



DRAFT Minutes
BOARD OF DIRECTORS
Research Corporation of the University of Hawai'i
Tuesday, June 15, 2021
Virtual Meeting

PRESENT:

Eugene Bal, Kelli Goodin, Ken Hayashida, Chair Donna Ikeda, David Karl, Vice Chair Michael Maberry, Vassilis Syrmos. Excused: Jan Sullivan

RCUH Staff: Leonard Gouveia, Nelson Sakamoto, Glenn Yee, Kaylee Hull
Attorney General's Office: Reese Nakamura

CALL TO ORDER:

The meeting was called to order by Chair Ikeda at 1:03 p.m.

PRESENTATION ON FOLLOW-UP QUESTIONS FROM JUNE 1, 2021 BOARD MEETING

To provide some context for the presentation, Executive Director Gouveia explained that he had a discussion with President Lassner the prior week. He noted that President Lassner was not aware of the 10% cap of the RTRF payment to RCUH listed in UH Executive Policy 12.216 and said that it was not discussed with him. President Lassner mentioned that he will have a discussion with VPRI Syrmos on the matter, but agreed that the Internal Agreement between UH and RCUH still stands in terms of the fee arrangement.

ED Gouveia and President Lassner also agreed that any determination of changes to the Internal Agreement will be dependent, at least in part, on information provided in the final report of the Senate Resolution 148 Task Force, which was passed in the latest legislative session. ED Gouveia explained the composition of the task force to the Board and noted that VPRI Syrmos is in the process of scheduling the first meeting.

ED Gouveia also discussed RCUH's IT needs with President Lassner, particularly the replacement of the AS400 system and the pending budget approval. President Lassner understood that RCUH has been vetting this issue for some time and informed ED Gouveia that he will need to have a discussion with VPIT Garret Yoshimi to be sure that there are no shared needs and/or possible cost savings in order to ensure there is no duplication or waste of resources. Both parties agreed that RCUH should move forward with discussing and evaluating the proposed FY22 budget and could revisit the issue in the future if deemed necessary by the RCUH Board of Directors.

ED Gouveia passed it on to Mr. Yee who compared the FY21 budget, FY21 forecast, and FY22 budget proposal. He reviewed the removal of the project development cost in the revised budget proposal and Mr. Gouveia shared his vision for promoting workforce development in research administration.

While reviewing the proposal, VPRI Syrmos asked to make two statements for the record. He stated that he previously discussed that tuition support for research personnel and UH awards for researchers could be taken out of RCUH's reserves as opposed to the management fee. VPRI Syrmos also suggested that IT improvements could be a one-time charge to the reserve account. Mr. Gouveia acknowledged that the two parties have discussed these topics via email, while VPRI Syrmos provided an explanation as to why RCUH previously funded the UH research awards.

Mr. Yee continued with the presentation and showed the impact of a 10% cap on RCUH's budget, which would equate to a \$700,000 decrease in revenue. He suggested that it could result in a reduction of staff and that the working capital reserve would fall from \$6.9 million to \$5.4 million. Mr. Yee added that if this were to occur RCUH would incur a loan covenant violation.

There was a discussion to clarify how the IT improvement would affect the budget if it were to be taken out of RCUH's working capital reserve, but Mr. Yee explained that the IT investment doesn't immediately impact RCUH's operating revenue; it is charged through a depreciation expense over six years. There were further comments on the possibility of a reduction in staff and Mr. Yee explained that it is one of the main areas where RCUH could reduce expenses upon reviewing the budget categories.

VPRI Syrmos expressed his concern that the line of credit with First Hawaiian Bank restricts RCUH's reserves and what the reserves can be used for. ED Gouveia acknowledged his concerns, but wanted the Board to understand that RCUH could lose that line of credit. Director Karl inquired why RCUH would need a line of credit and Mr. Yee explained that the line of credit is a backup in the event that RCUH was cut off from receiving funds. The reserve is essentially RCUH's net cash and since one payroll is approx. \$5-6 million, his concern is not having enough cash to make payroll. VPRI Syrmos disagreed with Mr. Yee's definition of reserves for an operating budget. He suggested that an appropriate two-month reserve for RCUH's operating budget would be around \$1.5 million and noted that in RCUH's history there has never been an occurrence in which RCUH was not able to make payroll. Mr. Sakamoto chimed in and recalled that there was a time in which RCUH had to make a choice between holding back payment on purchase items just to make payroll and was forced to dip into the working capital reserve and line of credit. VPRI Syrmos mentioned that he spoke to previous Executive Director Harold Masumoto who told him that he made two changes—convince UH to service order all extramural funds at RCUH, and revise the revenue formula for the Internal Agreement so that RCUH would never be in such a position as he had described.

