

**AMARILLO HOSPITAL DISTRICT  
MEETING OF BOARD OF MANAGERS  
AMARILLO CITY HALL  
CITY COMMISSION CHAMBERS  
MINUTES  
JANUARY 22, 2013  
7:30 A.M.**

<u>Members</u>	<u>Present</u>
Mr. Bob Stafford, MD, Chairman	Yes
Ms. Mark Logsdon, Vice-Chair	Yes
Ms. Liz Hughes, Secretary	Yes
Mr. Rodney Ruthart	Yes
Ms. Claudette Dove	Yes
Mr. Chuck Speed	Yes
Mr. Smith Ellis	Yes

Also Present

Mr. Dean Frigo	Assistant City Manager for Financial Services, City of Amarillo
Mr. Marcus Norris	City Attorney, City of Amarillo
Ms. Michelle Bonner	Finance Director, 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. Douglas Matney	Regional Vice-President, Group Director, Universal Health Services
Mr. Carlos Zaffirini	Healthcare Attorney, Adelanto HealthCare Ventures L.L.C.

**ITEM 1:** Mr. Stafford called the regularly scheduled meeting of the Amarillo Hospital District Board of Managers to order at 7:35 am.

**ITEM 2:** Approval of Minutes from November 6, 2012 Meeting. Motion was made by Mr. Ruthart, seconded by Ms. Hughes and unanimously carried to approve the minutes from the November 6, 2012 meeting as written.

**ITEM 3:** Approval of Minutes from December 21, 2012 Special Meeting. Ms. Hughes motioned to approve the minutes from the special meeting held December 21, 2012 as written. Mr. Ellis seconded the motion and it carried unanimously.

**ITEM 4:** Presentation and Discussion of the Pension Fund Investment Performance. Mr. Browning reviewed the Capital Markets Overview at December 31, 2012. He reported that the market value of the total Fund was \$18,508,475. Mr. Browning reviewed that for the latest 3-month period, the Fund received returns of 0.4% versus that of the Policy of -0.1%. He explained that the Fund and Policy returns were very close for all time periods and since inception with the Fund having returns of 7.3% versus the Policy of 8.9% for the 3-year time period; 3.2% versus 3.5% for the 5-year time period, 5.5% versus 5.7% for the 10-year time period, and 5.3% versus 5.5% since inception. Mr. Browning explained that the Sharpe Ratio was the measure of the amount of return received versus the amount of risk taken. The Fund's Sharpe Ratio, he reviewed, was 0.76 versus the Policy of 0.98 for the latest 3-years; 0.25 versus 0.26 for the latest 5-years; and 0.45 versus 0.46 for the latest 10-year time period. Mr. Browning stated that in sum, the Fund had a good quarter on a relative and risk-adjusted basis.

**ITEM 5:** Presentation and Discussion of the AHD Corpus Investment Performance. Mr. Browning reported that the Amarillo Hospital District's Total Fund market value at December 31, 2012 was \$204,719,198. He

reviewed that for the latest 3-month period, the Fund had returns of 0.2% versus that of the Policy of 0.1%. Of the same period, he reviewed that Herring Bank had returns of 0.2% and that Amarillo National Bank had returns of 0.2%. Year-to-date returns, he reported, were 3.1% of the Fund versus 2.2% of the Policy. He further reported returns of 4.7% versus 4.6% for the latest 3-years, 4.4% versus 4.8% for the latest 5-years, 4.3% versus 4.3% for the latest 10-years, and 5.1% versus 5.1% since inception. Mr. Browning explained from the risk/return summary statistics that the Fund took less risk than the Policy and had less volatility. He reviewed that the Sharpe Ratio for the 3-year time period was 2.20 of the Fund versus the Policy of 1.85; 1.45 versus 1.29 for the 5-year time period; and 1.03 versus 0.78 for the 10-year time period. Mr. Browning stated that overall; the Fund is doing great and outperforming the index. He added that, in regards to Item 9 below, he recommended the proposed changes to the Amarillo Hospital District's Pension Plan Investment Policy.

