I. **Purpose:** To establish and define the process and responsibilities of HHSC relating to municipal lease financing transactions.

II. **Policy:** Municipal lease financing transactions shall be handled by authorized staff in accordance with the procedures listed below and applicable federal and state laws and regulations for the proper execution and recording of such transactions. Any regional System Board of Directors is authorized to establish municipal lease policies for the region that are in compliance with this policy.

III. **Definition:** Municipal lease financing is a method of financing the purchase of property and equipment for governmental entities whereby a financing company (lessor) purchases the equipment on behalf of a governmental entity (lessee) and leases such equipment to the lessee over an extended period of time. The lessor provides financing at municipal rates that are usually substantially lower than market rates. The lessee records an asset and liability for the present value of the future minimum lease payments.

IV. **Separation and Transparency:** Neither the Hawaii Health Systems Corporation Board of Directors and senior leadership nor any region shall enter into any master lease for municipal leasing or region-specific lease schedule under a HHSC system-wide master lease that pledges or obligates the assets or revenues of a Region unless the Regional System Board of Directors concerned has approved the terms of the transaction. To facilitate severability of municipal lease commitments between regions, the Hawaii Health Systems Corporation President & CEO, with input from Regional CEOs, shall establish procedures requiring coordination between regions so that regional leaders are allowed to review any municipal leasing documents of another region prior to completion to assure leasing of another region does not pledge or obligation assets or revenue of a region without the advanced approval of the region concerned. Prior to the issuance of each lease schedule, HHSC COO & CFO or his/her designee shall affirm in writing that documentation is on file of each region’s agreement to the commitment of the region to the terms of the lease.

V. **Procedure:**
A. Municipal Lease Financing Agreements - The Chief Operating Officer/Chief Financial Officer and the Chief Executive Officer/President shall be the HHSC officials responsible for entering into HHSC system level master lease agreements with municipal leasing companies. They shall be responsible for ensuring that the municipal leasing companies are aware of and comply with the terms of the HHSC lease riders, and with applicable laws of the State of Hawaii. The Regional CFO and Regional CEO of an individual region shall be responsible for entering into regional master lease agreements, in accordance with regional policies and direction of individual Regional System Board of Directors.

1. A HHSC system level master lease may provide for the establishment of multi-region or system-wide lease schedules that commit the assets of two or more regions or all regions of the system.
2. A regional master lease may provide for the establishment of lease schedules commit the assets of one or more facilities in a region or all facilities in the region.

B. System Municipal Leasing/Master Lease Limits - The Chief Operating Officer/Chief Financial Officer shall negotiate master lease limits with the local representative of the municipal leasing companies at the establishment of each master lease, or at the end of the term of each master lease agreement, or as the need arises. A letter describing the commitment increase from the municipal lease financing companies shall be provided to HHSC evidencing the offer. The HHSC Corporate Board of Directors must approve any increases in the debt limit.

C. Assets Subject to Municipal Lease Financing - Only items that qualify as property, plant, and equipment according to Husk’s capitalization policy, and that have been approved as part of the HHSC capital budget, shall be eligible for purchase through municipal lease financing. These items include, but are not limited to: medical equipment, computer equipment, energy conservation equipment, construction in progress, vehicles, etc. Items, which will NOT qualify for municipal lease financing, include, but are not limited to: maintenance contracts, repair and maintenance work, software support, etc. The only exception would be prepaid maintenance or support agreements that are in support of the base asset being financed. For leasing transactions under a system level master lease, the Corporate Controller shall have final decision authority as to whether an asset qualifies for municipal lease financing. For leasing transactions under a master lease of a region, the Regional CFO shall have final decision authority as to whether an asset qualifies for municipal lease financing.

D. Submission of Information Prior to Preparation of Lease Schedule for a System-Level Master Lease - The Operating Department/Facility is responsible for submitting the price quotes, contracts, purchase orders, and other supporting documentation to the Corporate Controller for those assets that the Operating Department/Facility requests to be financed. Submission of these documents must be done immediately after the finalization of the contract/purchase order with the vendor; otherwise, payment to the vendor will be delayed. Documentation should clearly describe the asset, the purpose of the purchase, the department/facility where the asset will be utilized, the funding source, and the vendor. Upon receipt of the required documentation, the Corporate
Controller will make the determination of whether the asset will be financed through municipal lease.

