
 <p>HAWAII HEALTH SYSTEMS CORPORATION <i>"Touching Lives Everyday"</i></p> <p>Policy and Procedures</p>	<p>Department: Corporate Finance</p>	<p>Policy No.: FIN 0022</p>
	<p>Issued by: Kelley Roberson, COO/CFO</p>	<p>Revision No.: N/A</p>
<p>Subject: Short Term Debt and Revolving Lines of Credit</p>	<p>Approved by:  HHSC Corporate Board By: Raymond Ono Its: Secretary/Treasurer</p>	<p>Effective Date: November 13, 2008</p>
		<p>Supersedes Policy: N/A</p>
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- I. **Purpose:** To establish and define the policy and responsibilities of HHSC and HHSC Regional System Boards of Directors relating to the incurrence and processing of short term debt and revolving lines of credit.
- II. **Policy:** Short term debt and revolving lines of credit shall be handled by authorized staff in accordance with the objectives listed below to assure the proper execution and recording of such transactions.
- III. **Definitions:**
 - A. **Short Term Debt.** Debt due to be paid off at a date less than one year in the future.
 - B. **Revolving Lines of Credit.** An agreement by a lender to lend a specific amount to a borrower, and to allow that amount to be borrowed again once it has been repaid. **Also called** revolving credit.
- IV. **Separation and Transparency:** Neither the Hawaii Health Systems Corporation Board of Directors and senior leadership nor any region shall enter into any short term debt or revolving credit line agreement 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 or such authority has been delegated. To facilitate severability of debt 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 short term debt or revolving credit line documents of another region prior to completion to assure short term loans or revolving credit lines of another region does not pledge or obligation assets or revenue of a region without the advanced approval of the region concerned.

- A. Prior to the HHSC Corporate Board of Directors or any Regional System Board of Directors incurring into any short-term debt or entering into any revolving line of credit arrangement, the 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 debt or revolving line of credit.
- B. Full Faith and Credit. The obligation for any debt incurred by terms of this policy shall be limited to debt approved by the Regional Systems Boards of the regions involved. Governance and management shall assure debt instruments clearly state the full faith and credit of the state of Hawaii is not obligated or pledged.

V. **Financing Objectives:**

- A. Identify eligible projects for debt financing. Restricting debt to projects that are critical to the mission of HHSC will ensure that debt capacity is optimally utilized. Projects that relate to the strategic objectives of HHSC and projects that are self-funding with associated revenues will receive priority consideration. Projects that have no or little projected return on investment (ROI) shall be considered for submission to the governor and legislature of Hawaii for consideration for appropriation of general obligation bond-funded capital improvement projects (CIP).
- B. Maintain favorable access to capital for each region and for HHSC as a whole. Management will manage the timing and overall level of debt to ensure low-cost and timely access to the capital markets.
- C. Limit risk within the debt portfolio. Management will balance the goal of achieving the lowest cost of capital with the goal of limiting exposure to interest rate risk and other financing and credit risks.
- D. Manage balance sheets and financial operating results to maintain ready access to capital and lowest possible interest rates. The HHSC Finance, Information Systems, and Audit Committee (the "FISAC") will monitor HHSC's balance sheets, operating results and access to capital.

VI. **Debt Management Strategy:** To achieve its financing objectives above, HHSC and the regions will adopt the following debt management strategies and procedures. These strategies will be reviewed and modified by HHSC over time.

A. Funding Strategies

- 1. The HHSC Corporate Board of Directors, no later than the first day of each fiscal year, in coordination with Regional System Boards, shall annually establish cumulative debt capacity (debt

ceiling) for each regional system board based on analysis of current and budgeted capacity of each region to manage debt service and based upon input and request from the individual regional system board. Each regional system board shall be authorized to independently make decisions regarding issuance of debt up to the debt capacity ceiling established in coordination with the HHSC Corporate Board of Directors.