**ITEM 6:** Review and Consider Resolution(s) Regarding Uncompensated Care and Medicaid Funding. As Necessary, May Review and Discuss Indigent Care Agreement and Healthcare Services Agreement. Mr. Norris explained that the agreements approved by the Board at the meeting held in November 2012 contained an evergreen clause, which meant that the agreements would automatically continue each quarter unless a 30-day notice were given by either party to discontinue participation. He further explained that therefore, there was only one resolution for the Board to consider under Item 6, which was a resolution to approve payment in the amount of \$1,360,000 that would prepay the District approximately three years, through February 8<sup>th</sup>, 2016. Mr. Norris added that Mr. Frigo had recently discovered Universal Health Services' (UHS) bond rating had been downgraded by rating agencies. He stated that the matter had also been presented to the Finance Committee in an effort to fully inform where financial decisions were being considered. Mr. Norris advised the Board to continue with the quarterly payment, as the District had not given a 30-day notice to discontinue the payments; however, he noted that the Board may want to undertake further review and explore options over the next quarter. Mr. Ruthart announced that the Finance Committee did review this item at their January 18<sup>th</sup>, 2013 meeting and rigorously discussed some of the changes in regard to UHS's rating. He reported that the Finance Committee recommended the payment per the resolution presented; however, the Committee felt it was appropriate to hear from representatives from UHS in regard to the details to the downgrade that was mentioned. Mr. Doug Matney introduced himself and stated that the BB or Ba2 downgrade of UHS occurred approximately in May of 2010. He explained that the downgrade was basically in relation to UHS's leverage regarding earnings relative to outstanding debt; that UHS's leverage increased in 2010 when it borrowed money to purchase a psychiatric company which included over 100 psychiatric facilities. Mr. Matney asserted that the stability of UHS has been in place for over 30 years and has historically honored all obligations and has never defaulted on a single debt. With regard to the Hospital District acquiring additional security from UHS, he stated that a letter of credit would cost a substantial amount of money to obtain and could create a legal issue that would jeopardize the entire Uncompensated Care (UC) program. Mr. Matney explained that a lien to secure UHS property is already in place per the original sale agreement, that should UHS default in its obligations, the Amarillo Hospital District would have the right to take back the hospital. He added that UHS has added value to the District's asset and would be worth more than what the District sold originally. Mr. Matney reviewed some of the projects that UHS and the Hospital District have partnered on, and requested that the District continue to fund the UC so that those partnerships could persist. Mr. Matney offered to arrange tours of Northwest Texas Hospital for the Board and stated that UHS could provide quarterly presentations at future Board meetings. Mr. Stafford called for a vote from the Board on the motion from the Finance Committee to approve the resolution as presented and it passed by a vote of 7-0.

**ITEM 7:** Update and Discussion of 1115 Waiver. Mr. Zaffirini introduced himself as a healthcare lawyer from Austin, representing UHS and Northwest Texas Healthcare Systems (NWTHS) in putting together 1115 Waiver projects throughout the State of Texas. He reviewed the status of the 1115 Waiver in Region 12, which included Amarillo, and stated that for the last six months since the state received approval from the federal government to pursue the Waiver, he and UHS had been working with the Region's anchor hospital – University Medical Center in Lubbock—to create a regional health plan that would address the healthcare

needs for Region 12. Mr. Zaffirini explained that in Amarillo, the Region was looking for solutions to access all available federal funds that could be drawn down from the state to transform and approve the delivery of care in the community. He noted that NWTHS and the Amarillo Hospital District have partnered together to access several payments via the UC piece and that NWTH had also partnered with Texas Tech and was continuing to look for additional partnerships to identify new ways to finance the transformation of healthcare in Amarillo. Mr. Zaffirini reported that to-date, the regional health plan was in place along with University Medical Center and other participants in the 1115 Waiver in Region 12, and was seeking new partnerships to fully fund the transformational waiver in the community.

**ITEM 8:** Review and Consider Resolution Regarding Protecting DSRIP Funding for Amarillo. Mr. Zaffirini explained that this resolution drafted for the Board's consideration would urge the Texas Health and Human Services Commission to give Amarillo additional opportunity to access the \$90 million in Delivery System Reform Incentive Pool (DSRIP) payments allocated to the Amarillo hospitals over the five years of the Waiver so that new services could be implemented in the community. He reported that NWTH and BSA (Baptist St. Anthony's) provide approximately 35% of the Medicaid inpatient days in Region 12; however, due to difficulties in obtaining funding for the non-federal share for DSRIP payments for the hospitals in Amarillo, the \$90 million could be swept to other providers in Region 12 and even the remainder of the state as a result. Mr. Norris clarified that no local tax money would be lost in this matter. Mr. Speed motioned to approve the resolution as presented. Mr. Ruthart seconded the motion and it carried unanimously.

