

Fiscal Year 2020 and 2021 Preliminary Biennium Budget For Community Input

The Office of Hawaiian Affairs

May 2019



Executive Summary



Two thousand eighteen (2018) marked the end of the Office of Hawaiian Affairs' (OHA) Strategic Plan period, with a close-out report to be published in 2019. OHA has started the process to develop the Strategic Plan for 2020+ and is currently conducting face-to-face community input meetings across the pae 'āina in the months of May and June 2019.

The Fiscal Years 2020-2021 biennium core budget information herein contain assumptions, constraints, strategies, priorities, workplans, and estimates based on the existing strategic plan and the transition to new Strategic Framework.

OHA's Board of Trustees, ultimately has the final authority to determine the strategies, priorities, and resourcing to achieve OHA's mission and realize its vision – Ho'oulu Lāhui Aloha- To Raise a Beloved Lāhui.



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Purpose

The purpose of this document is to explain more about the Office of Hawaiian Affairs (OHA) and OHA's proposed budget for the next two years. OHA acknowledges its accountability to communities and beneficiaries and, therefore, provides this explanation of the preliminary biennium budget for Fiscal Year (FY) 2020 and 2021. This description is part of OHA's community input phase and will allow greater accessibility and detailed level of information to beneficiaries.

Comments and questions are important and OHA welcomes them. This feedback will provide an assessment of the preliminary budget and may result in revisions.

Please send your questions and comments to ohabudget@oha.org or visit www.oha.org for more information.

The Office of Hawaiian Affairs

OHA grew out of organized efforts in the 1970s to right past wrongs suffered by Native Hawaiians for over 100 years. Hawaiian's newfound activism brought their plight to the consciousness of the general public, leading grassroots leaders to propose that income from land taken from the illegal overthrow of the Hawaiian Kingdom be used to benefit Hawaiians. After voters of all backgrounds agreed, OHA was born in 1978.

Nu'ukia (Vision)

Ho'oulu Lāhui Aloha - To Raise a Beloved Lāhui

He 'ōlelo mākia 'o "Ho'oulu Lāhui" na ke Ali'i Nui Kalākaua; a he kia ho'omana'o 'o "Aloha" no ko ke Ali'i Nui Lili'uokalani 'ano kū a mau.

"Ho'oulu Lāhui" was King Kalākaua's motto. Aloha expresses the high values of Queen Lili'uokalani.

Ala Nu'ukia (Mission)

E ho'omalua i ko Hawai'i kanaka me ona mau waiwai honua a pau – pau pū nō me ko ke Ke'ena mau waiwai lewa me nā waiwai pa'a iho nō – e ō aku ai ka nohona mo'omeheu, e 'oi aku ai ka nohona kū i ka wā, a e malu iho ai ka nohona welo ho'oilina ma ka mea e ho'olaupa'i mau a'e ai he lāhui lamalama i 'ike 'ia kona kanaka mai 'ō a 'ō o ka poepoe honua nei he kanaka ehuehu, he kanaka ho'ohuliāmahi, he kanaka Hawai'i.

To mālama Hawai'i's people and environmental resources, and OHA's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and lāhui, recognized nationally and internationally.

Structure



The Office of Hawaiian Affairs is a public agency with a high degree of autonomy, responsible for improving the well-being of Native Hawaiians. OHA is governed by a Board of Trustees (BOT) made up of nine (9) members who are elected statewide to serve four-year terms, setting policy for the agency. The agency is administered by a Chief Executive Officer (Ka Pouhana) who is appointed by the BOT to oversee 179 positions.

Board of Trustees

Four of the nine positions on the Board are designated as at-large seats representing the state as whole, while the five other trustees represent each of the following districts: Hawai'i Island, Maui, Moloka'i and Lana'i, O'ahu, and Kaua'i and Ni'ihau. While there are residency requirements for candidates seeking the district seats, all voters

statewide are permitted to vote in each of the OHA races.

The BOT is responsible for setting OHA policy and managing the agency's trust. The Board meets regularly at the agency's headquarters in Honolulu, and at least once annually on each of the major islands.

Each of the trustees sits on the Board's two standing committees: Resource Management (RM) and Beneficiary Advocacy and Empowerment (BAE).

The RM Committee recommends policies for the management of the agency's investment portfolio and other OHA fiscal matters, in addition to policies relating to land use, native rights and natural and cultural resources. It also develops policies and guidelines for OHA's land acquisitions, dispositions, development, and management.

The BAE Committee focuses on the agency's legislative and advocacy efforts, as well as OHA programs that address beneficiary matters.

The RM and BAE Committees convene regularly and approve actions and recommendations that are forwarded to the full Board for consideration and final approval.

In April 2019, the BOT approved a new Board Governance Framework to better align the establishment of policies and related decision making. The new Board Governance Framework will improve the positioning of OHA's identity as an organization serving the Lāhui, its legal mandates as a state agency, its fiduciary duties as a trust, and its cultural values, policies and practices.

Structure

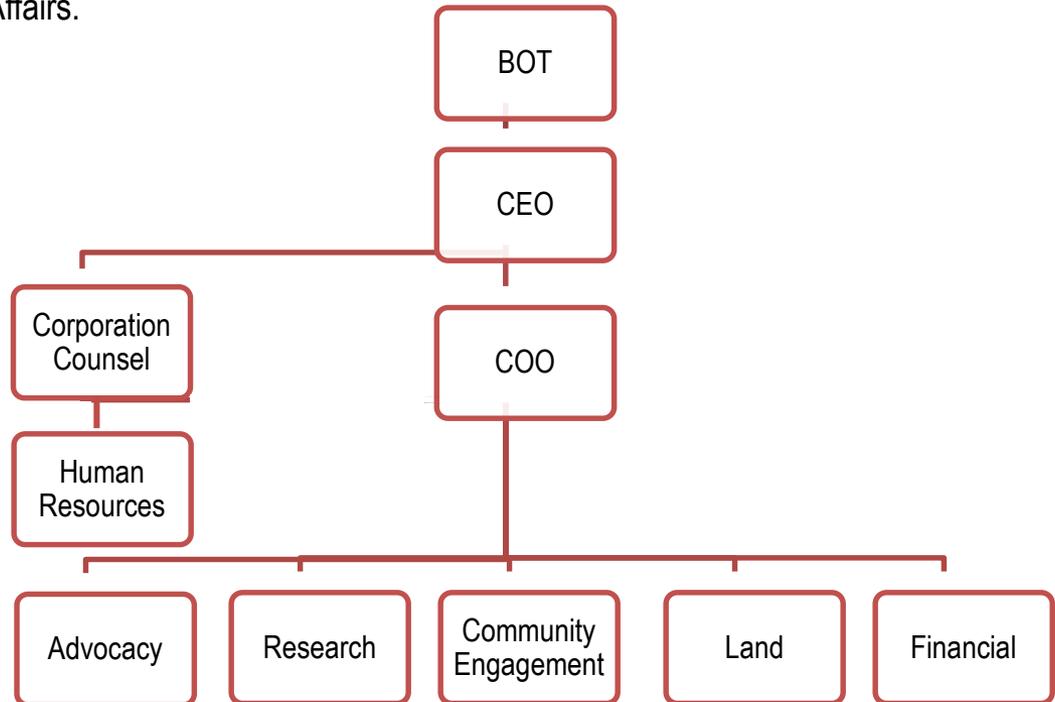


Executive Team

Seven executives make up the senior administration leadership at the Office of Hawaiian Affairs. OHA's executive team provides the authority and credibility needed to guide the implementation of the strategic direction of the organization. This team is led by a Chief Executive Officer (CEO), who is appointed by the Board of Trustees. The CEO selects all of the other members of the executive team, which is anchored by the Chief Operating Officer (COO).

The five other members of the executive team report directly to the COO. Together, OHA executives all work as a team to bring the right combination of skills and experience to implement policies, perform various functions of operations, and help the organization achieve its goals.

OHA's Administration consists of five divisions or Paia. They are: Advocacy, Research, Community Engagement, Land Assets, and Financial Assets. The following chart is the organization of the Office of Hawaiian Affairs.





Strategic Planning Process

OHA is currently engaged in a process to develop its Strategic Plan for 2020+. The BOT have completed the first and second phases of this three-phase process. In Phase 1, the BOT reaffirmed its committed to OHA's current vision and mission, as well as to continue OHA's 4 strategic roles:

- **Advocate:** to change laws, policies, and practices
- **Researcher:** to compile and gather data to identify gaps and important issues
- **Asset Manager:** to maximize and preserve our limited resources
- **Community Engager:** to connect OHA with Native Hawaiian communities and the general public

In Phase 2, the BOT identified their new strategic framework. This framework recognizes the foundation of Native Hawaiian communities as: 'Āina (land and water), Mo'omeheu (culture), and 'Ohana (family). By relying on these strong foundations, OHA plans to improve Educational Pathways, Economic Stability, Quality Housing, and Health Outcomes for Native Hawaiian individuals, families, communities, and lāhui.



In preparation for Phase 3 of the planning process, beneficiaries and other community members are currently being asked to provide input on the focus areas the BOT should consider within this new framework.



Budget Construction Process

The development of OHA's biennium budget begins with the program work planning process. It is a 6-month process and requires commitment by OHA's Administration and BOT to vet the requests.

These Strategic Work Plans were based on activities and tasks related to OHA's close-out of the 2010 – 2018 Strategic Plan and the transition to the new strategic framework. In general, divisions and programs will continue working within the broader priorities of the 2010 – 2018 Plan, as the new focus areas are developed, under the 2020 strategic framework. OHA is currently seeking community input on this development. If you are interested in sharing your mana'ō (thoughts), please see <https://www.oha.org/priorities> for information on focus groups or complete a survey at <https://www.surveymonkey.com/r/OHACommunityInput>.

In December 2018, OHA programs developed their FY2020 and FY2021 Strategic Work Plans. The Executive Team then identified large commitments and priority projects. The next step is the community sharing period. This step will help to inform Administration's submission of the final biennium budget to the Board of Trustees for action in June 2019.

The following graph depicts OHA's budget construction process.



