

**AMARILLO HOSPITAL DISTRICT
REGULAR MEETING OF BOARD OF MANAGERS
AMARILLO CITY HALL
CITY COMMISSION CHAMBERS
MINUTES
MAY 22, 2007
7:30 A.M.**

| <u>Members</u> | <u>Present</u> |
|---------------------------|----------------|
| Mr. John Turner, Chairman | Yes |
| Mr. Craig Bryan | Yes |
| Mr. Greg Graham | Yes |
| Ms. Becky Dodson | Yes |
| Mr. Alphonso Vaughn | No |
| Ms. Carol Lovelady | Yes |
| Mr. John Ben Blanchard | Yes |

Also Present

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| Mr. Marcus Norris | City Attorney, City of Amarillo |
| Mr. Dean Frigo | Finance Director, City of Amarillo |
| Ms. Andrea Rains | Recording Secretary, City of Amarillo |
| Mr. Matt Richardson | Director of Public Health, City of Amarillo |
| Ms. Vicki Covey | Director of Community Services, City of Amarillo |
| Mr. Roy Browning | Wachovia Securities |
| Mr. John Crider | Actuary |
| Mr. Paul Ruggiere | Survey Research Center, University of North Texas |
| Mr. Andy Ray | Clifton Gunderson |
| Mr. Jerry McMillon | Clifton Gunderson |
| Dr. Fred McCurdy | Chairman of Pediatrics, TTUHSC |
| Mr. Matt Ramsey | Amarillo National Bank |
| Mr. Herman Shirly | Herring National Bank |

ITEM 1: Mr. Turner called the meeting to order at 7:34 am at City Hall and welcomed those in attendance.

ITEM 2: Approval of Minutes from January 30, 2007. Mr. Turner presented the minutes from the January 30, 2007 meeting. Motion for approval was made by Ms. Lovelady, seconded by Mr. Blanchard, and unanimously carried.

ITEM 3: Presentation and Discussion of the AHD Corpus Investment Performance. Mr. Browning presented the Executive Summary for the Periods ending March 31, 2007 and stated that the total Portfolio was \$205.7 million with a return of 1.66% for the quarter and was in the 13th percentile. For the last 12 months, Mr. Browning reported that the Portfolio was ahead of the benchmark, with a return of 5.78% and was in the 22nd percentile. For the last 5 years and since inception periods, Mr. Browning stated that the Portfolio was in the 20th and 12th percentiles, respectively. In reviewing the Investment Managers performances, he reported that Amarillo National Bank had a return of 1.7% for the quarter, better than that of the index at

1.59% and was in the 11th percentile, which was excellent, and in the top 1/3 percentile for all periods since inception. Mr. Browning reported that Herring National Bank I also had an excellent quarter with a return of 1.62% and for the last 12 months 6.26% and in the 22nd percentile. He further reported that Herring had the best performance for the last 5 years with an outstanding return of 7.10%. In reviewing the Tobacco Settlement Fund, Mr. Browning stated that the Fund, being a little hard to benchmark for its short history, had an excellent 3-year return. In sum, Mr. Browning announced that the District's portfolio is run as well as any other fixed income portfolio in the country, stating that it is excellent. Mr. Browning congratulated Mr. Shirley and Mr. Ramsey for their work.

ITEM 4: Presentation and Discussion of the Pension Fund Investment Performance. Mr. Browning stated that for the quarter the total market value of the portfolio was \$17.78 million, further stating the composition includes 55.75% equities, 35.69% fixed income, and 8.56% cash and equivalents. In time-weighted returns for the latest quarter, the Fund had a return of 1.95%, which was excellent, compared to the market index of 1.01%; 10.44% versus 9.40% of the latest year; 7.37% versus 6.35% for three years; 5.45% versus 5.69% for five years; and 6.36% versus 6.50% since inception. On a risk-adjusted return, the Fund has taken as much risk as the market index and getting slightly less return. For the quarter, Mr. Browning stated that the Fund is in the top 15 percentile, top 1/3 quartile for the year, and gaining on the top half for the 3 years. In sum, Mr. Browning stated that whether on a risk-adjusted or universe comparison basis, the Fund is doing a great job.

