

**AMARILLO HOSPITAL DISTRICT
MEETING OF BOARD OF MANAGERS
AMARILLO CITY HALL
CITY COMMISSION CHAMBERS
MINUTES
JULY 31, 2012
7:30 A.M.**

<u>Members</u>	<u>Present</u>
Mr. Greg Graham, Chairman	Yes
Ms. Murielle Barnes, Vice-Chair	Yes
Ms. Liz Hughes, Secretary	Yes
Ms. Claudette Dove	Yes
Mr. Chuck Speed	Yes
Mr. Bob Stafford, MD	Yes
Mr. Rodney Ruthart	No

Also Present

Mr. Dean Frigo	Assistant City Manager for Financial Services, City of Amarillo
Mr. Marcus Norris	City Attorney, City of Amarillo
Dr. Matt Richardson	Director of Public Health, City of Amarillo
Ms. Andrea Rains	Recording Secretary, City of Amarillo
Mr. Roy Browning	Investment Consultant, Wells Fargo Advisors
Mr. John M. Crider, Jr.	Consulting Actuary

ITEM 1: Mr. Graham called the meeting to order at 7:30 am and welcomed those in attendance.

ITEM 2: Approval of Minutes from April 24, 2012. Mr. Graham presented the minutes from the last meeting held April 24, 2012. With no questions or comments, motion was made by Mr. Speed, seconded by Ms. Hughes and unanimously carried to approve the minutes as written.

ITEM 3: Presentation and Discussion of the Pension Fund Investment Performance. Mr. Browning presented the Capital Markets Review for periods ending June 30th, 2012. He reported from the Investment Performance Review at June 30th, 2012 that the total market value of the Pension Fund was \$17,050,867. He reviewed that the Fund experienced returns for the latest 3-months, 6-months, 1, 3, 5, 10-year periods, and since inception of -2.5%, 5.4%, 1.4%, 10.2%, 2.1%, 4.8% and 5.1% respectively. The Total Fund's rate of return, he explained, was -0.3% for 2011, 11.8% for 2010, 17.0% for 2009, -18.8% (versus -22.1% of the Policy) for 2008, and 6.1% for 2007. Mr. Browning reviewed the Sharpe Ratio of the Fund was 1.02 versus the Policy of 1.29 for the latest 3-year period; 0.11 versus 0.18 for the latest 5-year period; and 0.34 versus 0.38 for the latest 10-year period. He noted that overall; it was a very volatile quarter.

ITEM 4: Presentation and Discussion of the AHD Corpus Investment Performance. Mr. Browning presented the Amarillo Hospital District's Investment Performance Review at June 30th, 2012 and reported the total market value of the Fund, excluding the Tobacco Fund, was \$207,704,597. He reviewed returns for the latest 3-month period of 1.5% for the Total Fund, 1.2% for Herring Bank and 1.7% for Amarillo National Bank; all versus a return of that of the Policy of 1.6%. Mr. Browning further reviewed returns of the Fund of 1.7%, 5.4%, 4.6%, 5.4% and 4.8% for the 6-month, 1-year, 3-year, 5-year and 10-year periods respectively. The Fund's rate of return, he explained, was 6.0% in 2011, 5.0% in 2010, 1.7% in 2009, 6.2% in 2008, and 8.0% in 2007. He further explained that the Fund's sharpe ratio outperformed the Policy in each time period with a ratio of 1.88 versus 1.75 for the 3-year period, 1.58 versus 1.47 for the 5-year period, and 1.12 versus 0.88 for the 10-year period. Mr. Browning stated that in sum, the Fund is doing well and being managed as it should, that the money managers are doing a good job.

ITEM 5: Consider Indigent Care Agreement and Healthcare Services Agreement. Review and Consider Resolutions Regarding Suspension Agreement and Amendment to Healthcare Services Agreement. Mr. Norris stated that he would review and discuss both Items 5 and 6 simultaneously. He reviewed that after the sale of the hospital in 1996, the District held a corpus of money that allowed the District to stop collecting property taxes. He further reviewed that the corpus of money was invested and used to fund the District's statutory and constitutional obligation to provide indigent care to the needy residents of the community. Since the District no longer owns a hospital, Mr. Norris explained, an Indigent Care Agreement was entered between the District and Northwest Texas Hospital (NWTX) to provide indigent care at a fee of approximately \$7 million annually. He reviewed that several years ago, NWTX; along the District's Board of Managers and City staff, discovered a better way to manage the corpus money. Rather than the Hospital District paying \$7 million directly to NWTX, the District could instead revise documentation and send the money directly to the State of Texas where it would be matched with Federal dollars and returned locally to NWTX in a program known as the UPL, or the Upper Payment Limit, he explained. In return for participating in the UPL, Mr. Norris stated, NWTX agreed to discount the District's indigent care payments at 8%. He explained that the paperwork presented before the Board in Items 5 and 6 were the necessary legal documents to continue the program for another quarter and would prepay the District's indigent care obligation to NWTX through May of 2015. Mr. Norris added that under the presented documentation, the District would fund the Medicaid obligation locally, and those monies would also go to the UPL where it would be matched and returned to our community. He stated that NWTX would cover indigent care as its own obligation under this structure. Mr. Graham reported that the Finance Committee had reviewed and discussed all agreements and resolutions in Item 5 and Item 6 and recommended approval to the Board. Ms. Dove seconded the Committee's motion to approve both Item 5 and Item 6 as presented, and the motion carried unanimously.