Funding



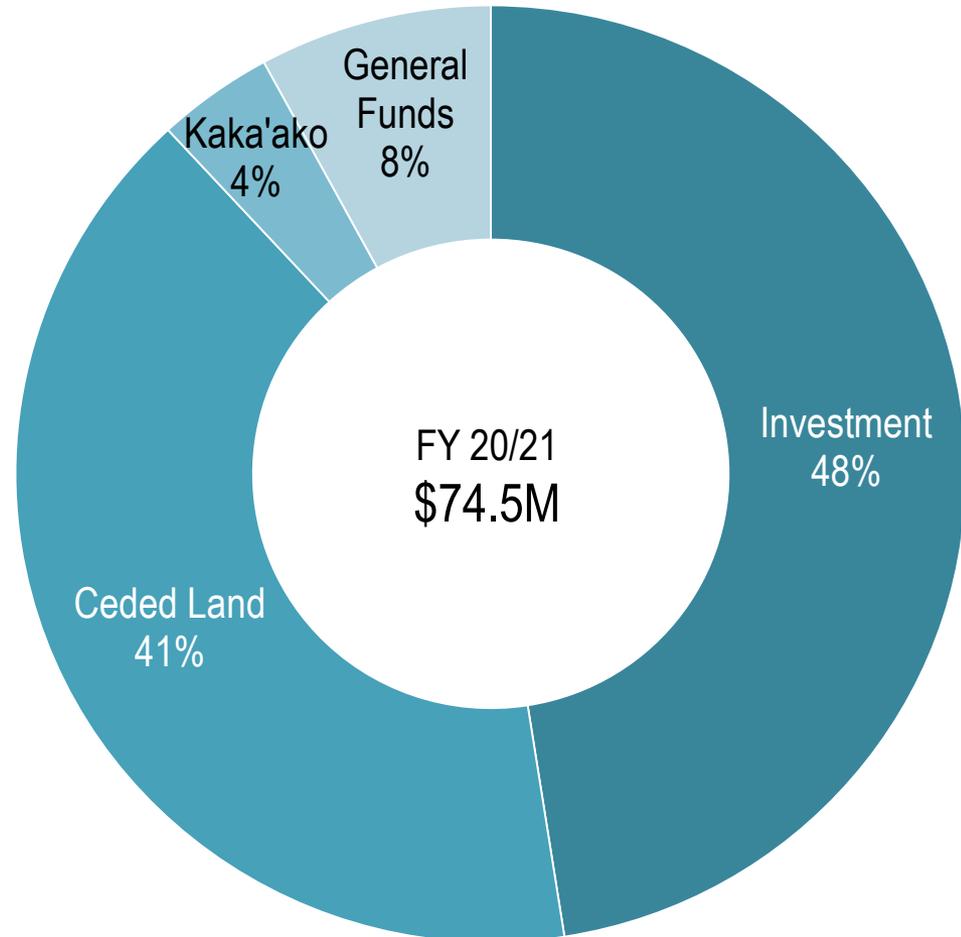
FY20: \$37.3M

FY21: \$37.2M

OHA operation consists of “core” and “non-core” budgets. Items in the non-core operating budget have their own designated funding sources, these include revenues from commercial leasing activities and federal grants received. OHA’s core operating budget is dependent upon four sources of funding including:

1. A percentage of investment portfolio;
2. Public Land Trust allotments;
3. Kaka‘ako Makai revenues; and
4. Appropriations of State of Hawai‘i general fund.

These sources are projected to generate approximately \$74.5 million in FY20 and FY21.



Funding

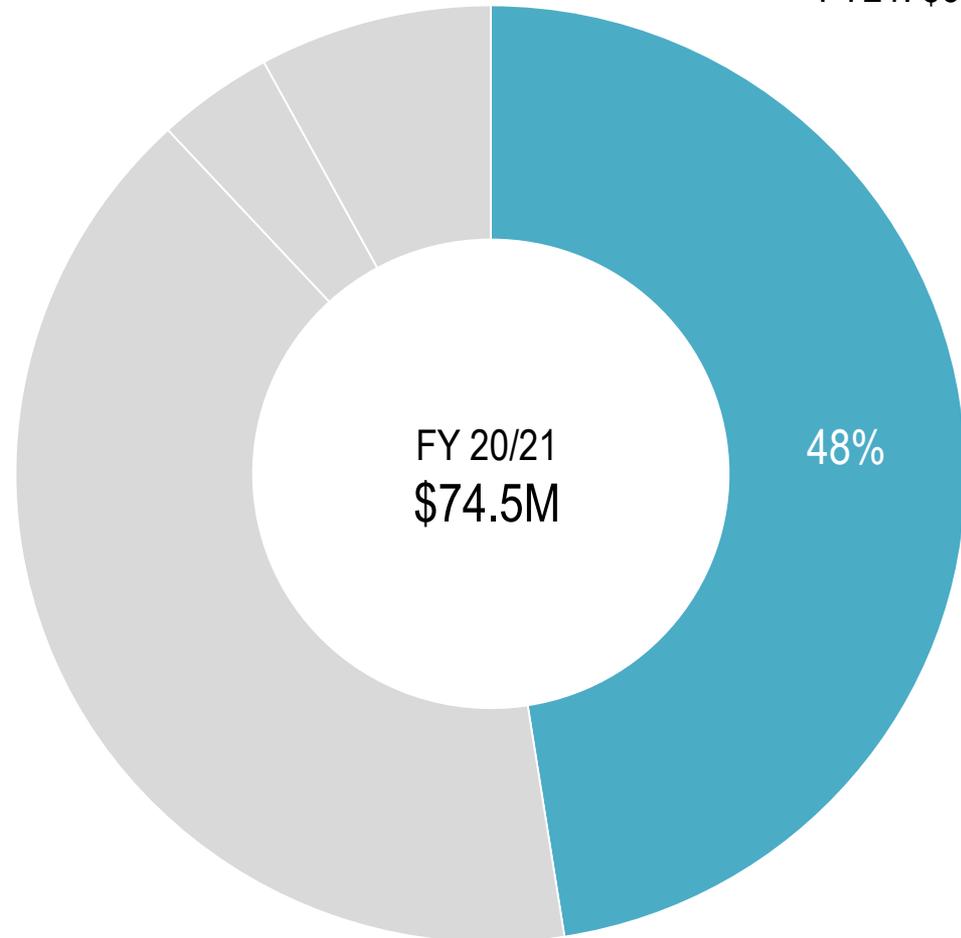


1. Investment Portfolio

The largest source of funding is OHA's ability to spend 5% of its investment portfolio, pursuant to its Spending Policy, which allows for a maximum 5% allocation of funding based upon a 20-quarter rolling average market value.

For FY20, the 5% spending amounts to approximately \$17.7 million. For FY21, the computed 5% spending increased slightly to \$17.9 million for a total of \$35.6 million over the two year period or 48% of OHA's total core operating budget.

FY20: \$37.3M
FY21: \$37.2M



Funding

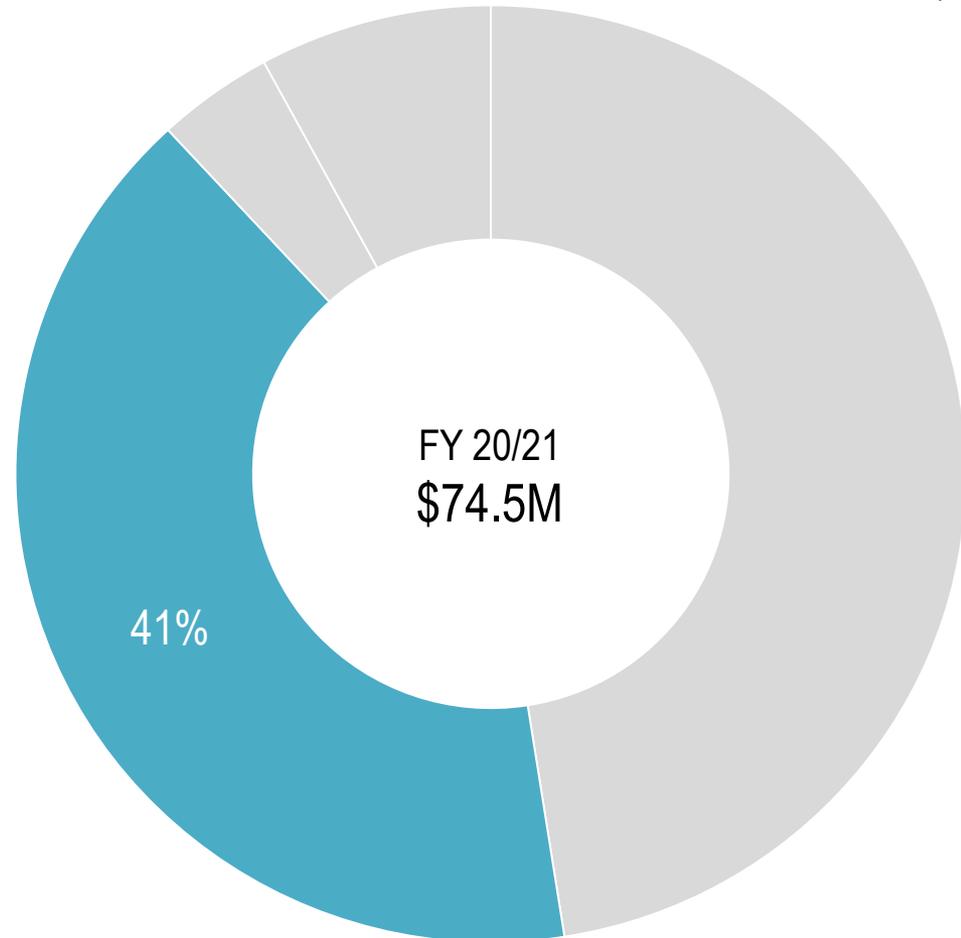


FY20: \$37.3M

FY21: \$37.2M

2. Public Land Trust Revenues

The Public Land Trust (PLT) is a subset of state lands which is held in trust for the betterment of the conditions of native Hawaiians, and the general public. PLT lands are comprised of former Crown and Government lands of the Hawaiian Kingdom. Hawai'i's constitution establishes OHA in part to receive and administer native Hawaiians' pro rata share of revenues derived from the PLT. The pro rata share is generally understood to be **20% of the revenues** from PLT lands. How this 20% should be calculated is a matter of longstanding debate between OHA and the State. In 2006, the State of Hawai'i agreed to pay OHA a fixed \$15.1 million per year as a temporary approximation of the PLT share. At 41% of OHA core operating budget, this is the second largest source of funding.



