	Department:	Policy No.:
HAWAII HEALTH SYSTEMS C O R P O R A T I O N *"Touching Lives Everyday"*	Corporate Finance	**OPN 0001**
		Revision No.: N/A
Policies and Procedures	Issued by: Kelley Roberson COO/CFO	Effective Date: August 21, 2008
Subject: ***Creation of Business Ventures by Regional Systems Boards***	Approved by: HHSC Board of Directors By: Raymond Ono Its: Secretary/Treasurer	Supersedes Policy: N/A
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I. PURPOSE:

To help facilitate the efforts of the HHSC Corporate Board and Regional System Boards to pursue and establish or dissolve business ventures consistent with regional and system-wide strategic plans. Business ventures may be pursued through the creation of separate legal entities (including, but not limited to, corporations, either for profit or not-for-profit, partnerships, and limited liability companies), or through contractual joint ventures that may not involve the creation of any separate legal entity.

II. DEFINITIONS:

Business Venture: A business enterprise involving some risk and expectation of gain, pursued through the creation of a separate legal entity, or through joint ventures with other separate legal entities not involving the creation of any new separate legal entity.

Legal Entity means person or organization that has the legal standing to enter into a contract and may be sued for failure to perform as agreed in the contract.

Joint Venture means a business undertaking by two or more parties in which profits, losses, and control are shared.

III. POLICY:

The **Regional System Boards and Regions** are charged with the responsibility to identify, evaluate, and develop business ventures that further the public interest and that are necessary or appropriate in the performance of their responsibilities and consistent with the purposes and safety net and other missions of the respective Regions. The Regional System Boards, working with their respective Regional management, shall evaluate each business venture to determine if it is consistent with the goals and objectives of the regional and system-wide strategic plans. Once a potential business venture has been identified, the Regional System Board, working with its regional management, shall perform due diligence, including a detailed financial analysis and assessment of the overall risk to the region, as well as the system as a whole. The HHSC Corporation Board of Directors ("Corporation Board") shall encourage business ventures that support regional goals and objectives within the strategic plan for which financial projections are acceptable, risk is appropriate, and due diligence is positive. The Regional System Boards shall submit to the Corporation Board a request for approval to proceed with the proposed business venture ("Request") prior to proceeding with the business venture. The Corporation Board shall timely respond to the Request. The Regional System Board shall not proceed with the business venture prior to the approval of the Request by the Corporation Board.

Duties and responsibilities of Regional System Boards:

A. Regional System Boards shall have the power and duty to develop and pursue any new business venture that furthers the public interest and is consistent with their missions, and necessary and appropriate for the performance of their responsibilities, and to dissolve business ventures that no longer further the public interest or are no longer consistent with missions or are no longer necessary and appropriate for the performance of their responsibilities, provided:

   (1) Market analyses support the business venture;

   (2) The proposed business venture is consistent with the strategic plan of the region and of the system;

   (3) The regional capital budgeting and regional operating budgets adequately support the business venture;

   (4) The risks are limited to the assets under the control of the region or regions proposing the business venture; and

   (5) The funding requirements of the joint venture shall not be included in computations or requests for general fund subsidy for the region.

B. Regional System Boards shall submit the Request, along with all the supporting documents, to the Corporation Board through its Finance & Information Systems & Audit Committee (FISAC). Simultaneously with submission of the Request to the FISAC, management for the region shall submit a copy of the Request and the supporting documents to management of the regions that are not proposing the business venture, so that management for each of the other regions can review and provide comments and/or concerns to regional board representatives.

C. The Regional System Board shall not be authorized to proceed with the new business venture or dissolve the business venture until the Request is approved by the Corporation Board.

D. Regional System Boards shall have the power and duty to prepare and execute any and all documents and otherwise perform all duties that are necessary and appropriate for the lawful implementation of the proposed new business venture.

E. Once approved by the Corporation Board, Regional System Boards are responsible for establishing or dissolving legal entities or joint ventures or partnerships.