ITEM 6: Review and Consider Resolution Regarding Upper Payment Limit Program. This item was reviewed and approved above in Item 5.

ITEM 7: Discussion of Actuarial Report on the Pension Plan. Mr. Crider explained that the Valuation report had been presented in detail the previous afternoon to the District's Finance Committee. He reported that the \$2 million the District had budgeted for its current year contribution would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) over ten and a half years, per the Valuation report at October 1, 2011. Mr. Crider explained that with every plan, there is a risk of underfunding; however, with the District's Plan, there is also a risk of overfunding; because any money that goes into the Trust cannot be recovered until all participants have been paid. He added that the \$2 million contribution amount by the Amarillo Hospital District would be entirely appropriate. Mr. Crider noted that the District amortizing the UAAL over ten and a half years is the suitable measure for the Plan, not the funding ratio.

ITEM 8: Consider 2012-2013 AHD Budget. Mr. Frigo presented the Amarillo Hospital District's proposed 2012-2013 budget and reported that the District began the year with \$224.9 million in assets and is expected to receive about \$8.1 million in investment income. He reviewed that the District's largest expense was indigent care at about \$5.3 million followed by the pension contribution of \$2 million and professional services at \$1.3 million, which is the contract with Texas Tech for pediatric support services. Mr. Frigo explained that Public Health's revised estimate was approximately \$831 thousand. Reviewing the 2012-2013 proposed budget, he reported an anticipated \$6.4 million in investment income. He further reported proposed expenditures of \$1.3 million in professional services, \$5.3 million for the amortized indigent care contract, about \$1 million for the Public Health Contract, and \$2 million towards the pension contribution. Mr. Frigo reviewed proposed total expenditures of \$9.8 million versus budgeted revenue of \$6.4 million; noting that the proposed expenditures would be over revenue by about \$3.4 million and would end the year with about \$220 million. The Tobacco Fund's proposed budget, he explained, anticipated receiving about \$278 thousand from the Tobacco Distribution and expected operating expenditures of about \$21 thousand for money management fees and the audit. Mr. Frigo reported the only other expenditure of the Fund was about \$245 thousand in professional services, which funds the Tobacco Free Amarillo

program. He reviewed that the Tobacco Fund's total anticipated expenditures of about \$266 thousand versus expected available revenue of \$291 would end the year with a projected slight excess of about \$12 thousand. Mr. Graham announced that the Finance Committee had reviewed and recommended approval of the Hospital District's proposed 2012-2013 budget as presented to the full Board. Mr. Speed seconded the Finance Committee's motion to approve the 2012-2013 budget as presented, and the motion unanimously carried.

ITEM 9: Update and Discussion on 1115 Waiver. Dr. Richardson updated the Board on the Medicaid 1115 Waiver and explained that there were still many questions regarding the Uncompensated Care calculation, the District's participation and the amount of cap there will be in Amarillo or the region. He reported that the DSRIP (Delivery Service Reform Incentive Payment) was designed to provide services, projects or programs that will change the Medicaid provision over the next 5 to 20 years and was part of the Affordable Care Act. He stated that there were several potential projects that healthcare organizations in the Panhandle could participate in and receive incentive payments. Up to 5% of the total incentive payment would be set aside for local health departments, he noted. Dr. Richardson reviewed that the Hospital District and Public Health Department would be pursuing ideas such as an immunization expansion project, and the possible expansion of Tobacco Free Amarillo interventions and educational efforts into other school districts in the Texas Panhandle. Draft submissions of DSRIP projects, he reported, were due August 3rd, 2012; and would be followed by negotiations between healthcare providers and negotiations with the State. Dr. Richardson reviewed that staff had been in good communication with the consultants hired by the District; that no decisions had been made and no bill had yet been received from the consultants to-date. He added that the net gain to the District was currently unknown, but appeared to be beneficial. Dr. Richardson explained that the program was a 5-year cycle and was currently in its first year; however, since Texas was spending the first year negotiating, it would basically be a 4-year cycle to the District. He pointed out that although financial obligations and incentive payments were uncertain for the first year, contracts would be finalized in the current year for the next fiscal year and would take place in the spring. Dr. Richardson reported that there would be an annual contract between the District and the State of Texas and that each year, the IGT (Intergovernmental Transfer) requirement and the subsequent incentive, or the amount of money the District would net, would be known. He stated that either of those amounts could change annually. Dr. Richardson announced that there would be more data to report in the fall and staff would come before the Board to seek counsel and advice on how to proceed. Mr. Frigo added that the District would like to be able to use the UC (Uncompensated Care) piece of the Waiver to hopefully receive a discount on pediatric services.