Funding



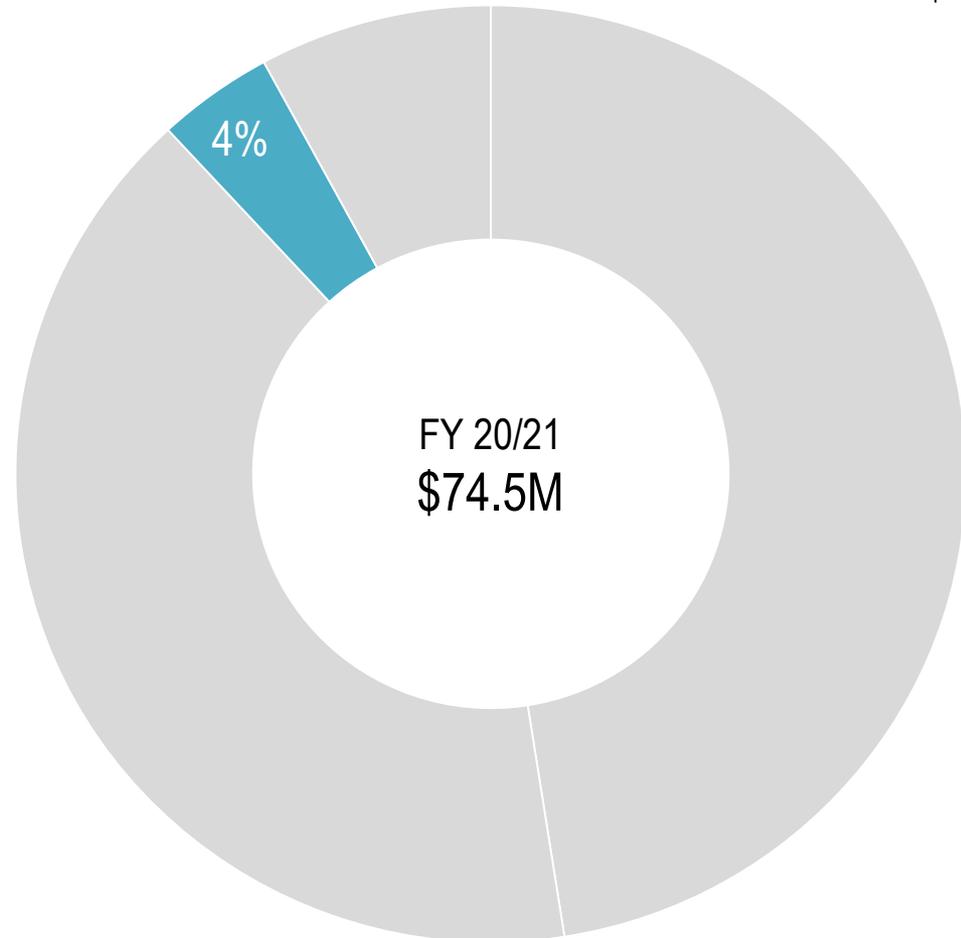
3. Kaka’ako Makai Revenues

The third source of funding, albeit a small percentage of OHA’s total core operating budget, reflects a commitment by OHA’s Board of Trustees to ensure maximum funding for continuing grants program support.

In 2012, OHA officially took title of 30 acres of prime real estate in Kaka’ako Makai. Annually, these parcels are expected to generate more than \$4 million in revenue to OHA. OHA’s Board of Trustees authorized a portion of these revenues to help support OHA’s cultural preservation lands and the grants program.

The estimated amount is approximately \$1.4 million in FY20 and slightly decreased to \$1.2 million in FY21, for a total of \$2.6 million or 4% of OHA’s total core operating budget.

FY20: \$37.3M
FY21: \$37.2M



Funding



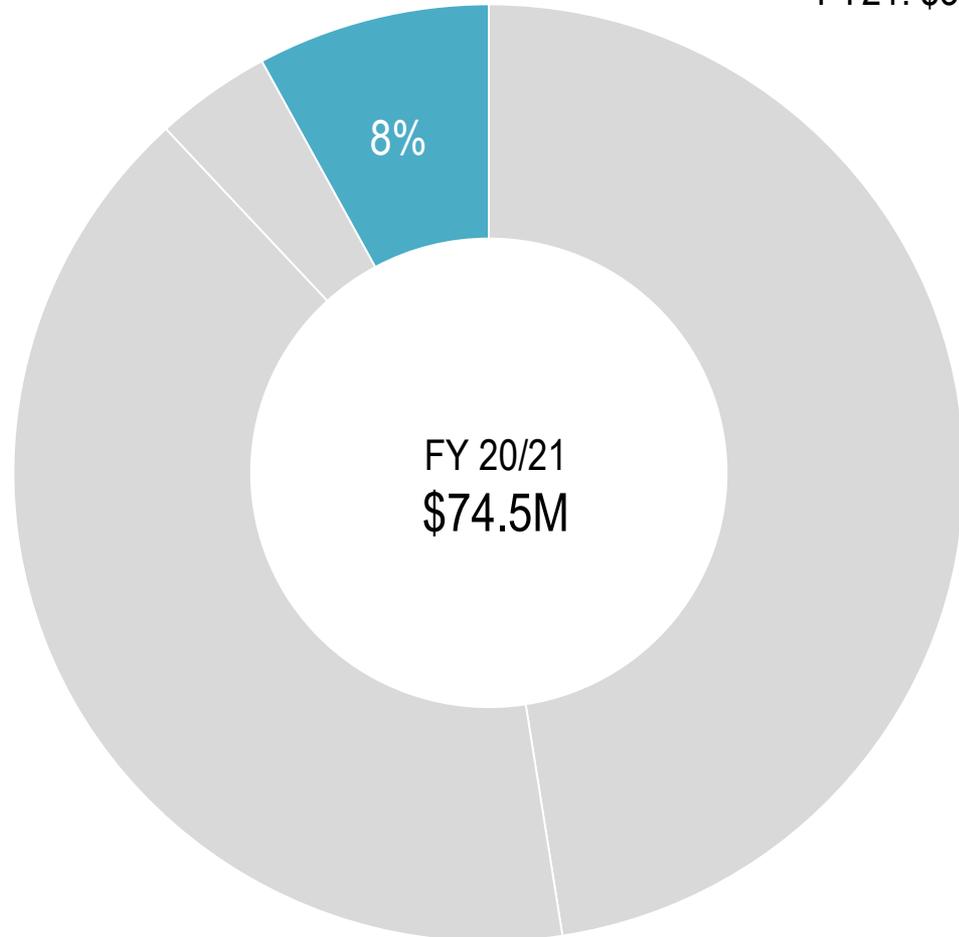
4. State of Hawai'i General Funds

The fourth source of funding is provided through the State of Hawai'i General Funds. OHA fulfills its fiduciary responsibilities to beneficiaries by advocating at the state legislature each year for general fund appropriations.

On average, OHA receives \$3 million in general fund appropriations annually. In continuing its advocacy efforts, OHA has consistently sought increases to its request to leverage its own Trust Funds for community benefit.

For FY20 and FY21, OHA received an annual funding of approximately \$3 million; for a total of \$6 million over the two years, constituting 8% of OHA's core operating budget.

FY20: \$37.3M
FY21: \$37.2M



Funding



Key Constraints

As part of the budget construction process, the Executive Team balances the budget based upon the following priorities and constraints.



First, vetting the biennium requests for strategic and policy alignment, including available spending resources.

Second, identifying large commitments, including matching funds of State of Hawai'i general fund appropriations and DHHL debt servicing agreement.



HAWAIIAN HOME LANDS
HAWAIIAN HOMES COMMISSION - DEPARTMENT OF HAWAIIAN HOME LANDS



Third, accounting for the current fringe benefit rate from the State of Hawai'i (60.08%), which adds a significant amount to the core budget on top of personnel salaries and wages.

Fourth, adhering to the Spending Policy and related spending limit of 5% of the total investment portfolio. As the market fluctuates, so too does OHA's spending limit.



Funding



Spending Priorities

Four years ago, during the development of OHA's FY16/17 budget, the BOT focused on two primary spending priorities. Those two primary spending priorities were: ensuring inter-generational equity and practicing fiscal sustainability.

- Ensuring inter-generational equity will ensure sufficient resources amongst present and future generations of beneficiaries.
- Practicing fiscal sustainability is the extent to which spending patterns do not undermine OHA's capacity to achieve OHA's mission, vision, and Strategic Plan.

Since then, OHA's BOT and Administration worked to move forward in the development of a fiscal sustainability plan with an outside consultant.

OHA is continuing its efforts to move forward with the implementation of the fiscal sustainability plan. This plan provides OHA with a framework and with stronger policies and guidelines to help ensure that fiscal decisions are made with comprehensive understanding of both the short and long term impact of beneficiaries.

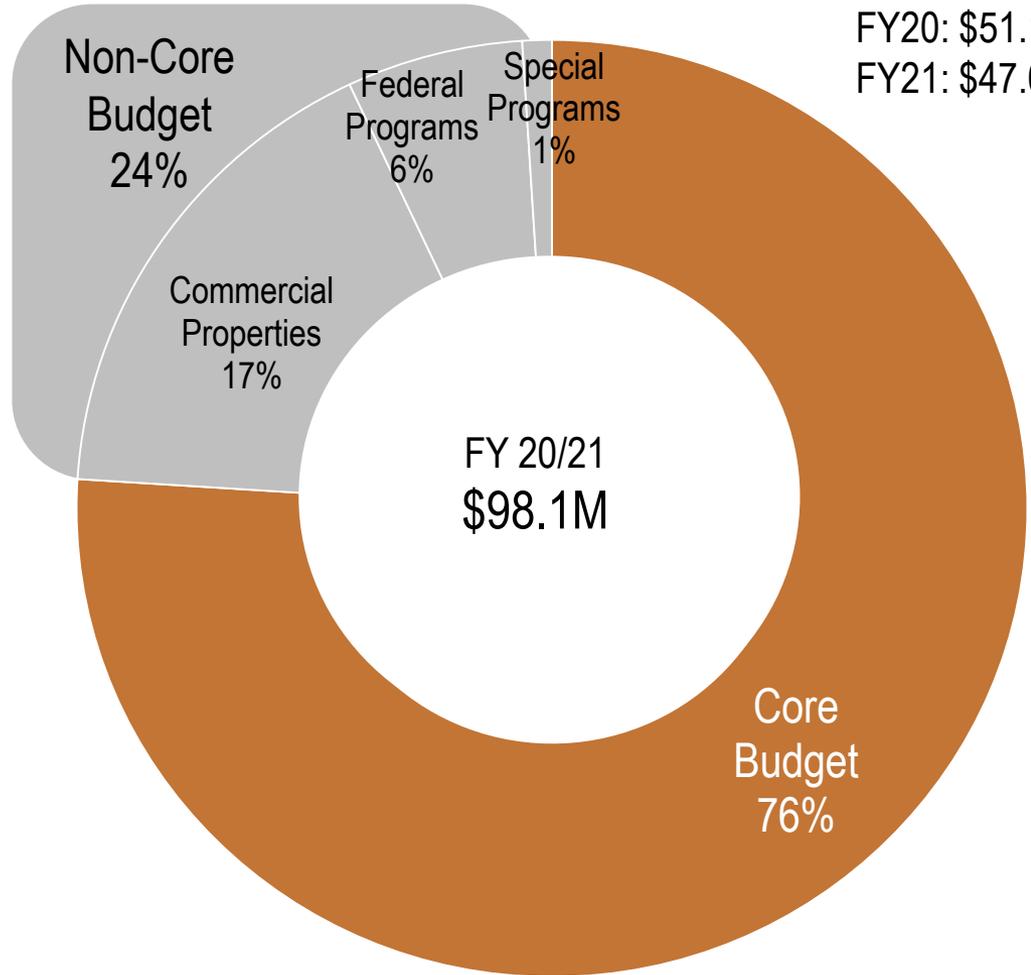




Total Operating Budget

OHA's total operating budget consists of core and non-core budget items. The core operating budget is the focus of this document, as the non-core operating budget items are those that have their own designated funding.