**ITEM 9:** Consider Pension Plan Investment Policy. Mr. Frigo explained that all recommended changes to the Pension Plan Investment Policy relate to the benchmark in which the performance is measured against. He reviewed that because Amarillo National Bank must keep the \$2 million allocated to the Pension Plan in cash to process monthly benefits, the District's Investment Advisor had recommended some changes in the benchmark. He reviewed that the Investment Goals would be amended to reflect that the Fund meet or exceed the rate of return of a balanced market index comprised of 60% Standard and Poor's 500 stock index, 22.5% (down from 35%) Barclay's Government/Credit Intermediate and 17.5% (up from 5%) Cash and Short Term Fixed Income. He further reviewed that the Asset Mix Policy would also be amended to reflect a target amount of 22.5% in fixed income and a target amount of 17.5% in cash and short term fixed income for a total target amount of 40% in fixed income and 60% in equities. Mr. Frigo added that Matt Ramsey from Amarillo National Bank and Alpha Consultants were in support of the changes. Mr. Ruthart reported that the Finance Committee had met the previous day and reviewed the proposed changes to the Pension Plan Investment Policy. He moved the Finance Committee's recommendation to approve the changes to the Pension Plan Investment Policy as presented. Mr. Stafford called for a vote from the Board on the motion from the Finance Committee and it passed by a vote of 7-0 to accept the changes.

**ITEM 10:** Consider Corpus Investment Policy. Ms. Bonner presented recommended changes to the Hospital District's Corpus Investment Policy. She reviewed that there were only a few minor language changes to the Policy; that the main change was to the pledged collateral section, which would mainly affect the District's operating account at Bank of America. Ms. Bonner explained that the change to the pledged collateral section would allow the District to accept surety bonds or letters of credit from a governmental agency. She further explained that language had been added to the Policy that defined what types of pledged collateral were acceptable as well as language that would give the District the right to reject any investments that the bank would like to pledge. Mr. Ruthart stated that the Finance Committee had met the previous day and reviewed the District's Corpus Investment Policy. He moved the recommendation from the Finance Committee to approve the changes to the District's Investment Policy as presented. Mr. Stafford called for a vote from the Board on the motion from the Finance Committee and it passed by a vote of 7-0.

**ITEM 11:** Review and Consider the District's Bylaws. Mr. Frigo explained that the Bylaws are required to be reviewed annually. He reported that there were no recommended changes to present to the Board at this time.

**ITEM 12:** Presentation of Quarterly Financial Statements. Mr. Frigo presented the Amarillo Hospital District's Quarterly Financial Statements at December 31, 2012. From the General Fund's balance sheet, he reported a total Fund balance of \$226,809,208. Mr. Frigo reviewed the Fund's income statement and explained total expenses of \$3.9 million versus total revenue of \$420 thousand. He reported from the budget versus actual report that the District had budgeted a realized investment income amount of \$6,387,544 versus an actual amount received of \$1,532,813; which was 24% realized for the first quarter. Mr. Frigo reminded the Board that the District's Tobacco Fund could expect a distribution from the State in April of 2013; that the Tobacco Cost Report would be filed in March 2013. He explained that the funds the Tobacco Fund receives are used to fund Tobacco Free Amarillo. Mr. Frigo reviewed the District's donor restricted funds and stated that staff was working to place the funds for the good of the community.

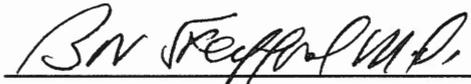
**ITEM 13:** Quarterly Investment Report from Investment Officer. Mr. Ruthart reported that for the quarter ending December 31, 2012, the Investment Portfolio was in compliance with the Amarillo Hospital District Investment Policy as amended on January 12, 2010 and reviewed and approved on January 31, 2012 and the Public Funds Investment Act. Mr. Ruthart 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 87.96% of the total Portfolio, which is below the 95% Agency limit. Mortgage backed securities, he stated, represent 5.26% of the total Portfolio, which is below the 30% limit, and obligations of state or local governments represent 6.57% of the total Portfolio, which is below the 10% limit. He reported that treasuries and full faith and credit obligations comprise 2.23% of the total Portfolio and cash balances, including Money Market funds, comprise about 3.25%. Investments with maturities greater than 10 years represent 37.62% of the total Portfolio, which is under the 50% restriction in the Policy. Mr. Ruthart reported that there are no securities with a maturity of greater than 30 years. He stated that the market value of the Portfolio is 101.37% of the book value, with a market value of \$203,577,654 and a book value of \$200,832,288. Mr. Ruthart reviewed that in the current year, the AHD Budget called for \$6,387,544 in realized investment income and the current investment earnings through December 31, 2012 were \$1,532,813.

**ITEM 14:** Committee Reports. There were no committee reports at this time.

**ITEM 15:** Public Comments. There were no comments from the public.

The Board convened into Executive Session, under Section 551.071 of the Texas Open meetings Law, at 8:47 a.m. At 9:48 a.m., the Board completed its Executive Session.

**ITEM 16:** Adjournment. There, being no further business, the meeting adjourned at 9:48 am. This meeting was recorded and all comments are on file with the City Finance Department.

  
Bob Stafford, MD, Chairman

ATTEST:

  
Chuck Speed, Secretary