Chair Ikeda asked Glenn to clarify that the funds to pay for the financial system upgrade would come from the working capital reserve and split across two years. Mr. Yee confirmed that it would be paid from the working capital reserve, and that cost is capitalized and depreciated over six years, so RCUH doesn't actually receive reimbursement immediately. VPRI Syrmos stated that if RCUH were to use its reserve to pay for the depreciation, the University wouldn't have to pay for it as part of its management fee. Chair Ikeda reiterated that the benefit goes to the UH researchers and that the reserves is not a slush fund; it is meant to cover specific items in the event that problems occur.

Mr. Yee continued to review financial graphs that reflected trends in extramural expenditures, RCUH operating expenses, and extramural fees. He stated that he noticed an increase from 2016, which he attributed to payments towards project development and the RCUH Strategic Plan, in which a decision was made to invest in RCUH's IT systems. VPRI Syrmos inquired about RCUH's increased operating budget between 2016 and 2020 and noted that extramural expenditures remained steady, while RCUH's operating budget increased by approx. 20%. Chair Ikeda remarked that the Board should also look at all of the changes and improvements that were made and the fact that RCUH has a 75% approval rate from its constituency. VPRI Syrmos noted that he's one of these users and is satisfied from what he's receiving, but doesn't want to pay 20% more to get the same service since the service has been very good the last five years. Chair Ikeda explained that the cost of the service does not remain the same over time.

Mr. Yee continued with a comparison of extramural expenditures to effective extramural fees. He explained that when calculating the effective fee percentage, he found that the University of Hawai'i is paying three cents to the dollar for all of the services RCUH offers (e.g., HR-related services, procurement, IT systems, etc.). Mr. Yee compared RCUH's G&A rate against other nonprofits and stated that a G&A expense under 10% would be considered a success, but VPRI Syrmos declared it was a misleading comparison.

He suggested that the Board may want to consider a long-term discussion in which management fees are tied into some type of indirect cost rate that RCUH may want to establish with the federal government, which he envisions to be in the high two's or low three's. Chair Ikeda reminded the Board that RCUH can always reduce costs, but it's a matter of what constituents are willing to give up.

Mr. Yee moved on to share a chart that reflects UH's percentage of RCUH's business. He explained that UH's fees include extramural, intramural, and revolving fees, whereas direct project fees are fees from state agencies and private organizations. Mr. Yee showed that the low point for RCUH's UH business was 83.3% in 2012 and that we're currently at a high point of 92-93%. He explained that RCUH has experienced a decrease in direct projects as RCUH is selective towards state agencies due to potential entanglements with union agreements. Mr. Yee noted that it appears to be cyclical and suggested that it may take marketing and training on RCUH's behalf to explain our services to state agencies. VPRI Syrmos suggested that at a future meeting the board should have a discussion on how to diversify RCUH's business.

Mr. Yee displayed a chart that explained the fee structure (i.e., cost base and cost rate) for the four buckets that RCUH receives fees from. He added that RCUH doesn't control the determination of the indirect cost rate as UH controls the process of negotiating the indirect cost rates with their cognizant agency, on behalf of RCUH. Mr. Yee shared that the review process with the cognizant agency occurs every four to six years and is based upon RCUH's indirect costs. This rate ranges from 2.4% to 3.2% and affects RCUH's cash flow and budgets. VPRI Syrmos clarified that the rates are not negotiated by the University with RCUH, but rather that the rates are established by the federal government through UH for RCUH since the federal government considers RCUH a part of UH. Chair Ikeda noted that if RCUH's budget remains static over the years, the percentage goes down; VPRI Syrmos concurred and stated that it happens to all universities.

Director Goodin inquired whether RCUH's IT investments would be reflected in the indirect rate from the federal government since it would be washed in with the total budget. Mr. Yee explained that the way RCUH would recover the IT investment costs would be through the depreciation expense and if the federal government were to evaluate RCUH's rates using 2022's numbers, it is possible RCUH wouldn't see any recoveries in that rate since there may not any depreciation costs allocated in that particular year. VPRI Syrmos added that this was a good question and that there should be a discussion as to whether management fees should be formula-based or rate-based and to show a comparison of the two approaches.

Mr. Yee continued with a table that listed RCUH core staff vacancies with budgeted salaries for each position. He commented that two individuals recently resigned, but there has been some savings from unfilled positions. ED Gouveia noted that issues of morale were recently brought to his attention and Mr. Sakamoto shared with the Board that it is tough to find good talent. Director Karl recalled that this will be the second consecutive year that core staff will not receive salary adjustments, whereas employees hired on individual projects will still be eligible, which could exacerbate this poor morale. Mr. Sakamoto agreed and explained that RCUH hasn't released any type of guidelines yet in terms of pay adjustments, but noted it will be tough for his staff who has put in a lot of overtime hours. Chair Ikeda asked whether there has been continuous recruitment at RCUH or whether there has been a complete hiring freeze, and ED Gouveia explained that it has been based on each director's needs. Chair Ikeda added that she wouldn't want to see a complete freeze.