These sources include separate revenue sources, such as commercial properties and special programs, which is primarily made up of federal grants received.



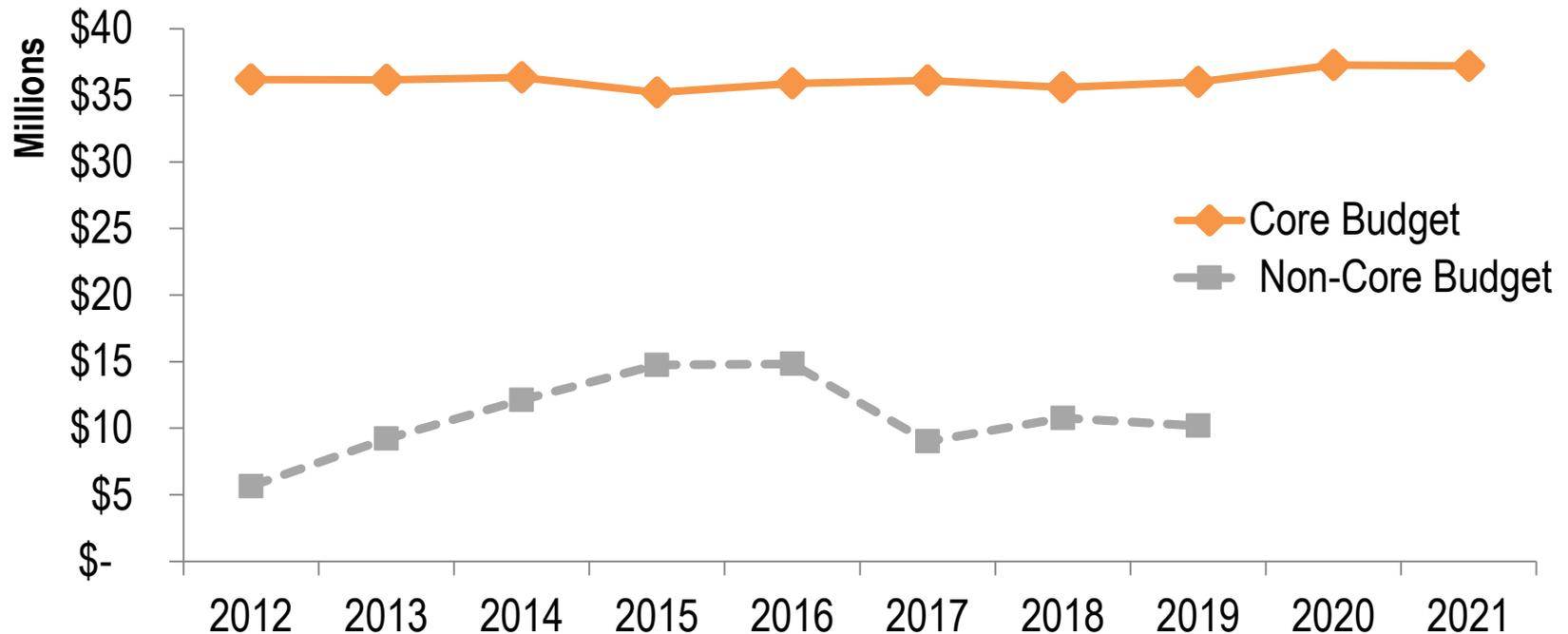


Historical Operating Budget

As shown in the figure below, the core operating budget has remained fairly consistent, ranging between \$35-37 million. With the increase in inflation from 2012 to 2018, the operating budgets have absorbed the increasing costs without a corresponding increase in an overall amount.

From 2012, the non-core budget has increased from \$5.6 million to \$14.8 million in 2016, primarily due to increased revenues and expenses in our commercial properties and federal funds. Since 2016, these costs decreased and leveled-off at approximately 10 million.

Again, commercial properties and special program budgets are based on their own revenues and thus self-sustaining.

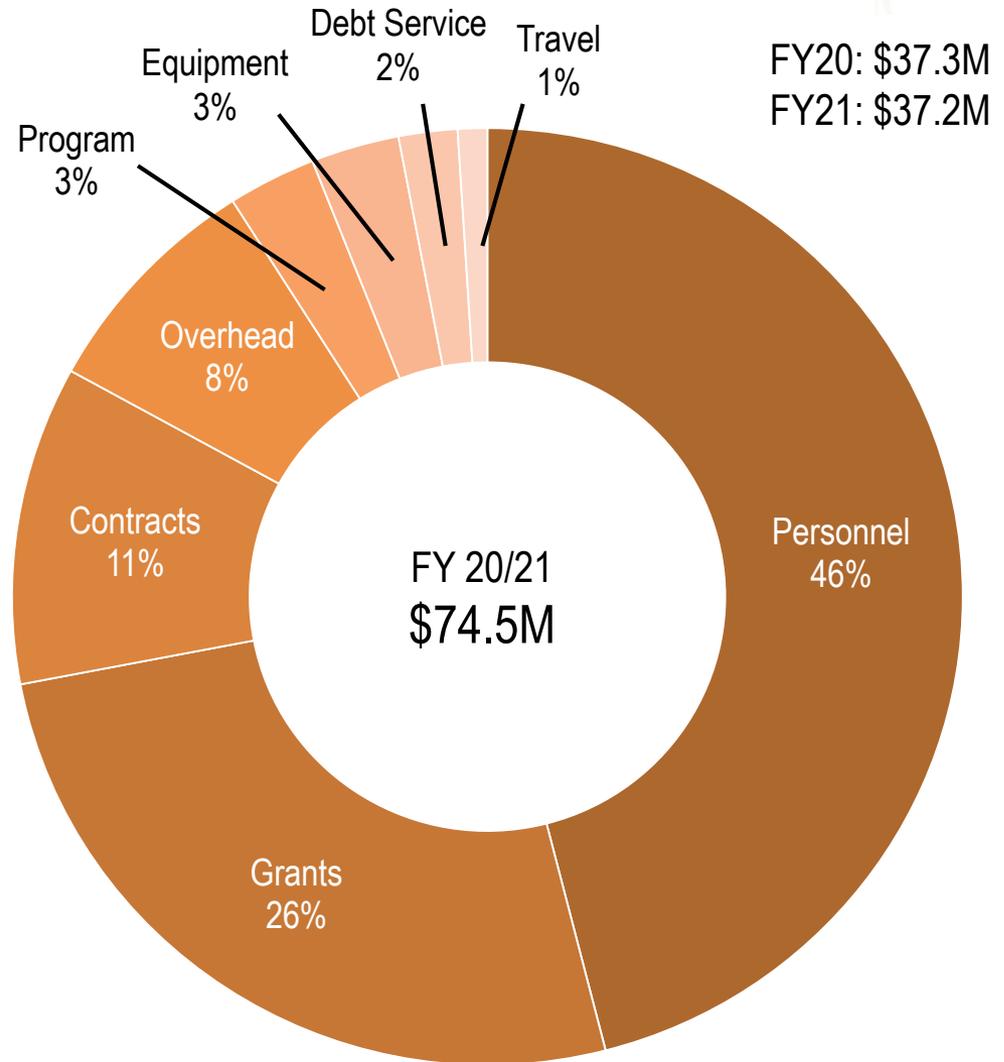


Core Operating Budget



OHA allocates 46% of its core operating budget to personnel, 26% to its grants program, 11% to contracts, and 8% to overhead costs. The smaller categories include 3% for programs, 3% for equipment, 2% for debt service, and 1% for travel costs.

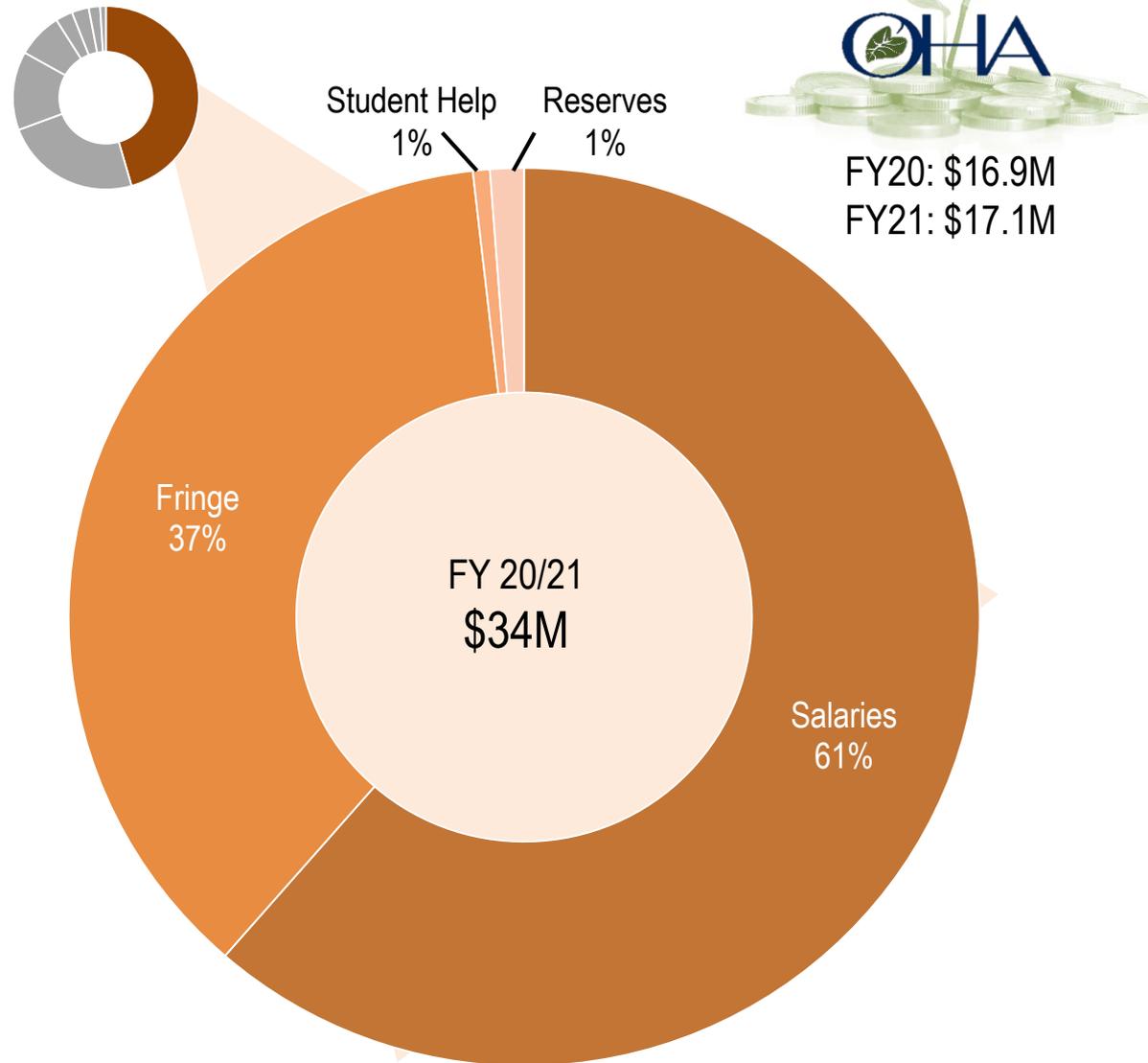
The next few slides will provide a more detailed breakdown of each category, with the exception of debt service. Debt service relates to the principal and interest payment on Line of Credit outstanding balance and totals \$580 thousand for FY20, \$572 thousand for FY21, equaling \$1.15 million over the two-year period.



