee Akina interjects by asking about the model was proprietary not the data.

Ka Pouhana Crabbe confirms that this is correct

Chair Lindsey interjects by saying that Spire did provide it.

Trustee Akina continues saying that this is his question to Rodney – he asked if in the contract, is this proprietary? Are you allowed to keep the projection from us?

Trustee Apo again raises his point of order as the board has no legal counsel present and that the line of questioning is legal. He insists that the questions being asked, if not answered correctly, makes this board liable.

Trustee Akina responds by saying that any one is allowed not to answer.

Trustee Apo says that with legal counsel he has no issue with these questions. Without legal counsel, he has a problem

Chair Lindsey asks Trustee Akina to put his questions into writing and will pass on his questions to Corp Counsel. To set the record straight, she confirms that she has a copy of the

PowerPoint presentation presented by Spire and will have her staff disseminate copies to all the Trustees.

Trustee Akina asks to close his comments by explaining his questions to the board. He first thanks Spire for their work. His concern is not about the quality of the work, but rather the spending of resources in the amount of the contract. What is the product that we got? And does it constitute a plan? It is clear that it is not a plan but just a process. He shares that he will submit in writing his concerns to Chair and share with the rest of the Trustees.

Chair Lindsey asks for any more questions from the Trustees and thanks Rodney.

Rodney Lee states again that from what he can view the climate to be, his comment is – not representing himself and Spire or trying to save the contract – a concern for OHA. There is a lot of things that need to get done in the next five months. He implores the organization to work as one to finalize these details as it has long ranging years. To delay any type of action – whether it be the organization or with Spire as advisors – he just implores the organization to work together to work through the list for the beneficiaries and the organization. Find a team, get it done, and tackle the items.

Trustee Machado offers her observations as former RM chair. The effect of what the discussion lends to the leadership of the Board of Trustees. This board is very volatile and we must work to try and resolve after the October 12th meeting to move forward. It does not help that Trustee Akina comes on the board and attempts to tear down everything that we have worked with. She states that she is unsure what the Chair feels about the FSP, Hulu has been committed, but without the commitment from the Chair of the Board, it will continue to be a firestorm. This kind of action is not good for the organization – the board does not provide the continuity.

Trustee Akina states that it is important that the Trustees do not impute each other's character and he stands by his words. He encourages other Trustees to look at his comments and assures that he wants to build OHA for the beneficiaries.

Trustee Machado responds by asking to allow to move forward with Implementation. She commends Chair Lindsey for bringing Spire to the board on the first agenda. She again questions the Chair of the Board's commitment to the FSP. There must be a shared understanding to move forward with staff and Trustees.

Trustee Lindsey offers up his remarks by saying that he is here uplift the organization, Administration, and staff. He believes in ethics, in accountability and transparency – but anyone that is here to tear down OHA and people, does not deserve to be at the Board's table.

Chair Lindsey thanks Trustee Lindsey for his comments. She shares that there was just a communication from the Director of Finance giving the Board notice of the Counsel on Revenue Estimate that is due February 10th. The correspondence will go out to the offices. She again

thanks Rodney Lee, reiterating her support for him and his team, confirming that the Sustainability Plan is something that the Board has been awaiting for a long time. She confirms that all the Trustees are concerned for the wellbeing of the organization and looks forward to the next step where they outline the scenarios and make a choice on one for implementation – this will be the next step.

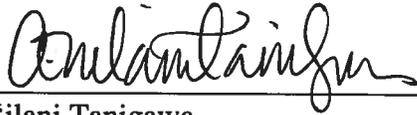
V. ANNOUNCEMENTS

Chairperson Hulu Lindsey asks if there are any announcements. Hearing none, takes a motion for adjournment.

VI. ADJOURNMENT

Chairperson Hulu Lindsey moves to adjourn.						
	1	2	'AE (YES)	'A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
TRUSTEE LEI AHU ISA						X
TRUSTEE DAN AHUNA			X			
TRUSTEE ROWENA AKANA						X
TRUSTEE KELI'I AKINA		X	X			
TRUSTEE PETER APO	X		X			
TRUSTEE ROBERT LINDSEY			X			
TRUSTEE COLETTE MACHADO			X			
TRUSTEE JOHN WAIHE'E			X			
CHAIRPERSON HULU LINDSEY			X			
TOTAL VOTE COUNT			7			2
MOTION: <input type="checkbox"/> UNANIMOUS <input checked="" type="checkbox"/> PASSED <input type="checkbox"/> DEFERRED <input type="checkbox"/> FAILED						
Motion passes with seven (7) YES votes and two (2) EXCUSED votes.						

Respectfully Submitted,

 2/9/17

A. U'ilani Tanigawa
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management on February 8, 2017.

 2/9/17

Trustee Carmen Hulu Lindsey
Committee Chair
Committee on Resource Management

ATTACHMENTS:

- Community Sign-In Sheet