

 DEPT. COMM. NO. 48

HAWAII COMMUNITY FOUNDATION

December 30, 2009

HAND DELIVERED

Colleen Hanabusa
President of the Senate
Hawai'i State Capitol
Honolulu, Hawai'i 96813

Calvin Say
Speaker of the House of Representatives
Hawai'i State Capitol
Honolulu, Hawai'i 96813

Dear President Hanabusa and Speaker Say:

Enclosed please find the report prepared by the Hawai'i Community Foundation and submitted to the Hawai'i Legislature pursuant to Act 162 (SLH 2009).

Please feel free to contact me if you have any questions.

Sincerely,



Kelvin H. Taketa
President & CEO

Cc: Legislative Reference Bureau
Clerk, Hawai'i State Senate
Clerk, Hawai'i House of Representatives
Chiyome Fukino, Director, Hawai'i Department of Health
Lola Irvin, Tobacco Settlement Project Manager

DEPT. COMM. NO. 48

REPORT TO THE TWENTY-FIFTH LEGISLATURE

STATE OF HAWAII

2010

**PURSUANT TO SECTION 27, ACT 162, SESSION LAWS OF HAWAII 2009, REQUIRING THE HAWAII
COMMUNITY FOUNDATION TO PREPARE A DETAILED REPORT ON THE FINANCIAL CONDITION, USE OF
FUNDS, AND PERFORMANCE OUTCOMES FOR THE TRUST FUND**

PREPARED BY:

HAWAII COMMUNITY FOUNDATION

December 2009

**REPORT TO THE HAWAII LEGISLATURE
PURSUANT TO ACT 162 (SLH 2009)**

SUBMITTED BY:
THE HAWAII COMMUNITY FOUNDATION
DECEMBER, 2009

INTRODUCTION:

The Hawaii Community Foundation (HCF) is a public statewide charitable services and grantmaking organization. In 1999, pursuant to HRS 328L-5(a) the Director of the Hawaii Department of Health (DOH) selected HCF as the entity to administer the Hawaii Tobacco Prevention and Control Trust Fund (Trust Fund). A contract outlines HCF's functions and responsibilities comprised of (1) administrative services including selecting and monitoring investment management, and (2) program services including implementation of a community grants program.

Pursuant to Act 162 (SLH 2009) HCF, as administrator of the Trust Fund, is required to "prepare a detailed report on the financial condition, use of funds, and performance outcomes for the Trust Fund" and submit that report to the legislature no later than twenty days prior to the convening of the 2010 and 2011 regular sessions."

This report is submitted to meet that requirement.

ESTABLISHMENT AND PURPOSE OF THE TRUST FUND:

The Trust Fund was established at HCF in 2000 upon execution of the first contract between DOH and HCF. The purpose of the Trust Fund is to support "tobacco prevention and control including, but not limited to, reducing cigarette smoking and tobacco use among youth and adults through education and enforcement activities, and controlling and preventing chronic diseases where tobacco is a risk factor." HRS 328L-5(c).

FINANCIAL CONDITION OF THE TRUST FUND:

The assets of the Trust Fund include the funds appropriated under HRS 328L-2(b)(3) as well as dividends and interest and realized/unrealized gains and losses.

Annual Allocation: The annual allocation to the Trust Fund is set by statute and is a percentage of the amount received by the State of Hawaii pursuant to the Master Settlement Agreement (MSA) against the tobacco industry. MSA funds are first received by the State of Hawaii and placed in the Tobacco Settlement Special Fund (TSSF). After assessment of fees, amounts are allocated. The amount allocated to the Trust Fund has been reduced from time to time.

- When established in 1999, the allocation from the TSSF to the Trust Fund was 25%.
- In 2001, the allocation to the Trust Fund was reduced to 12.5% (See Act 14, 3rd Special Legislative Session). TSSF funds were reallocated for payment of principal and interest on and to generate required coverage for revenue bonds issued by the Board of Regents to finance the cost of a university health and wellness center, including the John A. Burns School of Medicine (JABSOM).
- In 2007, the Legislature amended HRS 328L-2(b)(4) to allow the TSSF allocation to JABSOM to be used for annual operating expenses incurred by the new medical school facility; provided that any moneys in excess of amounts required be transferred to the Trust Fund (20%) and the Rainy

Day Fund (80%). This amendment took effect on July 1, 2007 and sunsets on June 30, 2011 (see Act 264 - SLH 2007).

- In 2009, the allocation to the Trust Fund was reduced to 6.5% (see Act 119 - SLH 2009).

The amount of MSA funds received by the Trust Fund has ranged from a high of \$12.8 million (when the allocation to the Trust Fund was 25%) to an anticipated \$3 million in 2010 (when the allocation will be 6.5%). As of 9/30/09 total MSA allocations to the Trust Fund equal approximately \$72 million. See Table 1 below.