Personnel

OHA allocates approximately \$17 million a year of the biennium budget in support of 158 employees under the core budget; constituting 46% of the core operating budget, including the 60.08% fringe benefit rate. This core budget does not include 9 non-core employees whose positions are either funded by commercial properties or federal grants. OHA's 158 full-time employees from core budget represents a decrease from FY18/19, as a result of OHA's decision to leave 12 positions vacant until such time as funding becomes available.

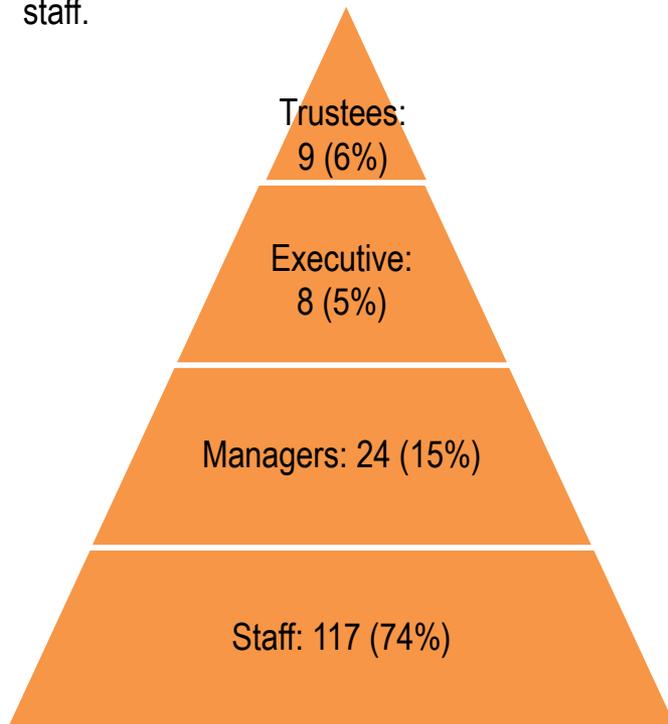
Sixty-one percent of the personnel cost is employee salaries, while a full 37% of personnel cost goes to fringe benefits, as set by the State of Hawai'i at 60.08%. Small portions are allotted to fund student help and OHA's reserves for vacation payout, employee incentive programs, and workers compensation payments.



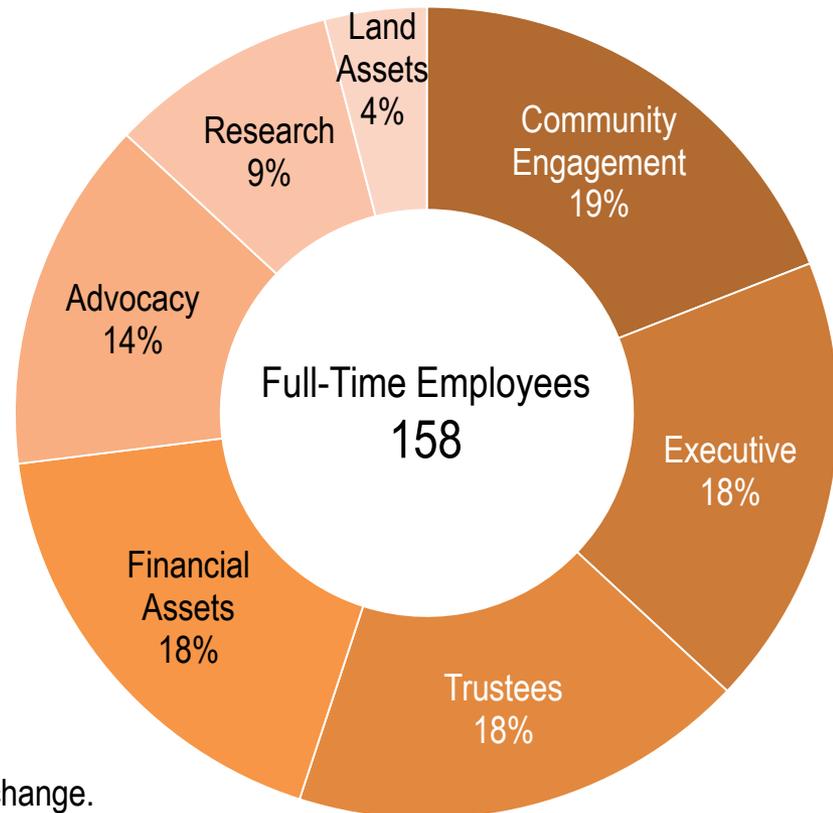


Personnel

Of OHA's 158 employees under the core budget, 117 are staff members (74% of employees); 24 are managers (15%); 9 are Trustees (6%); and 8 are executives (5%). The figure below represent an average ratio of approximately 1 manager for every 5 staff.



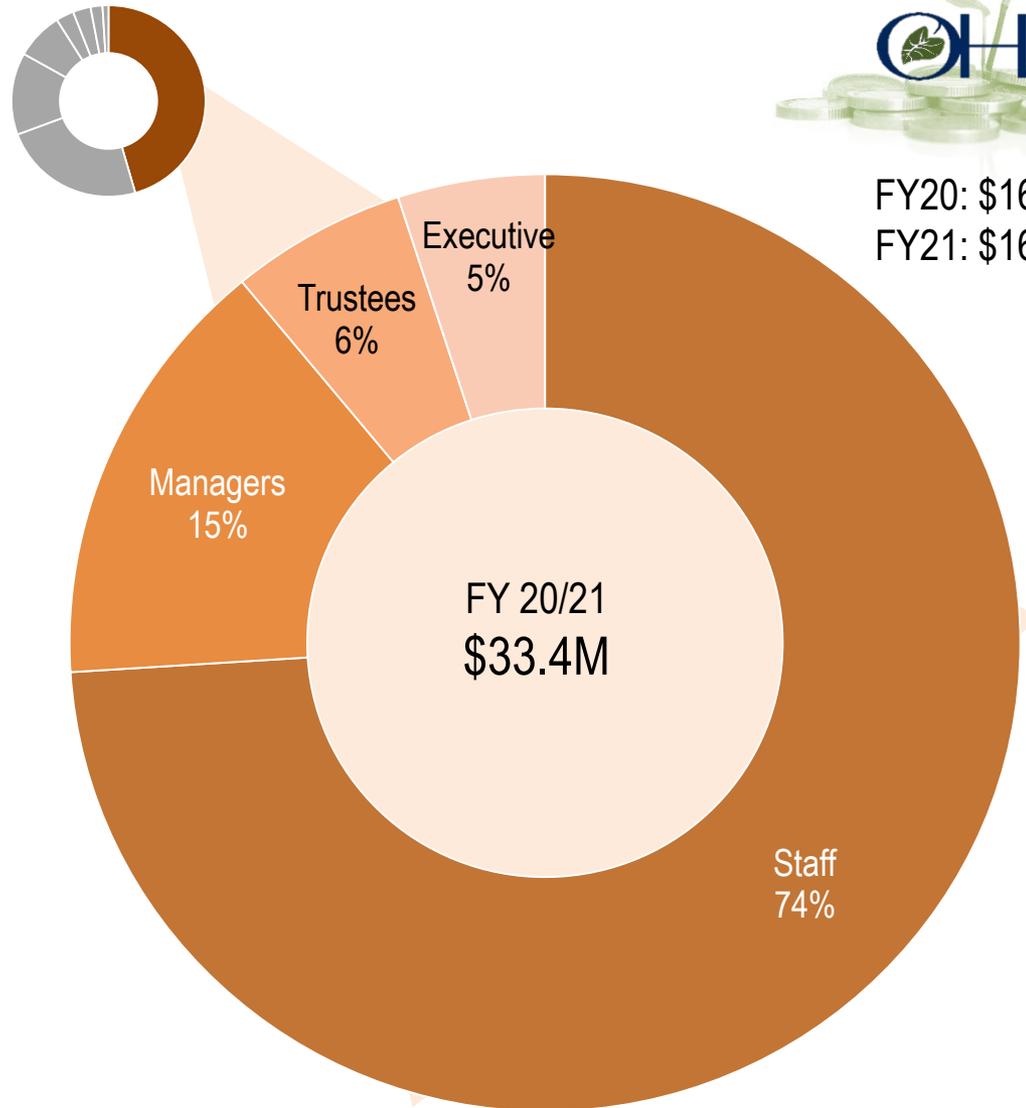
Of OHA's 158 employees: 30 are within Community Engagement, 29 are within the Executive Office; 29 are within the Board of Trustees Office; 28 are within Financial Assets; 22 are within Advocacy; 14 are within Research; and 6 are within Land Assets.



Budget data presented are preliminary and subject to change.

