



Minutes

BOARD OF DIRECTORS

Research Corporation of the University of Hawai'i

Tuesday, March 7, 2023

In-Person Location: East-West Center, Burns Hall 4th Floor, 4005/4009
1601 East-West Road, Honolulu, HI 96848

PRESENT: Eugene Bal, Kelli Goodin, Ken Hayashida, David Karl, Jaret KC Leong, Diane Paloma, Taryn Salmon, Vassilis Syrmos

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

CALL TO ORDER

The meeting was called to order by Chair Bal at 9:50 a.m. Ms. Hull indicated that no written or oral testimony was received.

APPROVAL OF MINUTES OF THE DECEMBER 6, 2022 MEETING

Upon motion made (Hayashida), seconded (Goodin), and duly carried, the minutes of the December 6, 2022 meeting were approved as circulated.

FINANCIAL STATEMENTS FOR JANUARY 2023

Mr. Yee highlighted items in the balance sheet for January 2023, including total assets (\$44.5 million), total liabilities (\$34.2 million), and net worth (\$10.3 million). He shared that approximately \$18 million will be transferred to the University as part of the transition of Revolving Accounts so those numbers will be significantly reduced going into July 2023. Mr. Yee added that TCDs have decreased from last year as RCUH is terminating CDs and preparing those cash equivalents for the turnover of Revolving Accounts.

Director Karl asked where the \$18 million will be allocated when it is returned to UH. Mr. Yee stated that he's been meeting with UH personnel to discuss how the turnover will occur and whether it will be cut as one check or separate checks going to the individual schools that the Revolving Accounts reside in (funds will be managed at the school level). Chair Bal inquired whether the loss of \$18 million in assets will result in a reduction in liabilities and Mr. Yee confirmed that was the case.

Mr. Yee explained that through seven months of activity interest income has been driving net income due to rates nearing 5%. He recognized that upon the turnover of the Revolving Accounts to UH, interest income will drop significantly due to the lack of assets to put into CDs. However, Mr. Yee shared that RCUH's volume of business is trending in a positive direction, having processed \$187 million in expenditures in seven months.

Chair Bal asked for clarification on RCUH's total retained earnings and Mr. Yee reported that the capital assets are not fungible cash, therefore the true working capital reserve is the combination of the working capital amount plus the project contingent liability reserve.

REPORT OF AUDIT COMMITTEE

Audit Committee Chair Hayashida reported that the committee met earlier today to review and vote on N&K CPAs' fee proposal for the 2023 Fiscal Year audit. N&K proposed a fee of \$49,500, which is a 5.8% increase compared to last fiscal year. Director Hayashida recognized that there has been an increase in labor costs and that increased proposal averaged to a 3% increase over four years, which is in line with what he's seeing in the private sector. The Audit Committee felt that this was a reasonable amount and recommended that the board ratifies the Audit Committee's acceptance of N&K's fee proposal for the 2023 Fiscal Year audit.

Upon motion made (Paloma), seconded (Salmon), and duly carried, the Board of Directors unanimously approved the Audit Committee's acceptance of N&K's fee proposal for the 2023 Fiscal Year audit.

EXECUTIVE DIRECTOR'S REPORT

Executive Director Gouveia was pleased to announce that RCUH was officially moved out of the Mānoa Innovation Center and is now operating at East-West Center's Burns Hall. He recognized Ms. Hull and the RCUH Leadership Team for their work in completing this move, which will save UH approximately \$155,000 per year. He also noted that RCUH reduced its square footage by nearly 40%. ED Gouveia added that RCUH is implementing a telework plan on a trial basis, aligned with the guidelines from the Office of the Vice President for Research and Innovation. He stressed that the expectation is to have staff here as much as possible and that RCUH will be following UH's lead for telework.

Legislative Update

ED Gouveia reported that there are two bills RCUH is monitoring: SB1511, which specifically references RCUH, and SB1414, which did not include RCUH in the language, but was mentioned in the dialogue at the Senate Higher Education Committee hearing, causing concern from some core staff and researchers. He stated that he met with VPRI Syrmos to share the concerns he received and they agreed that in the event either bill passes, they will work closely together on what the impact will be moving forward. ED Gouveia recognizes that this is a delicate situation, but is committed to figuring out the extent of the changes as the University is RCUH's No. 1 customer. He anticipates that it would take years to implement the proposed changes, but wants what is in the best interest for researchers.