Dividends and Interest: HCF is responsible for monitoring the investment performance of the Trust Fund. A statement of investment objectives, guidelines and payout policies for the Trust Fund is part of the contract between DOH and HCF. The guidelines expressly preclude any investment, either debt or equity, in any corporation that has other than insignificant involvement (5% or less in revenue) in the tobacco industry. In 2009 the HCF Board of Governors recommended a revised Investment Policy and Guidelines for the Trust Fund. This was approved by DOH on 10/26/09. HCF is currently in the process of assessing the costs of implementation.

With respect to the performance outcomes - investment management, HCF utilizes two primary investment managers with reporting, oversight, and monitoring provided by an external monitor (currently Merrill Lynch) and HCF. HCF monitors the performance of the Trust Fund investment managers each quarter to determine if, over a trailing 5-year period, they are contributing to the overall objective of earning the highest possible total rate of return without undue risk. The total rate of return of the assets is compared with that of an established target rate. Over the past ten years, with the exception of 2008, the investment return exceeded the benchmark. The most recent investment management report is included as Attachment A.

Total Revenue: Revenue to the Trust Fund is comprised of the annual allocation, interest and dividends and realized/unrealized gains(losses). Through CY2008 total revenue is approx. \$76 million with total expenditures of approx. \$34 million. Table 1 below also shows revenue of approx. \$14 million and expenditures of approx. \$5 million for CY2009 (through 9/30/09) as well as revenue/expenditures since inception of the Trust Fund.

Table 1. Trust Fund Revenue, Expenditures, Fund Balance (in thousands)

	CY2000-2008	YTD 9/30/09	Since Inception
Beginning Fund Balance	0	42,438	
Revenue			
Funds from State of Hawaii	65,669	6,317	71,986
Interest & Dividends, Realized/Unrealized Gains(Losses)	10,540	8,362	18,902
Total Revenue	76,209	14,679	90,888
Expenditures			
Total Expenditures	33,771	4,938	38,709
Ending Fund Balance	\$42,438	\$52,179	\$52,179

Notes:

1. HCF operates on a calendar year cash basis.
2. Expenditures include grants, contracts, HCF fees pursuant to contract, and other expenses.

USE OF FUNDS/EXPENDITURES:

Expenditures are indicated in Table 1 above. HCF and DOH develop an annual budget for a variety of tobacco prevention and control programmatic activities/expenses. Activities and programs have been developed over time with the early years focused on initial community grantmaking, development of the Five Year Strategic Plan for Tobacco Use Prevention and Control in Hawaii (published in 2006), and development and launch of the Quitline. Categories of activities are noted below according to “Best Practices for Comprehensive Tobacco Control Programs” published by the CDC (2007).

CDC Categories	Programs/Activities Supported by the Trust Fund
State and Community Interventions	<ul style="list-style-type: none"> • Community Grants Program. In 2009 HCF implemented its 8th round of competitive community grants (anticipated new grants awarded by end of 2009). As of the 2007 grantmaking round, 135 grants were awarded and over \$17 million awarded for community based efforts in tobacco prevention/education and cessation. Funds have also been used for training and technical assistance to the grantee organizations. See Attachment B for a list of organizations receiving community grants through 2007. • Social Norm Change/Advocacy and Policy Change. The Trust Fund supports coalition building activities, public education, and a youth led coalition. Results include comprehensive tobacco control laws, increased taxes on cigarettes, sales restrictions to minors, and smoke-free workplaces.
Health Communications Interventions	<ul style="list-style-type: none"> • Delivery of strategic, culturally appropriate, and high-impact messages in sustained and adequately funded campaigns integrated into the overall tobacco program effort. • Includes audience and market research, counter-marketing surveillance, grassroots promotion and local media advocacy, technology to disseminate the message process and outcome evaluation and promotion of services including Quitline. • Current marketing campaigns include “Clear the Smoke” (social norm campaign begun in 2004), promotion of the Hawaii State Quitline (begun in 2005) and a Health Communications Initiative (begun in 2008-09 to combine the marketing, increase integration of marketing efforts and support and integrate community’s tobacco control efforts).
Cessation Interventions	<ul style="list-style-type: none"> • The Hawaii State Quitline (1-800-QUITNOW). Provides free quitline counseling and nicotine replacement therapy to the uninsured and counseling referrals to the insured. The Quitline has statewide reach and over representation of uninsured. More than half the callers are male with a high percentage of Native Hawaiians. The Quitline was launched in July 2005. The Honolulu-based Coaching Center was fully launched in January 2006. <p>NOTE: Cessation interventions (community-based) – The community grants program also supports non-profit organizations providing a range of cessation services.</p>

Surveillance and Evaluation	<ul style="list-style-type: none"> • Evaluation of various programmatic activities (e.g. Hawaii State Quitline, Health Communications Interventions etc.)
Administration and Management	<ul style="list-style-type: none"> • Includes leadership, management, coordination of, communication between and alignment of programmatic activities, monitoring of contracts, ensuring accountability, establishing linkages. • Trust Fund Project Team members supported by Trust Fund. • HCF fee (established by contract) included in this category. Investment management fees are paid from the HCF fee.