IV. PROCEDURE.

A. <u>Regional Internal Evaluation & Development of Business Initiative:</u> Regional System Boards may independently direct their respective Regional CEOs and leaders and staff to identify and evaluate new business ventures on behalf of the Regional System Boards, and to operate such business ventures upon determination of its authority to proceed by the

Corporation Board. Requirements for evaluation of new business ventures include the following:

(1) Development of any business venture begins with market analysis and identification of opportunity to create new business or partnership, or joint venture. Market analysis shall include demand forecasting and financial projections and evaluation of risk
(2) Identification and evaluation of potential business partners requires careful due diligence. Regional System Boards are authorized to sign or present non-disclosure agreements to potential business partners at the discretion of the individual Regional System Board.
(3) At the Regional System Boards' discretion, Regional System Boards shall seek legal assistance and legal assistance shall be provided to the Regional System Boards during development of business ventures.
(4) Regional System Boards shall have documents that are necessary and sufficient for the legal pursuit of the proposed business venture prepared prior to making the Request for determination of its authority to proceed with the business venture from the Corporation Board. Regional System Boards may make interim requests for such determination to the Corporation at the discretion of the individual Regional System Board for the purpose of seeking feedback or inter-regional coordination. Two or more Regional System Boards may develop a business venture jointly and submit a joint request for determination of their authority to proceed to the Corporation Board.
(5) Regional System Board shall integrate business ventures into a regional strategic plan and into regional operating and capital budgets.
(6) Regional System Board shall establish separate accounting and reporting for each business venture.
(7) Regional System Board shall assure an exit strategy is a component of any business venture, including pre-existing ventures.

B. <u>Review and Approval by the HHSC Corporation Board</u>: The FISAC of the Corporation Board shall review the Request submitted by the Regional System Board and forward its recommendation to the full Corporation Board. The Corporation Board shall respond to the Request at its next regularly scheduled meeting following the receipt of the Request.

Where the FISAC determines the establishment or dissolution of the business venture is (1) consistent with or does not impede or interfere with or otherwise implicate, the interests of any one or more of the other Regions, and (2) limits the exposure to any risk or liability to the assets under the control, custodial or otherwise, of the Region proposing the business venture, the FISAC shall recommend approval of the Request to the Corporation Board, and the Corporation Board shall approve the Request, unless the Corporation Board finds the FISAC recommendation to be based on clearly erroneous facts. The Corporation Board shall not unreasonably withhold approval where FISAC determines that there is no liability, risk or impact on the Corporation or regions not involved in the venture.

Where the proposed business venture fails to meet any one of the two conditions set forth above, the FISAC nonetheless shall have the authority to recommend approval of the Request, if the FISAC determines, in exercise of its reasonable judgment, that the Region proposing the business venture has adequately demonstrated that the risk to the system is outweighed by the potential benefit to the Region or the system, or both.

In cases in which the FISAC recommends denial of the request, the FISAC shall provide an explanation for its recommendation to the Regional System Board. The Regional System Board may then determine whether to withdraw the request, amend the request, or direct the request be submitted to the full Corporate Board for review and possible approval without the recommendation of the FISAC.

In any case, implicated Regional System Boards shall be invited to participate in the meeting of the Corporation Board at which the Request will be considered.

(1) Information to be evaluated by the Corporation Board. Minimum required information to be submitted to the FISAC with the Request shall include:

a. Market Analysis (which shall include financial projections and evaluation of risk to the region and the system)
b. Regional Strategic Planning
c. Operational and capital budgeting
d. Legal Review & Explanation of Commitments
e. Exit Strategy

(2) Response Time. The Corporation Board shall review and respond to the Request from a Regional System Board at the first regularly scheduled board meeting to occur after ten calendar days following the submission of the Request. If for market and competitive reasons, the Regional System Board needs approval on a business venture prior to the next regularly scheduled meeting of the Corporation Board, the Corporation Board shall make every effort to assemble board members for a special meeting to consider the approval of the venture.