ITEM 10: Consider Familia Dental Lease Agreement. Mr. Frigo explained that Baptist Hospital had donated the building located on West 7th Avenue to the Amarillo Hospital District to be used as a dental clinic. He reviewed that the District has since closed its dental clinic and leased the building to Familia Dental. He added that Familia Dental has recruited approximately four dentists and runs a very busy dental practice; accepting self-pay as well as Medicaid, and is open extended hours, including Saturdays. Mr. Frigo reported that the lease brings in about \$25 thousand annually and stated that City staff recommended extending the lease an additional two years. Mr. Graham stated that the Finance Committee also recommended approval of renewing Familia Dental's lease to the full Board. Mr. Stafford seconded the Finance Committee's motion to extend the District's lease agreement with Familia Dental and the motion carried unanimously.

ITEM 11: Presentation of Quarterly Financial Statements. Mr. Frigo presented the Amarillo Hospital District's Financial Statements at June 30th, 2012 and reviewed the balance sheet of the General Fund. He reported current assets of \$3.1 million in cash and about \$203,265,000 in investments, with approximately \$1.3 million in accrued interest on those investments. He explained that the \$1,354,310 reported in prepaid expenses was the current portion prepaid and that the long-term prepaid expenses of about \$14 million was the amount the District had prepaid on the Indigent Care Contract through May 2015. He further explained that the net pension asset amount of about \$5.6 million is reported as an asset because the District is paying the pension obligation off over a shorter period of time than required. Mr. Frigo added that new GASB

(Governmental Accounting Standards Board) statements coming out in August 2012 will require the District to show the pension asset as a future obligation of about \$12 million beginning in 2015. He reviewed current liabilities of about \$66 thousand and long term liabilities of about \$285 thousand, of which he explained were prior workers' compensation claims. Mr. Frigo reported a total Fund balance at June 30, 2012 of about \$228 million. Reviewing the General Fund's income statement at June 30th, 2012, he reported total revenue of approximately \$5.6 million versus total expenses of about \$7.8 million for an operating loss of approximately \$2.2 million. He explained that if the District's unrealized investment loss of about \$1.9 million was subtracted from the overall operating loss of \$2.2 million, the Fund would have then experienced an operating loss around \$291 thousand. Mr. Frigo reviewed the Budget versus Actual Report of the Operating Fund and reported that realized investment income was about 112% of the District's budgeted amount, having budgeted \$6.4 million and receiving an actual \$7.2 million. He reviewed that the District's operating expenses were mostly all on target regarding their budgeted and actual amounts. Mr. Frigo predicted that the District would probably end the year with more expenses than revenue, however; he felt those numbers would be closer than predicted.

ITEM 12: Quarterly Investment Report from Investment Officer. Mr. Graham reported that for the quarter ending June 30, 2012, the Investment Portfolio was in compliance with the Amarillo Hospital District Investment Policy as amended on January 12, 2010 and reviewed and approved on February 1, 2011 and the Public Funds Investment Act. Mr. Graham noted that the maturity dates of the District's investments will meet the anticipated cash flow needs of the District. He reviewed that agency securities, including mortgage-backed securities, represent 88.65% of the total Portfolio, which is below the 95% Agency limit. Mortgage backed securities, he stated, represent 6.65% of the total Portfolio, which is below the 30% limit, and obligations of state or local governments represent 6.28% of the total Portfolio, which is below the 10% limit. He reported that treasuries and full faith and credit obligations comprise 3.54% of the total Portfolio and cash balances, including Money Market funds, comprise about 1.53%. Investments with maturities greater than 10 years represent 34.79% of the total Portfolio, which is under the 50% restriction in the Policy. Mr. Graham reported that there are no securities with a maturity of greater than 30 years. He stated that the market value of the Portfolio is 101.69% of the book value, with a market value of \$206,373,025 and a book value of \$202,940,674. Mr. Graham reviewed that in the current year, the AHD Budget called for \$6,412,500 in realized investment income and the current investment earnings through June 30, 2012 were \$7,202,202.

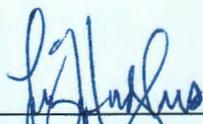
ITEM 13: Public Comments. There were no public comments.

ITEM 14: Adjournment. There, being no further business, the meeting adjourned at 8:25 a.m. This meeting was recorded and all comments are on file in the City Finance Department.



Bob Stafford, MD, Chairman

ATTEST:



Liz Hughes, Secretary