Personnel Costs

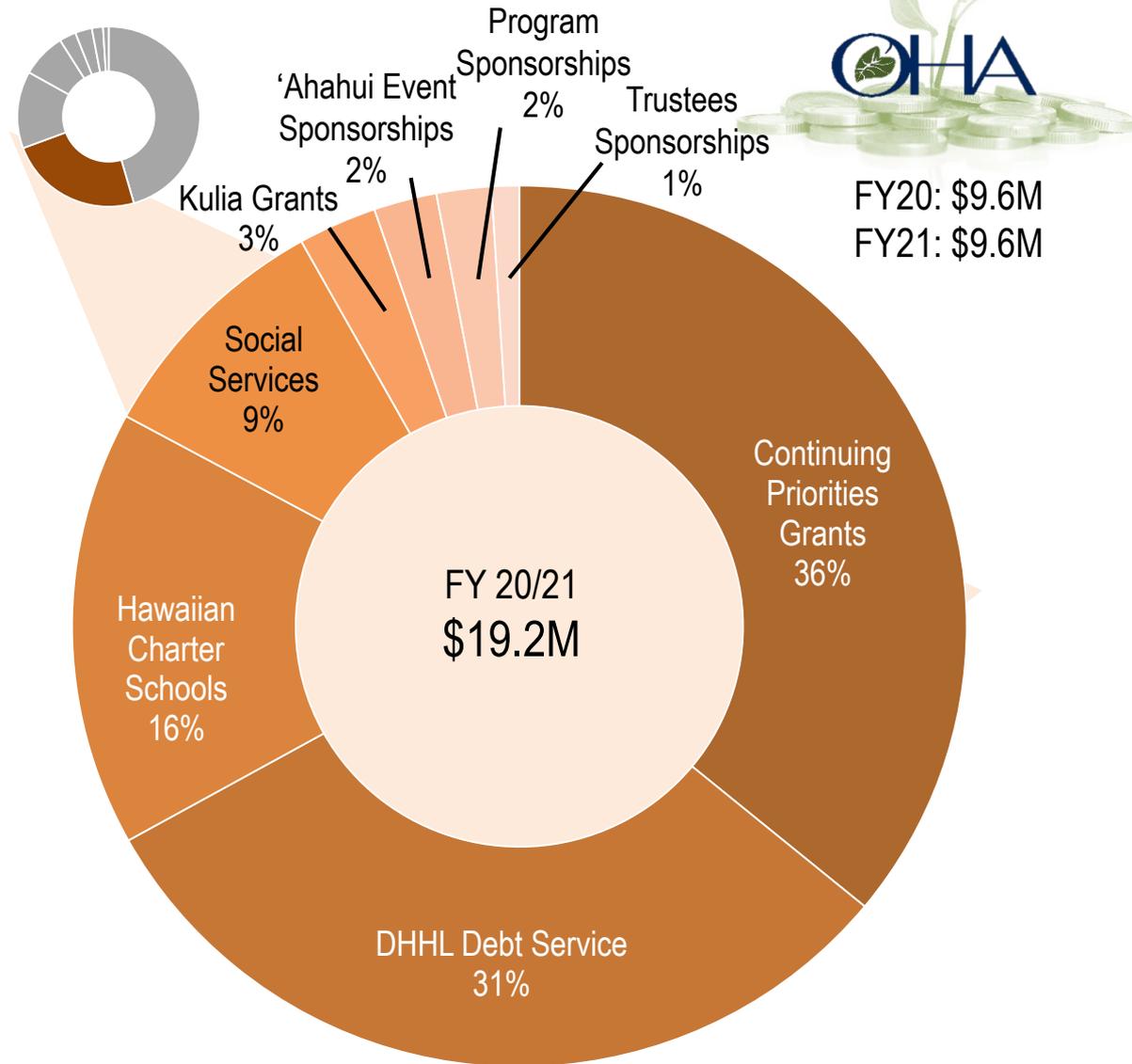
Of the \$33.4 million allotted for personnel salaries and fringe benefits; 74% is allocated to technical staff member personnel costs; 15% to manager personnel costs, 6% to Trustees personnel costs, and 5% to support executive personnel costs.



FY20: \$16.6M
FY21: \$16.8M

Grants

OHA allocated \$19.2 million over the biennium budget to various grant programs, which constitutes 26% of the core operating budget. Of this budget: 37% is allocated for grants aligned with the continuing Strategic Priorities from the 2010 – 2018 Strategic Plan, including Health, Education, Income, Housing, Culture, and Land, as OHA transitions to its new Strategic Plan. Funding is also allocated to long-term commitments to DHHL homestead development (31%) and to Hawaiian Focused Charter Schools (16%). 9% is allotted for social services so beneficiaries may address unexpected crises. 3% is allocated to the new Kulia grants, which are awarded to innovative projects with a broader focus on bettering conditions of Native Hawaiians. OHA also allocates 5% of grant funding to sponsorship including 'Ahahui Events (2%), Program (2%), and Trustee (1%) Sponsorships (which are currently on a moratorium).



Contracts

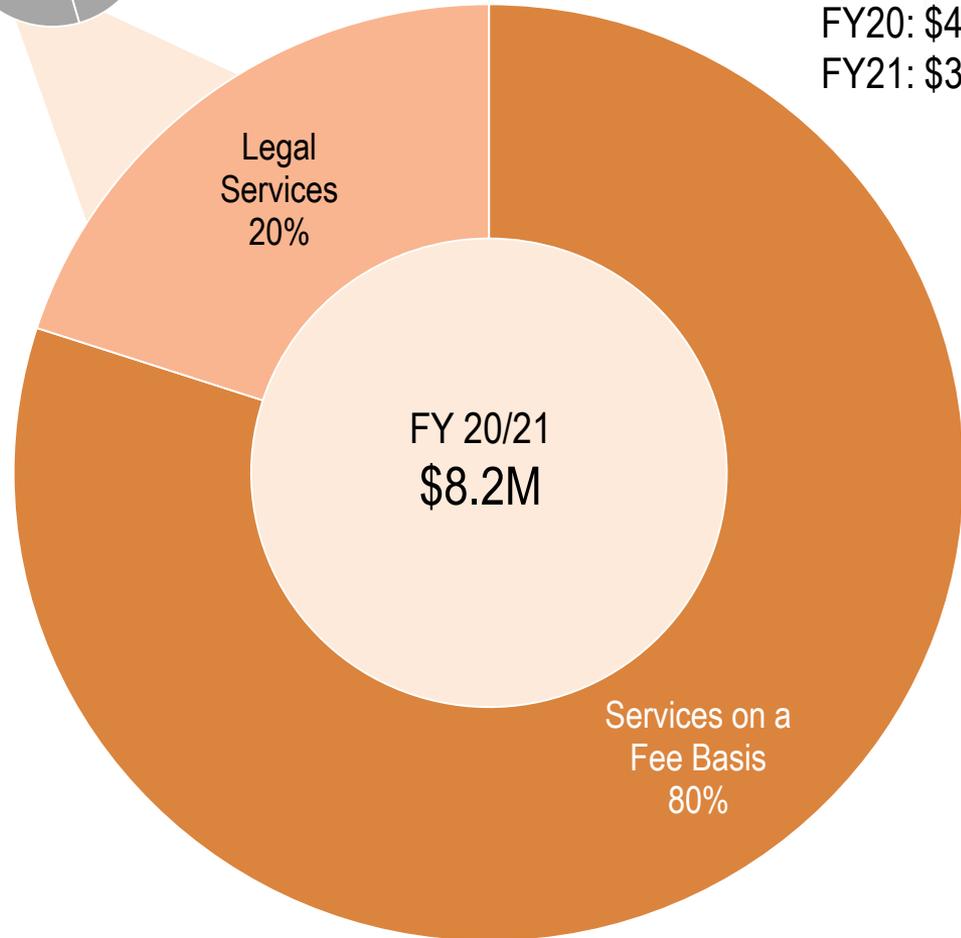
Contracts constitute 11% of OHA's core operating budget and is comprised of two main areas: services on a fee basis and legal services.

80% of the Contracts budget is allocated to Services on a Fee Basis which includes contracts from many areas of expertise to help support OHA's strategic focus areas and program operations. It also includes a legal services contract, which provides legal services directly to the beneficiaries, not to OHA.

Legal services at 20% are comprised of various litigation, consulting, and Board Counsel needs that arise in the ordinary course of business and are service directly provided to OHA.



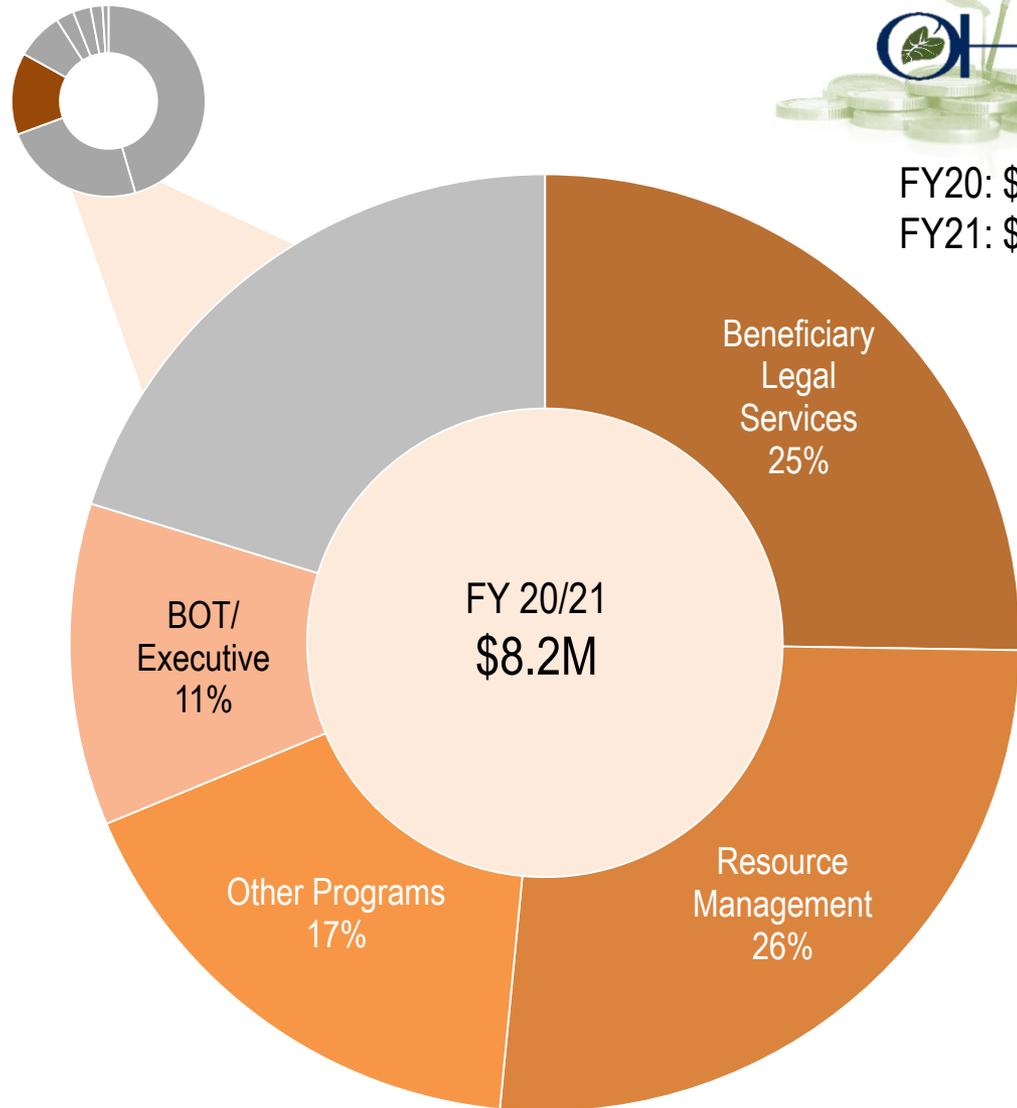
FY20: \$4.4M
FY21: \$3.9M



Services on Fee Basis Contracts

Through a State Proviso, 25% of OHA contracts is allocated to beneficiary legal services. The legal services proviso provides beneficiary legal representation for the assertion and defense of quiet title actions, assistance with kuleana tenant rights, and preservation of Native Hawaiian land trust entitlements.