ITEM 5: Presentation of Actuarial Report on the Pension Plan. Mr. Crider presented the Actuarial Report on the Pension Plan as of October 1, 2006 and noted that it covers the Plan's current Fiscal Year. Mr. Crider reported that the minimum recommended contribution is \$1,385,220 and the maximum recommended amount is \$2,115,601. He stated that the \$1,850,125 the Amarillo Hospital District had budgeted for the year would satisfy the contribution requirements. Mr. Crider reported that the recommended budget amount for the 2007-2008 year is \$1,915,336. He further reported that the valuation assumes retirement age at 57, which is one year earlier than what was used for 2005. In closing, Mr. Crider stated that it had been a privilege to work on the retirement plan for Northwest Texas Healthcare System, that the Plan represents a promise kept by the Board. Mr. Crider further stated that the Board has been faithful to the Amarillo Hospital District by keeping the costs under control and faithful to the participants by keeping the Plan adequately funded.

ITEM 6: Presentation of Community Health Assessment. Mr. Ruggiere presented the Amarillo Health Survey Needs Assessment provided by the Survey Research Center of University of North Texas. Mr. Ruggiere stated that the University of North Texas Survey Research Center conducted a survey of 600 residents of Amarillo in April 2007 with a margin of error either + or - 4%, which is a good representation of the population in Amarillo. The survey results could be used to benchmark Amarillo health statistics with the 1999 Amarillo health survey as well as Texas and National BRFSS survey benchmarks. Mr. Ruggiere reviewed numerous questions that respondents were asked regarding their overall health, health care access, health behaviors, health conditions and examinations. Amarillo's Health Survey Needs Assessment conclusions, Mr. Ruggiere reported, were of the following: Generalized "state of health" ratings show more at-risk population in Amarillo compared to national benchmarks. Diabetes appears to have a greater occurrence in Amarillo than in Texas as a whole. The percentage that smoke is similar to state and national benchmarks and has also improved in

Amarillo since 1999. Health insurance coverage is better than Texas as a whole but lags behind national benchmarks. The percentage not able to see a doctor due to cost was identical to Texas but lags behind national benchmarks. Health status, health-related behaviors, health care access, and ratings varied by education, income, ethnicity on many of the findings. Health care quality in Amarillo received high ratings across all demographic groups and health care for children was rated even higher. Mr. Ruggiere stated that some areas to monitor (appear to be a greater problem than Texas as a whole, but within the margin of error) are: Diabetes (12% vs. 8% in Texas and U.S.), Asthma (10% vs. 7% in Texas and 8% in U.S.) and Mammograms (28% vs. 25% in U.S.)

ITEM 7: Presentation and Discussion of Pension Plan Audit. Mr. Ray presented the Annual Financial Report for September 30, 2006 for the Retirement Plan for Employees of Northwest Texas Healthcare System. He reported that there were no significant changes, issues or problems. Mr. Ray announced that it was a clean audit and presented an unqualified opinion.

ITEM 8: Presentation and Discussion of Agreed Upon Procedures Audit on the Tobacco Cost Report by Clifton Gunderson. Mr. McMillon presented the Independent Accountant's Report on Applying Agreed-Upon Procedures and stated that the audit's main purpose was due diligence. He reported that there were no exceptions in denial of service and no errors. Mr. McMillon stated that overall the report is good.

