4. 	HAWAII HEALTH SYSTEMS C O R P O R A T I O N "Touching Lives Everyday"	Department: Corporate Finance	Policy No.: FIN 0020 Revision No.: N/A
	Policy and Procedures	Issued by: Kelley Roberson, COO/CFO	Effective Date: November 13, 2008
Subject: STATE APPROPRIATION ALLOCATION		Approved M	Supersedes Policy: N/A
		HHSC Corporate Board By: Raymond Ono Its: Secretary/Treasurer	Page: 1 of 4

- Purpose: To establish and define the policy and responsibilities of HHSC and HHSC Regional System Boards of Directors relating to the allocation of funds appropriated by the state of Hawaii to HHSC, including but not limited to general funds subsidy, general funds for collection bargaining expenses, special fund spending ceiling, and capital improvement project (CIP) funding.
- II. **Policy**: Funds allocated to HHSC by the state of Hawaii shall be allocated to HHSC regions and the corporate office in accordance with joint agreement of the five HHSC Regional System Boards of Directors and criteria and priorities established by the system.

III. Definitions.

- A. General Funds. The general fund is the primary operating fund of the State of Hawaii, used to collect revenues and expend funds throughout departments and agencies of the State. While the vast majority of HHSC revenues and expenses are made through HHSC's special fund, the subsidy from the State of Hawaii to HHSC is made from the general fund to the special fund of HHSC, either as collective bargaining payments on behalf of HHSC or as general funds subsidy made available to HHSC as credits against HHSC's semi-monthly payroll expenditures through the Department of Administration and General Services (DAGS) for HHSC employees.
- **B. Special Funds.** Special fund HTH 211 for Hawaii Health Systems Corporation was established by the state of Hawaii to account for revenues of the system and are to be used only for specified purposes stated in Chapter 323F, HRS. For each fiscal year the budget of the state of Hawaii sets a spending limit for special fund HTH 211, which limit HHSC is not authorized to exceed. Total spending by HHSC is limited by the special fund ceiling and general funds appropriated and released to HHSC for appropriate use.

- C. Special Funds Ceiling. A fund in which revenues raised from special sources named by law are deposited (earmarked revenue). Such revenues can be spent only for purposed prescribed by law and for which the revenues were collected.
- **D.** Capital Improvements Projects (CIP). Hawaii state legislature has authority to appropriate funds for capital improvement projects (CIP), the source for which funding may be general obligation bonds.
- E. Safety Net. There are a number of barriers to compiling an accurate description of the size and scope of the safety net. First, there is no clear definition of exactly what comprises the safety net. Often, 'safety-net' refers to ambulatory care sites such as clinics and hospital outpatient departments. In this instance the term refers to accessible adequate primary care, which will hopefully reduce the need for more expensive services such as emergency room visits and inpatient hospitalizations. In other instances the term 'safety net' includes the emergency room and inpatient services. The safety net can also refer to financing mechanisms to support uncompensated services (e.g. disproportionate share payments or local subsidies) or health plans that target previously uninsured individuals (American Health Care Association definition).
- IV. Criteria and priority for allocation: The system shall establish criteria and priorities for allocation of General funds subsidy, general funds for collective bargaining expenses, capital improvement projects (CIP) funds, and special funds spending authority.
 - A. General Funds Subsidy. The five HHSC Regional System Board of Directors shall determine how available general funds will be allocated for each biennium budget submission and for each supplemental budget submission, in accordance with priorities described below. In years in which regions are unable to come to agreement on distribution of general funds, the HHSC President & CEO will determine methodology for distribution of general funds for the purpose of submitting regional and facility biennium and supplemental budgets. Prior to final allocations of funds for the fiscal year concerned, if the five regions come to agreement on alternate methodology for distribution of available general funds in accordance with priorities described below, such methodology shall be used for distribution of funds instead of the methodology chosen by the President & CEO.
 - 1. General Funds Subsidy shall be allocated according to safety net missions, pursuant to Act 290 recognition of HHSC's "essential safety-net hospital and long term care services" and the recognition in Act 262, enabling legislation that created HHSC of the system's mission to provide "better health care for all the people in the State of Hawaii." Three criteria are to be considered for prioritizing allocation of funds to the HHSC Safety Net: Legal Mandate or Mission, Vulnerable Populations, Disproportionate Amount of Care (to vulnerable populations). Priority shall also be provided for debt

service payments and municipal leasing payments to facilitate cash flow management. If amount of general funds subsidy appropriated is less than required to cover projected cash flow shortfalls, emergency funding from the administration or from submission of an emergency appropriation, or both, will be required during the fiscal year, or other source of cash will be required in order for final operating and cash flow budgets to be effective.

- 2. It is recognized that the state of Hawaii may include provisos in the state budget that direct HHSC and/or HHSC Regional System Boards to expend general funds appropriation for stated, special purposes. In such cases, allocation of remaining general funds shall be appropriately adjusted.
- B. General Funds for Collective Bargaining Expenses. If the state of Hawaii appropriates general funds to pay for costs of collective bargaining contracts, the funds shall be allocated proportionally, based on staffing levels at the time collective bargaining agreements were reached.
- C. Special Funds Spending Ceiling. The corporation shall annually allocate special funds ceiling amounts based on budgets submitted by the corporation each year for inclusion in the Executive Biennium Budget or the Executive Supplemental budget. The total allocation of special funds spending ceiling to the five regions and the corporate office shall not exceed special fund ceiling for HHSC appropriated by the legislature for the year concerned. The corporate office and the individual regions shall not incur expenses exceeding allocated ceiling except in emergency circumstances reported to the Corporate Board of Directors and the Director of Health.
- D. Capital Improvement Projects (CIP) Funds. For CIP projects for which the state of Hawaii appropriates funds for a specific facility, the HHSC Corporate Board of Directors and management and staff will pursue and coordinate earliest release of funds as requested by the individual region. For CIP funding that is appropriated by the state of Hawaii in lump sum/s for categories of efforts throughout HHSC or across HHSC regions, the HHSC Corporate Board of Directors and management and staff will pursue and coordinate earliest release of funds in accordance with agreement and direction of the five regional systems. If the regions are unable to come to agreement on distribution of lump sum CIP funds, the HHSC President & CEO will determine the distribution of lump sum CIP funds, considering fairest allocation based on the stated preferences of the regions. If the five regions come to agreement on alternate distribution of available lump sum CIP funds prior to utilization of funds otherwise distributed by direction of the HHSC President & CEO (when regions could not come to agreement on allocation), such distribution shall be accomplished.

V. REGIONAL ALLOCATION. Regional System Boards of Directors are authorized to issue regional policies consistent with this policy and to further allocate funds and special fund spending ceilings consistent with priorities enumerated above.

- VI. **APPLICABILITY**: All HHSC regions and facilities and all HHSC Corporate staff.
- VII. REFERENCE: HRS Chapter 323F.