Twenty-six percent of all contract funds is allocated for Resource Management, including Financial and Land Assets, for example services related to Kukaniloko. Other programs (17%) include funding for Native Hawaiian law training course, water and Public Land Trust working groups, and access to Papahānaumokuākea, research, and community engagement. OHA's Trustees and Executive Office account for 11%. Larger expenses include technology upgrades and redesign in addition to financial consultant fees.



FY20: \$4.3M

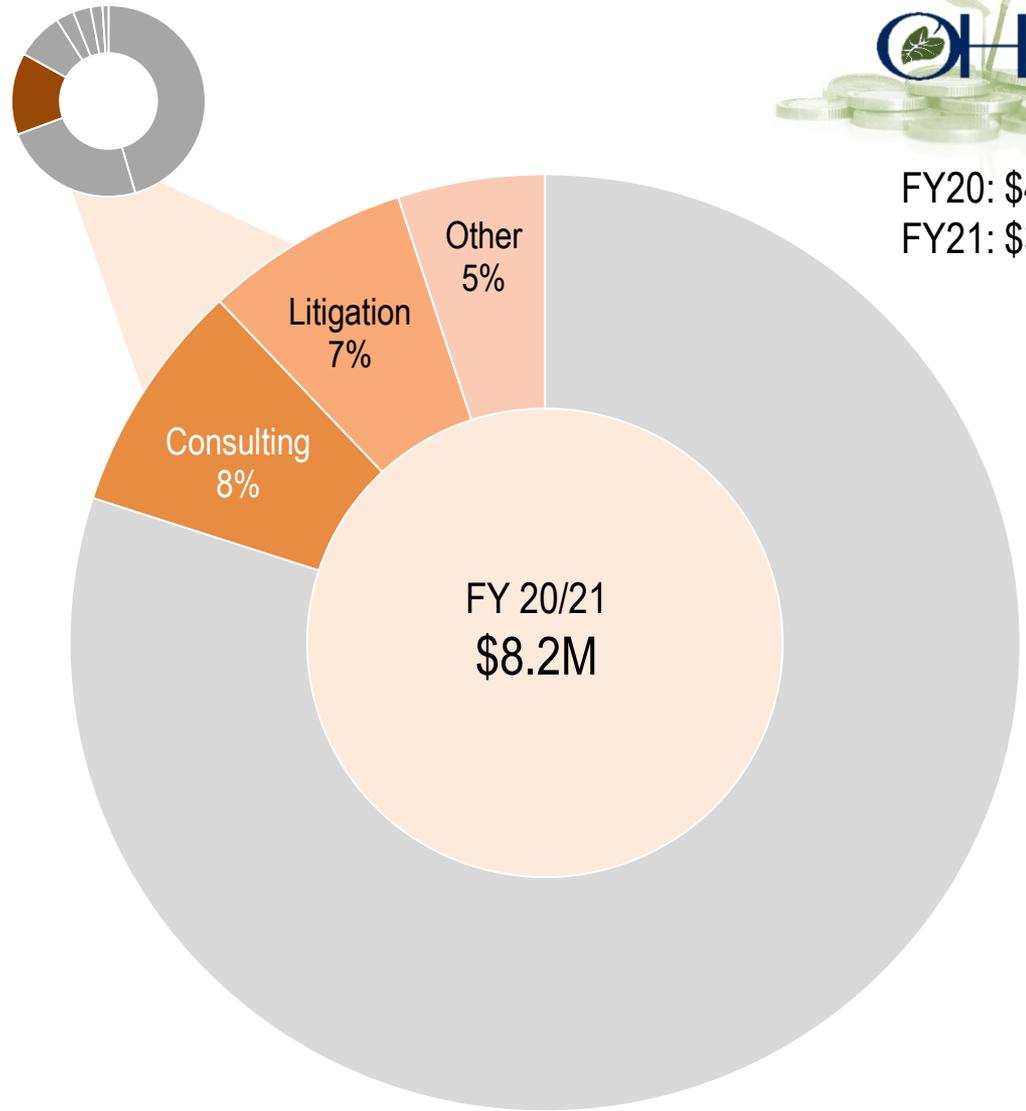
FY21: \$3.9M

Legal Services Contracts

Eight percent of the Legal Service Contracts budget is allotted for legal consultants who provide OHA with non-litigation legal advice in particular areas of law.

Seven percent is allotted for litigation in which services are rendered in either defending OHA and/or Trustees or as a plaintiff if the Board of Trustees so desires.

The remaining 5% is allotted for other contracts including counsel to the Board of Trustees in which legal advice is rendered regarding Trustee duties, privileges, immunities, and liabilities.

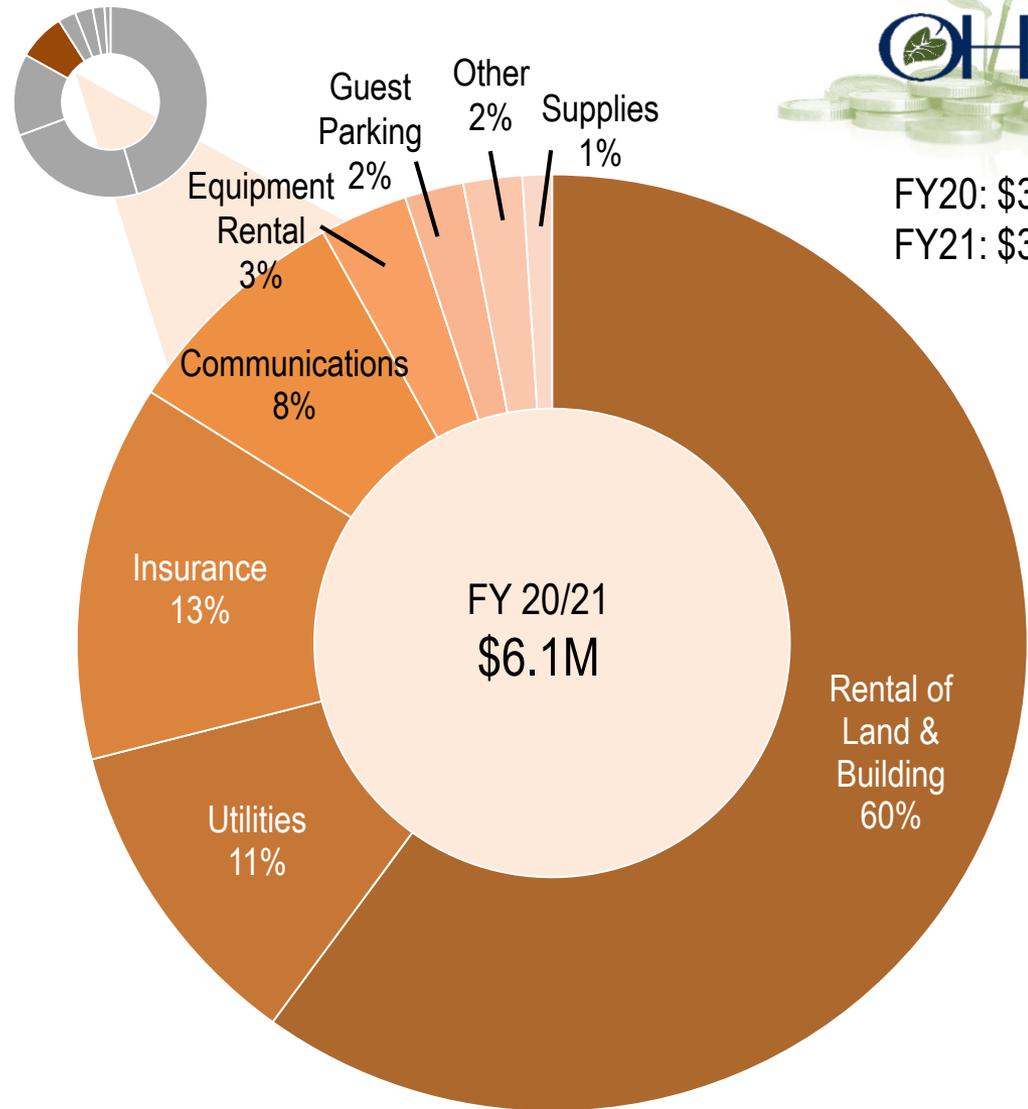


FY20: \$4.3M
FY21: \$3.9M

Overhead

OHA allocates approximately \$3 million annually to Overhead or 8% of the core biennium budget. Of these amounts, office leases account for 60%, which support 7 offices across the State of Hawai'i and 1 office in Washington, D.C. Utilities for these offices make up another 11%.

Thirteen percent (13%) is insurance premiums for liability insurance, workers compensation, board and officers insurance, and other related coverages. Additionally, 8% is allotted for telephone and internet service, 3% for renting equipment, 2% to validate parking for stakeholders and beneficiaries, 1% for office and other supplies; and 2% is made up by small budget items including postage, settlements, and leasehold improvements.