VPRI Syrmos acknowledged that SB1511 is a bad bill and feels confident that it will not go very far. In regards to SB1414, which would give UH an exemption from the State Procurement Code for Extramural funds, VPRI Syrmos stated that it is UH's position to support the bill since it is good to have choices. He shared that when Senator Donna Mercado Kim asked how she could help, he asked for procurement exemptions for Extramural funds and does not believe there's anything wrong with UH having the exemption.

Chair Bal asked if SB1414 were to pass, would it take away the exemption from RCUH. VPRI Syrmos responded that both entities would have it. He explained that when this bill came through, the formula of how OVPRI charges projects that use RCUH now cascades down to the individual project.

If a large portion of a project's return goes to the RCUH management fee, they can decide whether or not to use RCUH's services.

Director Karl asked if SB1414 were to not pass, how would it impact the Revolving funds that are now managed by UH. VPRI clarified that the only change is that the money will be on UH's ledger and that Revolving Accounts would still be able to service order projects to RCUH similar to Extramural funds. By transferring the \$16-18 million in interest bearing accounts to UH and with 5% interest rates, this could provide nearly \$1 million more in revenue for the University. He stated that this is his fiduciary responsibility since this is UH's money.

Director Leong shared that his issue with SB1414, even though it doesn't specifically talk about RCUH, is that it opens the door to potentially take operations away from RCUH. VPRI Syrmos replied that this is not his choice as an office, as Extramural funds are automatically service ordered to RCUH. He added that faculty members have 100% control on how these funds are going to flow, which has been the case for over 30 years and doesn't think that is going to change.

There was discussion that this bill causes concern for RCUH procurement staff, which has four positions, similar to the number of positions that was proposed by VPRI Syrmos at the HRE Committee hearing. ED Gouveia said that he immediately spoke to VPRI Syrmos about this and agreed that they will work together to figure out a plan forward, should this bill pass. VPRI Syrmos commented that he personally thinks SB1414 is a great bill for the University.

Director Salmon mentioned that UH controls its own procurement of goods similar to other universities, including many items besides research-related goods and services. She inquired whether this bill would impact all of UH's procurement but VPRI Syrmos clarified that SB1414 is strictly for procurement using research funds.

Vice Chair Goodin followed up inquiring about the Principal Investigator's (PI's) ability and decision to use RCUH services. VPRI Syrmos explained that PIs on any Extramural fund have the ability to hire an employee through UH or RCUH, he does not tell anybody what to do. Since RCUH has advantages on hiring employees, the majority of PIs use RCUH's services. However, he believes in capitalism and that choice is a great thing.

Director Leong asked VPRI Syrmos about the operating fee UH will be charging the program. VPRI Syrmos stated that the operating fee will be taken out internally from UH's RTRF so projects won't see much of a fee, but the question is whether he provides a good service and emphasized that competition is good. Director Leong responded that he works for UH, but as an RCUH Board Member it's his fiduciary obligation to protect RCUH. He agreed that competition is great, but in his opinion he thinks something like this would open the door to chip away at RCUH or force RCUH to expand its services, which he wasn't sure is possible.

ED Gouveia replied that he's always up for a challenge and that RCUH will continue to do the best it can to support UH. He stated that the best way RCUH can do that is to work closer with the University and be as transparent as possible. One example of this collaboration is evaluating UH's and RCUH's potential liability and losses (with respect to legal claims). ED Gouveia recently reached out to VPRI Syrmos and UH's Office of General Counsel (OGC) to address issues surrounding lawsuits and

settlements. He explained that both UH and RCUH need to work closer on the evaluation and process so that both entities are protected.

Director Hayashida stated that it seems this bill would result in a duplication of services for UH and RCUH, adding that competition within government is odd. He added that building a whole new department doesn't seem logical from an operational standpoint and that UH should force RCUH to be more efficient rather than create a new department. VPRI Syrmos responded that UH has many HGEA employees on Extramural funds and posed whether UH should relent that and make those individuals RCUH employees. He also noted that UH and RCUH both have Human Resources departments because they are two organizations. ED Gouveia pointed out that one big difference between the two offices is that UH's HR office does not process its own payroll for its employees, but RCUH does. Another distinction is that RCUH employees who are paid from Extramural awards are usually employed for certain limited periods of time (project period of performance).