Hawai'i Community Foundation
Tobacco Prevention & Control Fund
3Q09 Performance Review

3Q 2009 Performance

Total TPCF Portfolio Performance (%)

Gross of Fee Return	3Q09	Yr-to-date (9/09)	trailing year annualized returns			
			1 year	3 years	5 years	11/00-9/09
Total TPCF Portfolio	12.5	21.4	0.5	2.2	6.2	4.0
Bank of Hawai'i	12.4	15.8	-0.4	1.4	4.7	2.3
Wentworth Hauser	<u>12.6</u>	<u>25.6</u>	<u>1.1</u>	<u>2.7</u>	<u>7.3</u>	<u>5.4</u>
Policy Index ¹	12.3	16.4	1.5	-0.6	3.5	2.9
Net of Fee Return ²						
Total TPCF Portfolio	12.5	21.2	0.3	2.0	5.9	3.7
Bank of Hawai'i	12.4	15.6	-0.7	1.0	4.3	1.8
Wentworth Hauser	<u>12.6</u>	<u>25.5</u>	<u>1.1</u>	<u>2.6</u>	<u>7.1</u>	<u>5.1</u>
Policy Index ¹	12.3	16.4	1.5	-0.6	3.5	2.9

TPCF Investment Performance by Asset Class (%)

U.S. Equity	3Q09	Yr-to-date (9/09)	trailing year annualized returns			
			1 year	3 years	5 years	11/00-9/09
U.S. Equity Portfolio	17.6	26.2	-7.9	-3.4	2.8	0.8
Bank of Hawai'i	17.9	21.2	-12.7	-3.9	2.9	-0.8
Wentworth Hauser	<u>17.2</u>	<u>31.3</u>	<u>-3.0</u>	<u>-3.0</u>	<u>2.6</u>	<u>2.8</u>
Policy Index ²	16.3	21.2	-6.4	-5.1	1.6	0.2
International Equity						
Int'l Equity Portfolio	18.9	46.5	-8.5	5.3	15.2	14.4
Wentworth Hauser	<u>18.9</u>	<u>46.5</u>	<u>-8.5</u>	<u>5.3</u>	<u>15.2</u>	<u>14.4</u>
Policy Index ³	19.5	29.0	3.2	-3.6	6.1	2.9
Fixed Income						
Fixed Inc. Portfolio	2.5	3.3	8.9	6.4	NA	6.0
Bank of Hawai'i	3.9	4.6	11.1	6.6	5.3	6.3
Wentworth Hauser	<u>1.1</u>	<u>2.2</u>	<u>6.7</u>	<u>6.2</u>	<u>4.8</u>	<u>NA</u>
Policy Index ⁴	4.2	4.7	11.5	6.3	4.9	6.0

¹ Policy Index = 55% Russell 3000, 10% MSCI EAFE, 35% Barclays C/G bond index

² Net of Fee returns available since 12/31/2000; Prior to that date, all reported returns are gross of fee

³ 100% Russell 3000 index

⁴ 100% MSCI EAFE index

⁵ 100% Barclays Corporate/Government bond index

Blue text denotes outperformance relative to policy index

Red text denotes underperformance relative to policy index

Attachment B:

Organizations funded by the Tobacco Prevention & Control Trust Fund Through the Community Grants Program (2000-2007)		
Aloha Pride Center (formerly called The Center)	Grassroots Community Development Group/dba Ola'a Community Center	Palama Settlement
American Cancer Society	Hale Kipa Inc.	Papa Ola Lokahi
American Lung Association	Hawai'i State Primary Care Association	Parents & Children Together (PACT)
Boys & Girls Club of Hawai'i	Hawai'i Youth Services Network	The Hawai'i Academy of Family Physicians Foundation
Boys & Girls Club of Maui, Inc.	Healthy Mothers, Healthy Babies Coalition of Hawai'i	The Queen's Medical Center
Boys & Girls Club of the Big Island	Ho'ola Laahui Hawai'i	The Salvation Army
Castle Medical Center	Hui Malama Learning Center	The Salvation Army-Family Intervention Services
Child & Family Service (CFS)	Hui Malama Ola Na Oiwī	University of Hawai'i – Office of Research Services
Coalition for a Drug Free Hawai'i	Kalihi-Palama Health Center	University of Hawai'i at Hilo
Community Clinic of Maui, Inc.	Kauai Economic Opportunity, Inc.	Waianae Coast Community Mental Health Center, Inc.
Community Links Hawai'i	Kauai Rural Health Association	Waianae District Comprehensive Health & Hospital Board, Inc.
Friends for Fitness	Kokua Kalihi Valley Comprehensive Family Services	Waipahu High School
Friends of Operation Manong	Maui Economic Opportunity, Inc.	West Hawai'i Community Health Center
Friends of the Future	Maui Youth & Family Services	West Hawai'i Tobacco-Free Coalition
	Paia Youth Council Inc.	Wilcox Health Foundation