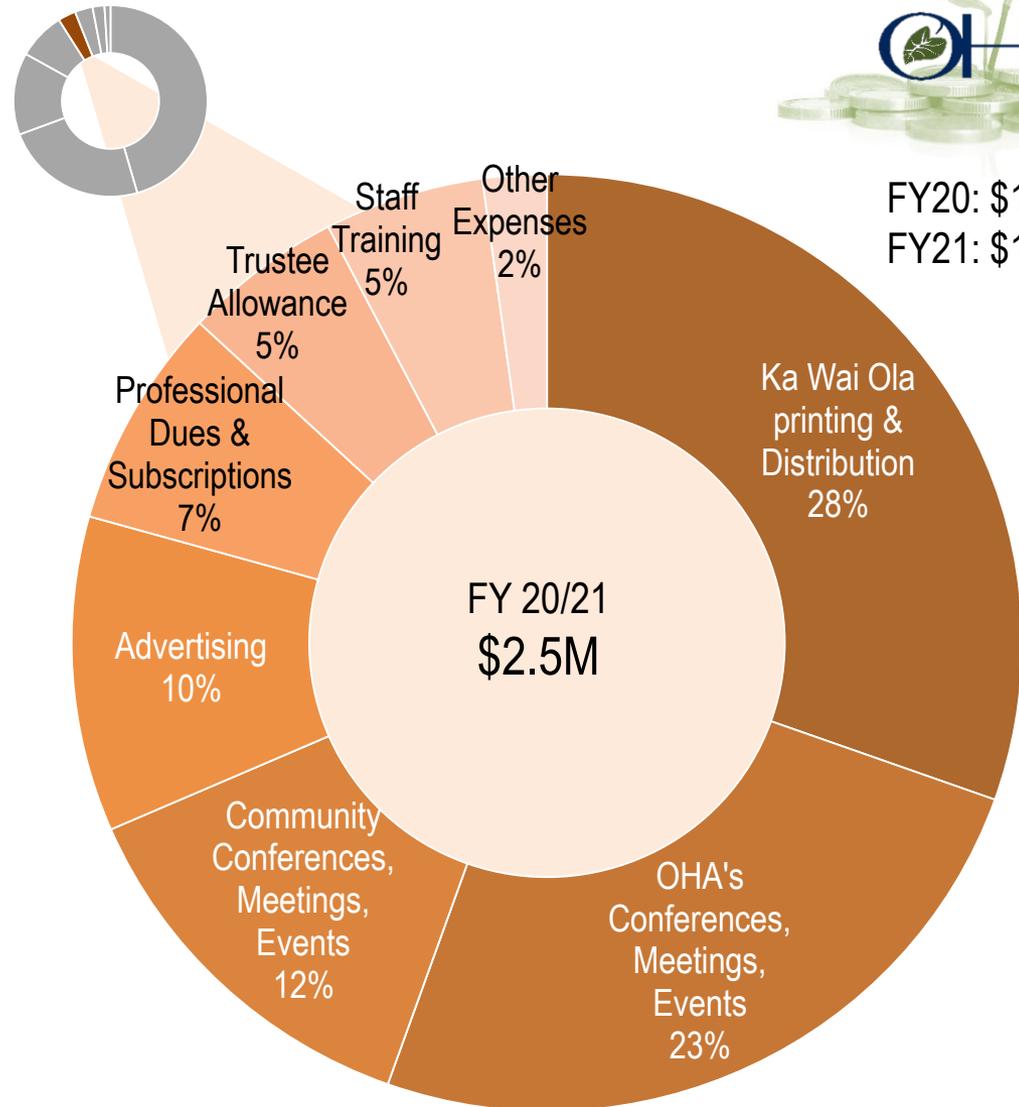
FY20: \$3.0M
FY21: \$3.1M

Program

The next budget category is Program, to which OHA allocates approximately \$1.2 to \$1.4 million annually or 3% of the core biennium budget. These are costs directly related to programs such as printing and distributing of Ka Wai Ola publications (28%), hosting cultural workshops/events (23%), partnering with community organizations to host events (12%), advertising for OHA initiatives (10%), professional dues and subscriptions (7%), trustee protocol allowance (5%), and staff training (5%). Other expenses include, worksite wellness, volunteer stipend, promotional items, honorarium for OHA event participants, etc.



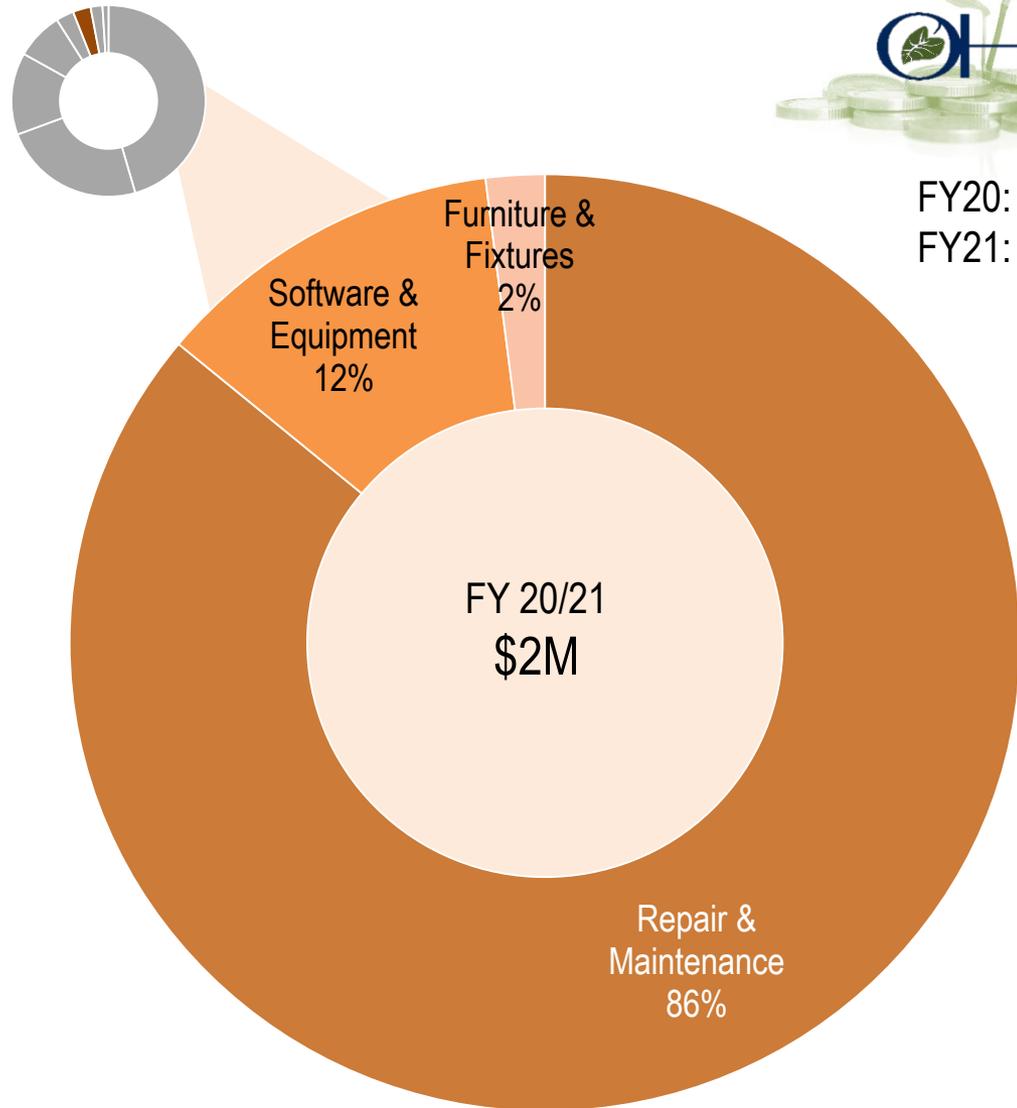
FY20: \$1.4M
FY21: \$1.2M



Equipment

OHA allocates \$2 million or 2% of the core biennium budget to equipment; including repair & maintenance, software & equipment, and a smaller portion allocated to furniture and fixtures. Repair & maintenance includes various upkeep work for OHA's facilities and legacy properties. Some of the larger budget items include vegetation maintenance and arborist/tree trimming services for Kūkaniloko legacy property and janitorial service for all offices.

Software & equipment include IT software, hardware, licenses, subscriptions, etc. Larger expenses include the replacement of PCs, laptops, and network equipment and the purchase of software to support new projects planned in FY20 and FY21. Furniture & fixtures include miscellaneous facilities needs that arise during normal course of operation.



FY20: \$1M
FY21: \$1M

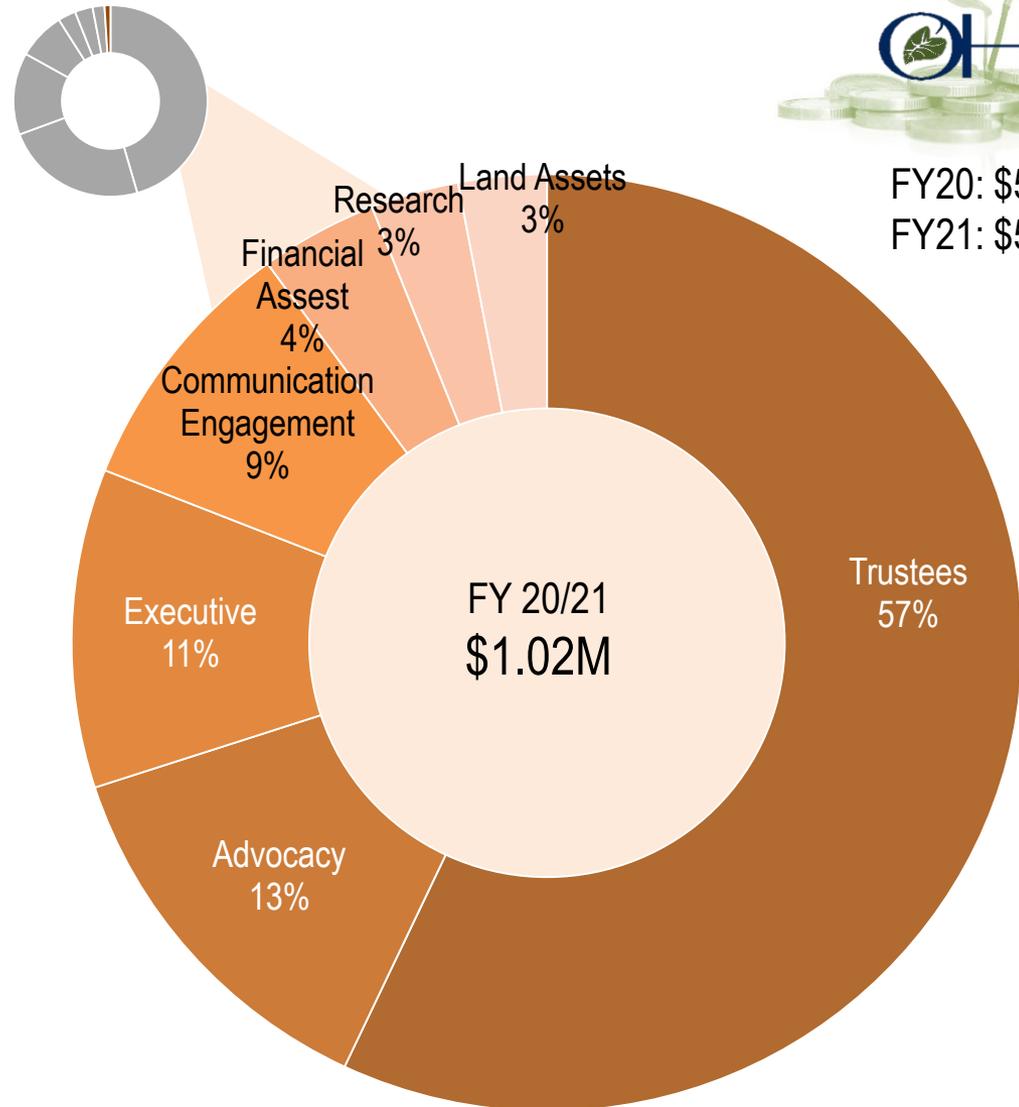
Travel

Lastly, travel budget category makes up a little more than 1% of the core operating budget. Trustees, Executive Office, and Advocacy have larger travel budget due to the various board and sub-committee meetings that are held throughout the year across the State. This include travel for neighbor island Trustees to attend meetings on O’ahu and conversely for O’ahu and At-Large Trustees to travel for neighbor island meetings. Also, Trustees and Executives are also often asked to participate in various community meetings regarding Native Hawaiian topics or issues.

Less frequent are the Out-of-State travels, which are primarily related to due diligence meetings or investment conferences, as well as the annual Lei Draping ceremony held at Washington, DC.



FY20: \$511K
FY21: \$512K





Mahalo!

Please send your questions and comments to ohabudget@oha.org or visit www.oha.org for more information.