ITEM 9: Presentation of AHD Tobacco Cost Report. Mr. Frigo presented the 2007 Tobacco Cost Report of the Amarillo Hospital District. He stated that the Amarillo Hospital District was eleventh in payee recipients, receiving a total distribution of \$668,663.09. He further stated that the Amarillo Hospital District filed a joint report with Potter County totaling \$15,334,550 in expenditures. He reported that Potter County's portion of the expenditures was \$419,534 and Amarillo Hospital District's portion was \$14,915,016. Mr. Frigo announced that the law allows the Hospital District to reprice the in-patient and out-patient services received by the indigents in Amarillo using Medicaid's rates and report a higher figure on the cost report than the amount actually paid to UHS. He further stated that Potter County would receive \$18,293.78 and the Amarillo Hospital District would receive \$650,369.31. Mr. Frigo reported that the audit on the tobacco report is necessary because the penalty is 10% of the overstatement unless you can prove due diligence. Mr. Bryan questioned if Potter County participated in the cost of the audit. Mr. Frigo answered that the Amarillo Hospital District is the only participant in the audit cost.

ITEM 10: Presentation and Discussion on the Pediatric Support Contract by Texas Tech University Health Sciences Center. Dr. McCurdy thanked the Board for its past support in pediatric care to the children of Potter and Randall Counties. He reported that in fiscal year 2006, the annual cost of maintaining ten services was \$5,052,892. Of that cost, Dr. McCurdy stated that 68% of the revenue was from patients, insurance, etc., 25% of revenue was from the Amarillo Hospital District, and 7% was from academic support from within the Texas Tech Health Services department. Dr. McCurdy announced that without the grant from the Amarillo Hospital District, Texas Tech would not be able to provide the ongoing pediatric sub-specialty services.

ITEM 11: Presentation and Discussion of Health Department Expenditures. Mr. Richardson presented the Public Health Grants Revenue Report and stated that Public Health Revenue

included the Amarillo Hospital District, UHS, Grants in Aid and Other Participation. Mr. Richardson reported that from 1997 thru 2000, by agreement, UHS matched the Amarillo Hospital District's support for Public Health. From 2002 forward, Mr. Richardson stated that Public Health has tried to exceed the Hospital District's funding with grant funding. He further stated that Public Health tries to use the Amarillo Hospital District as a last resort, that Public Health tries to prioritize its grants and grant programs and depends on support from the Hospital District for public health interventions of which the Public Health Department has no funding. Mr. Richardson announced that there was an increase in 2007 for public health preparedness funding for pandemic influenza, which essentially paid for planning. He stated that the Public Health Department also received additional HIV prevention grants and immunization grants in 2007. Mr. Richardson noted that he budgets using worst-case scenario in the instance that some grants do not come through, that the grant cycles do not always follow the Amarillo Hospital District's fiscal year; further nothing that some grants are on a federal fiscal year, a state fiscal year, or on a calendar year. Mr. Blanchard questioned why the Public Health expenses increased from \$601 thousand in 1997 to almost \$1.4 million in 2006. Mr. Richardson explained that in October 2001, the Department received public health preparedness or bio-terrorism funding due to anthrax attacks. He further explained that immunizations have increased, along with HIV and STD expenditures. Mr. Richardson stated that Public Health has to keep up with city growth as well. In 2001, Mr. Richardson reported, immunization vaccine supply and staffing was the largest public health grant and has since been moved to the providers. Public health preparedness and response was the largest grant from 2003 to the present. Mr. Richardson noted that refugee grants have increased from 1997 through 2006 and that HIV prevention grants should also increase throughout next year.