VPRI Syrmos reiterated the consideration of whether HGEA employees on Extramural funds should become RCUH employees. He stressed that at the end of the day it's the choice of faculty members who run these projects and that he will not make the decision of who they're going to hire. ED Gouveia agreed with VPRI Syrmos that ultimately it's the Pls decision, however UH and RCUH need to do a better job of screening these individuals. He also added that it's not necessarily bad that the Revolving Accounts transfer to UH since they can still service order their project to RCUH for procurement, while UH has a better grip of their finances.

VPRI Syrmos declared that RCUH is an invaluable organization to the University, especially with its support of marine operations and the research being done at the Maui High Performance Computing Center. However, most Extramurally-funded employees in Engineering are HGEA employees, so it's the choice of the individual who runs the project.

There was a brief inquiry regarding the effective date of SB1511, but it was clarified upon discussion. ED Gouveia concluded that it is premature to know whether these bills will advance. VPRI Syrmos recalled the days when the Legislature exempted UH from Chapter 103D for all procurement. Ultimately ED Gouveia and VPRI Syrmos agreed that RCUH and UH will need to work together to figure out a path forward.

Strategic Plan Update

- Transition of Revolving Funds: ED Gouveia reported that the transition of Revolving Accounts is going as planned, with one exemption to the July 1st deadline that was approved by UH. Mr. Yee stated that he has been meeting with UH every two weeks on the transition and the group is currently looking into how this two-month delay could impact the feed from UH to RCUH. VPRI Syrmos mentioned that he received another exemption request from ship operations, which operates on a calendar fiscal year, versus the state or federal fiscal year. UH also approved this exemption, which will be delayed until the end of December.
- Replacement of the AS400: RCUH's primary focus is to complete the necessary changes for the transition of the Revolving Accounts at this time, but progress is being made on implementing the new platform.

- UH/RCUH liabilities: As he mentioned earlier in the meeting, RCUH will meet with UH at the end of this month to discuss liabilities. ED Gouveia reported that RCUH has been entering more joint defense agreements with UH and believes that several issues can be solved by working closer together. VPRI Syrmos said that this was very refreshing to see and that even if it's going to cost the University more money it should be done right. He stated that even though the legal team may disagree, RCUH employees should be considered UH employees who are paid by RCUH. He declared that technically this was limited to the MHPCC group, but as far as the federal government is concerned, they consider RCUH and UH one and the same. VPRI Syrmos gave kudos to ED Gouveia for initiating these discussions.

In conclusion, ED Gouveia reported that now that the move has been completed, RCUH will be focusing more on its strategic plan and the remaining items from the Task Force Report, such as the evaluation of intramural projects.

PROPOSED SALARY ADJUSTMENT GUIDELINES EFFECTIVE JULY 1, 2023

Ms. Higa declared that the Board of Directors receives an annual proposal from RCUH administration for salary adjustment guidelines. She recalled that the Board was presented with multi-year compensation guidelines aligned with UH's Collective Bargaining Agreement (CBA) last year, but it was requested that RCUH proceed on an annual basis. As a result, RCUH is presenting a general 5% pay award/adjustment effective July 1st or October 1st and a 2-3% pay award/adjustment for merit. When comparing salary rates nationwide, the national increase in 2021 was approximately 3.3%, 2022 was 4.1%, and this year's national average is 4.64%. Ms. Higa contacted the Hawaii Employers Council and was informed that the state's inflation rate was 5.2% as of January. She added that employers have been getting creative to retain employees and that local employers are trending towards the 5% increase. This range of 3-5% gives Pls the flexibility to make a decision based on their project's funding. Ms. Higa clarified that this guideline applies to both project and core staff.

Director Karl inquired why there is a range of percentages and Ms. Higa responded that the range provides flexibility for Pls in terms of funding and equity, especially with employees who are not performing at a satisfactory level. Although unions are providing 5% increases across the board, these awards/adjustments are based on the project's funding. VPRI Syrmos added that he has 57 RCUH employees and likes the range for those who are underperforming.

Chair Bal inquired about last year's adjustment and Ms. Higa noted that it was 3.72%, which core staff was eligible for and which was aligned with UH's CBA. Merit awards were tabled for eligible core staff until it was determined how UH was proceeding. Director Leong reiterated that there may be a one-time hazard pay award distributed to government/state employees for March 2020 to March 2021. It was unclear if RCUH would consider that for core staff, but the topic could be discussed at a later time, once further information is available.

Upon motion made (Hayashida), seconded (Salmon), and duly carried, the Board of Directors unanimously approved the proposed salary adjustment guidelines effective July 1, 2023.