E. Authorization Requirements—The Chief Operating Officer/Chief Financial Officer shall present all municipal lease-financing matters requiring Board of Directors approval to the Finance, Information Systems, & Audit Committee and the Board of Directors for approval. All other municipal lease financing matters must be approved by the Chief Operating Officer/Chief Financial Officer or the Chief Executive Officer/President. Upon approval, the Chief Operating Officer/Chief Financial Officer shall provide the Corporate Accountant and Corporate Controller with a copy of the approved lease schedules. For lease schedules issued under system-level master leases, the Corporate Accountant will maintain a file copy of the lease agreement and will forward copies of the lease agreement and related schedules to the Procurement Department and the requesting Operating Department/Facility’s Chief Financial Officer.

F. Accounting for Municipal Leases – The Corporate Controller shall determine the appropriate accounting treatment for municipal lease financing transactions at all levels in accordance with accounting principles generally accepted in the United States of America.

G. Lease Schedule Composition – For lease schedules under system-level master leases, the Corporate Controller shall determine the assets that will comprise each of the lease schedules. The Corporate Controller (or the Controller’s designee) will contact the representative of the municipal leasing company to solicit financial proposals for the assets to be leased (i.e. interest rate, term of lease, etc.), and will recommend to the COO & CFO and CFO or CFOs of regions that will be individually or jointly responsible for the lease schedule or to the appropriate Regional CFO, for lease schedules specific to a region, the leasing company to contract with. Upon approval of the COO & CFO and the appropriate Regional CFO or CFOs, the Corporate Controller will negotiate and finalize terms of the lease with the selected municipal leasing company. Once an agreement has been reached, the Corporate Controller and the Chief Operating Officer/Chief Financial Officer will review the draft agreement and initial their approval. The Chief Operating Officer/Chief Financial Officer and the President/Chief Executive Officer shall be authorized to sign the lease agreement.

H. Submission of Documents Subsequent to Finalization of Lease Schedule - All invoices received for assets that are financed on a municipal lease schedule must be approved by the department representative responsible for the installation/use of the asset to verify that it was received in good working order without any defects. This approval must be indicated by the representative’s signature and date of approval. The facility/department should keep a copy of the approved invoice for their records and send the original approved invoice to the Corporate Accountant. The Corporate Accountant will prepare the lease payment request form, attach the original approved invoice, and send both items to the municipal leasing company or its representative. The Corporate Accountant will be responsible for making a copy of the payment request form and the original invoice for inclusion in the lease schedule file.
I. Reconciliation of Capital Lease Balances for Schedules Under System-Level Master Leases - The Corporate Accountant shall prepare a monthly reconciliation of the capital lease obligation balance per the general ledger to the monthly statements prepared by the municipal leasing companies. This reconciliation shall be forwarded to the Corporate Controller for his review and approval prior to the month-end general ledger closing. Further, the Corporate Accountant and/or the Management Analyst shall be responsible for determining the accounting entries for allocating the assets to the appropriate facilities through the intercompany accounts. The Corporate Accountant and/or the Management Analyst shall inform the facilities’ accounting personnel of any assets acquired via municipal lease financing which will be passed down to the facilities.

J. Contract Monitoring – Program personnel shall maintain documentation to determine the status of their procurement contract – total contract value, payments to date, and contract balance. Program personnel shall maintain a log of invoices forwarded to the Corporate Accountant and coordinate with the facility accountants to ensure that the invoices were paid.

K. Lease Payments for Schedules of System-Level Master Leases – The Management Analyst shall make lease payments or arrange electronic payment to the municipal leasing companies in accordance with contract terms. The payments require the prior approval of the Chief Operating Officer/Chief Financial Officer. The Corporate Accountant shall be responsible for maintaining records on the status of the lease schedules and their proper financial presentation in the accounting records.

L. Reimbursements for Assets Paid by Facilities – For lease schedules issued under System-Level Master Leases, in the event that assets that have been financed on a lease schedule were mistakenly paid by the facilities, the facility should send a copy of the invoice and check copy to the Corporate Controller. The Corporate Controller will obtain a copy of the canceled check from the Management Analyst and prepare a reimbursement request form for the municipal leasing company. The Corporate Controller will send the reimbursement request form, invoice copy, and copy of the canceled check to the municipal leasing company. When the reimbursement check is received, the check will be deposited to the facility’s operating cash account.

V. **APPLICABILITY:** All HHSC regions and facilities and all HHSC Corporate staff.

VI. **REFERENCE:** HRS Chapter 323F