Mr. Yee explained that he was asked to follow up on the payments to the Office of the Vice President for Research and Innovation (OVPRI) for project development. He showed a table that reflects a list of payments for the past seven years, which totals to about \$2.5 million. It was mentioned in the previous meeting that RCUH was reimbursed for these payments, but Mr. Yee could not find any reimbursement in RCUH's records. VPRI Syrmos clarified that the money was included in RCUH's budget every year with the purpose to help researchers generate more extramural funds. He

explained that there was little success in the first year and in subsequent years the money was never used for that purpose so every year UH took the money back since it was never used. He suggested that RCUH invite former Executive Director Sylvia Yuen to the next board meeting to provide more details on this initiative. Chair Ikeda stated that she did speak to Dr. Yuen and there was a back-and-forth discussion with VPRI Syrmos on what was stated at the previous board meeting in regards to who initiated the request for funds. ED Gouveia suggested that this topic can be looked into further at a future meeting and VPRI Syrmos agreed, although he stated that he has already explained it numerous times for the Board.

Mr. Yee continued with a review of the history of RCUH's tuition reimbursement benefit for employees. He explained that the funds for this benefit was cut by 50% over concerns surrounding UH's financial situation. ED Gouveia added that he spoke to Attorney General Nakamura regarding the legality of removing a benefit, and suggested that in an abundance of caution it be kept in the budget for the time being. Chair Ikeda didn't understand why RCUH is considering removing this benefit and suggested raising it back to the full \$75,000. VPRI Syrmos clarified that the benefit shouldn't be taken away, rather it should just be removed from the management fee and possibly be funded from the interest gained from RCUH's deposits. ED Gouveia countered that it could be a slippery slope to grant an exception for this employee benefit since other employee benefits are paid from the formula, but agreed that it needs more evaluation. Director Karl inquired as to how many employees use this benefit. Mr. Sakamoto explained that it is a small percentage of the workforce that is taking advantage of the tuition reimbursement benefit, but it is because RCUH has to turn people away since the benefit is oversubscribed and runs out of funds. There was some discussion as to whether UH Hilo offered tuition exemptions, but no firm conclusion was reached. ED Gouveia agreed with Chair Ikeda that he'd like to see the fund return to \$75,000, but due to the current difficult financial situation he believes RCUH should postpone any changes.

Mr. Yee shared a history of the working capital reserve, which is essentially RCUH's net cash position. He mentioned that the strategic plan was revised in 2018 to rebuild the working capital reserve to \$7.5 million, but the balance has remained steady at \$6.1 million since 2018. Mr. Yee also noted several working capital reserve considerations such as RCUH Unemployment Insurance Liability, RCUH Workers' Compensation Liability, and the Project Contingent Liabilities Reserve. RCUH is self-insured for unemployment and workers' compensation claims.

Chair Ikeda asked how RCUH pays for retirement expenses and Mr. Sakamoto explained that it is charged as a fringe benefit to the projects. This charge is based on an annual rate determined by a formula from the Department of Health and Human Services.

VPRI Syrmos asked how much cash does RCUH have deposited in its accounts from all internal service orders and intramural funds from UH. Mr. Yee explained that after removing the liabilities, RCUH has approx. \$6 million. VPRI Syrmos followed up with a question on whether RCUH segregates those deposits from services orders and internal revenues, or whether RCUH uses them for cash flow? Mr. Yee stated that the funds are segregated and are essentially put into TCDs.

BUDGET FOR FY 2021-22

Upon motion made (Maberry), seconded (Hayashida), and duly carried, the Board voted to approve the proposed budget without the 10% cap. NOTE: VPRI Syrmos is a non-voting member and Director Sullivan is excused.

RECOGNITION OF OUTGOING BOARD MEMBERS

ED Gouveia recognized two outgoing board members—Jan Sullivan and Donna Ikeda. He wanted to personally thank both individuals for all of their hard work and voluntary commitment to RCUH and the research community at large. Chair Ikeda shared that she has always had respect for RCUH as an institution, but has come to respect it even more having served on the Board. She requested that

the Board carries the charge of protecting RCUH and its constituents and staff, and helping RCUH become a stronger and more viable to the researchers who support it.

ADJOURNMENT

The meeting adjourned at 2:44 p.m.

Kaylee Hull
Executive Administrator

NOTE: Unless otherwise noted in minutes, all motions were passed unanimously.