DISCUSSION AND APPROVAL OF PROPOSED POLICY FOR RCUH WORKING CAPITAL RESERVES

Mr. Yee provided a recap of the presentation at December's Board of Directors meeting. He

explained that historically RCUH had a contingent liability reserve that serves as an emergency fund that is within the working capital reserve. This reserve has been monitored in the past to ensure RCUH is not being excessive and there was an instance in which RCUH returned monies to the University. VPRI Syrmos noted at that time the UH president was also president of RCUH, however after some time the Legislature altered the statute to reduce UH's influence on RCUH.

Mr. Yee briefly reviewed UH's reserve policies and the three options he initially proposed in December. He stated that Option 1 does not seem suitable due to the reserves being too low and confirmed the calculation with UH CFO Kalbert Young. ED Gouveia stated that if RCUH were to proceed with this option, RCUH would have to turn to VPRI Syrmos in the event it ran out of funds. Mr. Yee reviewed Option 2, which is based on core operating expenditures and the average semi-monthly payroll (approximately \$6.2 million every two weeks). ED Gouveia acknowledged this was reasonable and VPRI Syrmos stated that he has no issues with this.

There was discussion on the mechanism to return money to UH or whether the RCUH management fee would be discounted if RCUH experienced excessive reserves. ED Gouveia acknowledged that there is no clear specification in the proposed policy.

Mr. Yee concluded with Option 3, which is similar to Option 2, but includes planned capital expenditures. The maximum reserve amount with this option would be around \$10 million.

<VPRI Syrmos left at 11:00 a.m.>

Mr. Yee's recommendation is a combination of Options 2 and 3 with a minimum amount in the range of \$7 million and a maximum amount in the range of \$10 million. If there were no capital expenditures, that threshold would lower. Chair Bal questioned whether the project contingent liability reserve was included in the recommendation and Mr. Yee concurred that it was.

Director Leong asked whether there was any external pressure to reduce the reserve. ED Gouveia explained that RCUH is not intended to make a profit and that in the event RCUH did make too much in the future, he would approach the Board to discuss the return of funds since the majority of RCUH's money is technically UH's money. At one point he was told RCUH doesn't need a reserve, but he does think it's very important to have one. ED Gouveia added that RCUH does have a loan option, but does not feel comfortable acting on it and would rather turn to UH in time of need for additional funding. As RCUH's financial officer, Mr. Yee disagreed, since it's his goal to ensure continuation of operations and a line of credit is an insurance policy that would only be used in an emergency due to lack of cash flow. ED Gouveia countered that in the event RCUH needs cash and the UH is not willing to pay for it, he would not want to be the guarantor for such a loan.

As far as the reserve itself, ED Gouveia has discussed this topic with Vassilis who agreed that this is something that's probably best to not change. ED Gouveia feels that the \$7.5 million is a comfortable amount for the time-being and if for some reason RCUH needed additional funds, it could turn to the University. One of his main concerns is if RCUH were to be hit by a large lawsuit. He explained that RCUH recently settled a lawsuit that involved actions by a UH researcher, which is what prompted the meeting with OGC and OVPRI.

Director Salmon inquired whether the proposed policy explicitly states what would happen to the funds if the reserves were to exceed the maximum amount. Mr. Yee acknowledged that it did not, but RCUH should add language similar to “pursuant to board approval, excess funds shall be returned to UH.”

Chair Bal suggested that the proposed policy seems more flexible since the amount will fluctuate based on RCUH’s needs. There was a discussion on whether this should be a policy versus a guideline (VPRI Syrmos recommended a policy). Chair Bal recognized that this process to determine an appropriate reserve amount was much more rigorous than the prior strategic plan that called for a \$7.5 million reserve. He discussed the previous federal government shutdowns and that the probability of it impacting RCUH is relatively slim. Chair Bal concluded that he supports this range and appreciates the rigor that has been applied by Mr. Yee and ED Gouveia.

Director Salmon acknowledged that the discussion provided additional perspective and suggested that cybersecurity issues are one of the top concerns for organizations, as those can impact operations for longer periods of time. She added that this proposal feels like a good balance. ED Gouveia agreed that cyber is the top risk that RCUH faces, followed by lawsuits.

Upon motion made (Paloma), seconded (Goodin), and duly carried, the Board of Directors unanimously approved the proposed policy for RCUH’s working capital reserves (with the addition of Director Salmon’s suggested language regarding excessive funds).

ADJOURNMENT

The meeting adjourned at 11:24 a.m.

/s/ Kaylee Hull

Kaylee Hull
Executive Administrator

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