2. Issuance of debt for system-wide or multi-region objectives shall be approved by the HHSC Corporate Board of Directors, in coordination with Regional System Boards of Directors.
3. Only projects that relate to the mission, vision, and values of HHSC and the regions will be considered for debt financing. Projects that are self-funding or can create budgetary savings will receive priority consideration.
5. State funding via the issuance of general obligation bonds, cash reserves, philanthropy and all other sources of legally available funds are expected to be the first option in financing a portion of the cost for the HHSC's investment in facilities.
6. Debt is to be used sparingly and strategically.
7. HHSC and the regions, in the context of this Policy, will consider other funding arrangements when appropriate and advantageous to HHSC.

B. Debt Instruments

1. Tax-Exempt Debt. Tax-exempt debt is beneficial and will be the priority for debt issuance.
2. Taxable Debt. HHSC's debt portfolio will be managed to minimize the amount of taxable debt outstanding. Taxable debt will be used to fund projects ineligible for tax-exempt financing, or as an interim step to achieving larger tax-exempt financing. Taxable debt issuance should include ability to refund with tax-exempt financing with no or minimal penalty/ies.
3. Governance and management shall assure debt instruments clearly state the full faith and credit of the state of Hawaii is not obligated or pledged.

C. Variable Interest Rate Exposure

1. It is allowable for HHSC and the regions to maintain a portion of outstanding debt in a variable rate mode.
2. Variable rate debt, however, introduces a number of significant risks: the potential volatility of debt service requirements, a risk that associated credit arrangements that expire prior to the maturity of the underlying debt may be difficult or costly to

renew, financing arrangements that may include rating triggers or covenants that could accelerate debt repayment and collateral pledge requirements. Thus, the amount of variable rate debt not swapped to fixed rates will be limited as a portion of the total amount of outstanding HHSC debt. Fixed rate debt will be the primary source of capital infrastructure financing for the system and for any regional system board.

3. The amount of variable rate debt will vary depending on capital market conditions and the level of interest rates.

VII. **Process:**

A. Debt Administration

1. The HHSC COO/CFO, who may delegate duties to other officers, will be responsible for structuring new debt transactions, managing project funds and developing repayment schedules from facilities. The Regional CFO's will have similar responsibilities for their Region.
2. HHSC's outstanding debt will be managed by the HHSC COO/CFO, or their designee. The Region's outstanding debt will be managed by the Regional CFO.
3. The HHSC FISAC will review debt management practices and new transactions reported by HHSC and the Regions at each scheduled meeting and provide guidance and recommendations to the HHSC COO/CFO.
4. In circumstances where HHSC issues debt for projects benefiting multiple facilities, the HHSC COO/CFO will pool the debt and allocate funds and financing costs for the various projects to the facilities on a consistent basis.
5. The HHSC FISAC and each Regional Board Finance Committee as needed, will review proposals for new projects and rank them according to the foregoing HHSC objectives and strategy.
6. The HHSC FISAC and each Regional Board Finance Committee will review, at least annually, HHSC's and each Region's debt capacity, repayment sources and other capital market, budget and financing considerations.
7. The HHSC Board of Directors and the Regional Boards, if applicable, must approve projects before funding.

B. Structure

1. Debt service should not exceed the expected revenues used to repay the debt at any time.

2. Call features should be structured to provide maximum flexibility relative to cost.

G. Reporting to the Board of Directors

1. The HHSC COO/CFO will present an annual report to the HHSC Board of Directors on debt issued and outstanding, the estimated debt capacity of HHSC and the individual regions. The Regional CFO will submit information as requested by the HHSC COO/CFO for this annual report.

H. **Legal Review.** Management at Region and facility level shall obtain legal review on each indebtedness prior to entering in the lease to assure compliance with law and to assure the assets or revenues of another Region are not pledged. Documentation of legal review shall be retained on file until the end of the operating lease.

VIII. **Regional Policies.** Regional System Boards of Directors are authorized to issue regional policies consistent with this policy.

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

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