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HAWAII HEALTH SYSTEMS C O R P O R A T I O N "Touching Lives Everyday"	Corporate Finance	FIN 0015
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Policies and Procedures	Kelley Roberson COO/GFO	August 21, 2008
Subject:	Approvality	Supersedes Policy:
Capital Budgeting		N/A
	HHSC Board of Directors By: Raymond Ono	Page:
	Its Secretary/Treasurer	1 of 3

I. PURPOSE: To provide policy and guidelines and description of processes for the development of facility-level and regional Annual Capital Budgets and Capital Improvement Project (CIP) Budgets and corporate office Annual Capital Budgets and Capital Improvement Project (CIP) Budgets, which will be consolidated into system and regional cash flow budgets and debt planning.

II. DEFINITIONS:

<u>Budgeting</u>: The process of translating planning and programming decisions into specific projected financial plans for relatively short periods of time. A budget is an itemized summary of estimated or intended expenditures for a given period along with proposals for financing them.

<u>Budget Year</u>: Budget year for State of Hawaii government, including Hawaii Health Systems Corporation and component regions of HHSC is from July 1 through June 30.

<u>Capital Improvement Project (CIP)</u>: Hawaii state legislature has authority to appropriate funds for capital improvement projects (CIP), the source for which funding may be general obligation bonds.

Biennium Budget: Every two years the Governor submits an Executive Biennium Budget that the Hawaii Legislature considers in development of a biennium budget that appropriates funds (both general funds and special funds) and sets spending ceilings for both general funds and special funds. First year of each biennium period is an even-numbered year (such as fiscal year 2010, the year ending June 30, 2010). Second year of each biennium budget period is an odd-numbered year (such as fiscal year 2011, the budget year ending June 30, 2011). A biennium budget is passed by the Hawaii Legislature in the odd-numbered year preceding the first, even-numbered year of the biennium.

The Executive Biennium Budget: Not fewer than thirty days before the Hawaii Legislature convenes in every odd-numbered year, the Governor shall submit the Executive Biennium Budget to the Hawaii Legislature for consideration. In the year before the beginning of a budget biennium, the Department of Budget & Finance will issue biennium budget guidance to departments and agencies of the state (such as HHSC), requiring submission of expenses & revenues for the two biennium years and submission of requirements for general funds, special funds, and capital improvement project funding.

Supplemental Budget: A supplemental budget is submitted to the Hawaii Legislature to reflect changes to the biennial budget. A supplemental budget is passed by the Hawaii Legislature during the first year of the biennium so that additional funds can be made available during the second year of the biennium. Similar to the process for biennium budget submissions, the Governor submits an Executive Supplemental Budget that the Hawaii Legislature considers in development of a supplemental budget that appropriates funds (both general funds and special funds) and may set spending ceilings for both general funds and special funds.

The Executive Supplemental Budget: Not fewer than thirty days before the legislature convenes in every odd-numbered year, the Governor shall submit the supplemental budget to the Hawaii Legislature for consideration. Normally, in the year before the beginning of the supplemental budget year, the Department of Budget & Finance will issue supplemental budget guidance to departments and agencies of the state (such as HHSC), providing procedures for submission of requests for general funds and special funds amounts beyond what was legislated in the previous legislative session and also for submission of requests for additional CIP projects, beyond what was appropriated in the previous legislative session. These submissions may request increases to general fund and special funds spending ceilings as well.

- III. POLICY & GUIDELINES: It is our policy to prepare our budgets so that they contain all of the necessary budgetary information for submission to the appropriate executive agency or agencies and for the ultimate integration of such information into the governor's budget submissions to the legislature pursuant to Chapter 37, HRS. The HHSC and Regions of HHSC shall develop Annual Capital Budgets for integration into annual operating and cash flow budgets and Capital Improvement Project (CIP) Budgets for integration into the governor's executive biennium budget submissions and the governor's executive supplemental budget submissions to the state legislature, and for separate, subsequent submission directly to the legislature, when appropriate.
 - A. Annual Capital Budgets: It is the policy of HHSC that by-facility Annual Capital Budgets shall be developed each year, in parallel with development of by-facility operating and cash flow budgets to meet the capital needs of the facilities and the corporate office, in accordance with regional strategic plans, consistent with policies on debt management and cash management. Each Regional System Board shall assure that regional management identifies the availability of sources of cash, from operating cash flow, from debt, or from tax exempt leasing (municipal leasing), to pay for approved capital investments of its region. Corporate management shall identify sources of cash, from operating cash flow, from debt, or from tax exempt leasing (municipal leasing) to pay for approved capital investments of the corporate office. Annual Capital Budgets of a Region of the corporate office shall be dependent upon the ability of the region or of the corporate office to service the debt, or to cover municipal lease payments, or to provide cash from operating cash flow.
 - B. Capital Improvement Project (CIP) Budgets. It is the policy of HHSC that by-facility capital improvement project funding through general obligation bonds shall be sought for life, safety and code requirements of facilities and for other priority capital projects for which there is little or no projected return on investment. These requirements shall be developed annually, according to schedules to be issued by HHSC senior management in coordination with the State of Hawaii Department of Budget & Finance and the legislature, for submission as part of the governor's biennium budget submission (for legislative sessions starting in January of odd-numbered years) and as part of the governor's supplemental budget submission (for legislative sessions starting in January of even numbered years). Regional System Boards of Director and the HHSC Corporate Board of Directors may separately submit CIP budget requests directly to the legislature in addition to CIP included in the governor's biennium budget submission and in addition to the governor's supplement budget submission.
 - 1. For submission of HHSC CIP requirements for consideration for inclusion in the governor's biennium budget submission or the governor's supplemental budget submission, annually, Prioritized CIP requirements shall be submitted by each

- region, identified by facility and rank ordered from 1st to last. Regional leaders shall together rank order all system CIP requirements from 1st to last, based on evaluation criteria to be established together by regional leaders.
- 2. If Regional leaders fail to together agree on evaluation criteria for rank ordering of system-wide CIP requirements, the HHSC President & CEO shall establish evaluation criteria, based on input from regional leaders.
- 3. If Regional leaders are unable to rank order system-wide CIP requirements, the HHSC President shall direct the submission of CIP requirements prioritized by region but not prioritized on a system-wide basis.
- C. Budgeting Systems & Timelines. The HHSC Corporate Board of Directors annually will approve timeline presented by corporate management for iterative submissions of Annual Capital Budgets and Capital Improvement Project (CIP) Budgets by the regions to the HHSC Corporate Board of Directors for consolidation as the system-wide operating and cash flow budgets. Budget instructions will provide for identification of opportunities for integration of regional capital requirements into multi-region or system-wide initiatives.
- D. **Regional Budgeting.** Regional Systems Boards of Directors are authorized to issue regional timelines and issue regional policies on Annual Capital Budgets and Capital Improvement Project (CIP) Budgets.
- IV. APPLICABILITY: This policy shall apply to all HHSC regions and facilities and HHSC Corporate staff. This policy does not apply to placement of equipment through operating leases. The annual operating budget process covers operating leases.
- V. REFERENCE: HRS, Chapter 323F, Chapter 37.
- VI. EFFECTIVE DATE: This policy will become effective with the preparation of operating and cash flow budgets for fiscal year 2010 (July 1, 2009 through June 30, 2010).