ITEM 12: Presentation and Discussion of Amarillo Hospital District Historic Expenditures. Mr. Frigo presented the operating revenues, expenses, assets, liabilities and net assets for the Amarillo Hospital District from 1996 through 2006. In reviewing the operating revenues, Mr. Frigo stated that the first payment received from the Tobacco settlement was \$2.9 million in 1998, when the distributions were part of the proceeds from the settlement; that presently the distributions were from the earnings on the permanent fund. Mr. Frigo further stated that the District also received payments from the settlement in 2000 and 2001 with 2002 being the first year for distributing earnings on the permanent trust fund. Grant revenue, Mr. Frigo explained, for years 1997 through 1999, the District received the grant and contracted with Northwest Texas Hospital on the Poison Center. In 2001 thru 2003, NWTX contracted directly with the State to run the Poison Center and in 2004, the Poison Center reverted back to the District, which contracted with the Texas Tech Pharmacy School to run the Poison Center. Mr. Frigo noted that there are only six Poison Centers in Texas, that the District is very fortunate to have one in Amarillo. The grant revenue in 2006 vs. grant expenses in 2006 is same amount, Mr. Frigo explained, costing the District nothing for the grant. Mr. Frigo stated that Medicaid/Medicare funding was fairly significant, even post-sale of the hospital. In 1997, the District received \$570 thousand in revenue and peaked in 1998 with \$802 thousand received. The last payment was received in 2002, in the amount of \$110 thousand. The District had a reserve for third party liabilities that was written off in 2006. Mr. Frigo announced that UHS revenue sharing was part of the sale of the hospital agreement for seven years after sale; that if certain income targets were met, UHS would share part of its revenue with the District. He stated that the biggest payment from revenue sharing was in 1998, receiving \$550 thousand, noting the last payment in 2003 of \$55 thousand. In reviewing the operating expenses for the District, Mr. Frigo stated that the Insurance costs are approximately \$30 thousand annually for Officers and Directors Liability

Insurance, which is carried on all AHD Board members. Mr. Frigo stated that there was a cost of \$1.3 million in self-insurance in 1997, reducing in 1998 and 2000 and increasing in years 2004 and 2006. At the sale of the hospital, Mr. Frigo reported that all outstanding workers' compensation claims and all outstanding medical malpractice claims stayed with the District. Professional services, known as purchase services, was a big number at the sale of the hospital in 1996 and has since decreased. Audit fees cost the District approximately \$50 thousand annually and custodial fees approximately \$8 thousand annually. Mr. Frigo stated that fiscal agent fees, the fees paid to the City, jumped in 2002 from 2001 in an effort to decrease outside legal council and utilize the City Attorney instead. Annually, \$6 thousand is spent in actuary fees, Mr. Frigo reported, for valuing claims. He stated that investment reviews cost approximately \$30 thousand, which includes compliance reviews as well as performance reviews. Outside legal has decreased significantly, Mr. Frigo reported, due to the use of the City Attorney from \$78 thousand in 2000 to \$1,400 in 2006. Money Management fees, which are fees paid to the banks for managing the portfolio, are extremely reasonable, Mr. Frigo stated. Indigent care costs is a contract with Nwth for in-patient and outpatient care. In reviewing the retirement plan expense, he noted that there were no expenses at all in 1997 and 98; that the actuarial study at that time showed there were no contributions needed. The actuary was still using age 65 as the normal retirement age with a Plan of "20 and out with a frozen plan." Nobody was waiting until age 65 to retire with that provision. Mr. Crider studied the trend and corrected the age assumption, now costing almost up to a \$2 million contribution annually. Mr. Frigo noted the net increase in the Pension assets, stating that the 20-year funding cycle is always compared to 30-year plan for accounting purposes. HPA (Healthcare Professionals Associates) was a non-profit corporation owned by the Amarillo Hospital District from 1996 thru 1998, terminating the corporation in 1999 and merging with Texas Tech to form the Pediatric Subspecialty Care Contract. The Children's Expanded Treatment Facility was also in the sales agreement; that Amarillo Hospital District would participate in the cost of the facility for 10 years. The largest cost of the facility to the District was in 2003, with an estimated cost of \$1.6 million, when Northwest Texas Hospital added the heart hospital; one floor was dedicated for pediatric care to which the District participated in some of the cost. Mr. Frigo reported that the Amarillo Hospital District and UHS had an agreement to split the Public Health costs for the first 5 years after the sale of the hospital. The Access to Care Clearing House, Mr. Frigo stated, was an initiative based on the 1999 Health Assessment Study to help those people having problems with accessing the healthcare system. He further stated that the District contracted with United Way agencies to help people make their way through the healthcare system but was cut in 2005 due to a drop in income. Mr. Frigo reviewed that the Tobacco Initiative started in 2002 costing the District \$419 thousand, which included additional start-up costs, and presently costs approximately \$201 thousand annually. He stated that the Tobacco Initiative has always been a beneficial program, with surveys conducted each year, showing decreases in smoking rates. The Dental Clinic, Mr. Frigo reviewed, started in 2001 with much higher expenses that year totaling \$678 thousand due to office and equipment purchases, further reviewing that the costs have steadily reduced to \$285 thousand in 2006 and \$315 thousand in 2007. Mr. Frigo stated that the grant expenses are equal and opposite the revenue. In reviewing non-operating revenue (investment income), Mr. Frigo stated that the past ten years have been rough for investments, that the market has been volatile during this period and has seen some of the lowest interest rates in history; hitting a 30 year low. The best year for investment income, Mr. Frigo reviewed, was 2003 with \$17.9 million in interest, dividends and realized gains; noting an unrealized loss on the investments of \$8.7 million due to market fluctuation. The best year for the District was 2001 with a net increase in assets of almost \$18 million, \$13 million in interest and dividends, and the

increase in the value of the assets was also \$13 million. Mr. Frigo reported the District managed to trim its loss from \$5.5 million in 2005 down to \$1.4 million in 2006. In closing, Mr. Frigo stated that the interest rate environment has not been good over the past ten years for the District; that the pension plan expenses along with other costs have increased.

ITEM 13: Consider Approval of the Potter County Sheriff Sale Property. Mr. Frigo explained that when property taxes in Potter County become delinquent, Potter County first attempts to sell the property for the taxes due. If the property does not sell at the Sheriff Sale, Potter County then attempts to sell the property by sealed bid. Since the property was selling for less than the taxes due, each governing body has to agree to the sales price. Mr. Frigo stated that Potter County's goal is to generate funds from the sale of the property to the highest bidder and transfer the property to a new owner who will pay the taxes. Mr. Bryan stated that the Finance Committee recommended the sale of the Potter County Sheriff Sale Property. The Board voted in favor of the recommendations with no oppositions.

ITEM 14: Presentation of Quarterly Financial Statements. Mr. Frigo presented the quarterly financial statements ending March 31, 2007 and stated that this report represented half of the fiscal year. Mr. Frigo reported that the total Fund balance at March 31, 2007 was \$221 million. He further reported that the total revenue of the Fund was \$5.7 million versus \$5 million in total expenses for an operating income of approximately \$734 thousand. In budget versus actual, Mr. Frigo stated that the total operating investment income is budgeted at \$10 million versus \$4 million, further stating that the total revenue is at 39% when it should be at 50%. Mr. Frigo announced that the Tobacco Fund has been segregated from the operating income for accounting purposes and stated that the tobacco income is doing quite well at \$103 thousand versus \$118 budgeted. He reported that the District is using the Tobacco funds to pay the Pediatric Support Services Contract, the Tobacco Initiative, and the Dental Clinic. Mr. Frigo noted the budget of the Tobacco Fund at \$1.8 million in expenditures versus \$800 thousand in revenue.

ITEM 15: Consider Pension Plan Investment Policy. Mr. Frigo reminded the Board that Amarillo National Bank is the money manager for the Pension Plan. He stated that the Amarillo Hospital District had received some recommended changes in the Investment Policy that are needed for clarification purposes. Mr. Frigo stated that one change was to add an investment category called REITs (Real Estate Investment Trust). He explained that REITs are common stock, which is already provided for in the Investment Policy. The second change, Mr. Frigo stated, is the addition of ETFs (Exchange Traded Funds), which are also common stock and needed for clarification. Mr. Ramsey stated that he agreed with the changes. Mr. Turner reported that the Finance Committee had considered and recommended the changes. Mr. Blanchard questioned if REITs had been invested in the past. Mr. Ramsey stated that REITs had been invested and Mr. Frigo reported that the District had small holdings in REITs and ETFs at the present. The Board voted in favor of the recommendations with no oppositions.

ITEM 16: Quarterly Investment Report from Investment Officer. Mr. Bryan reported that for the quarter ending March 31, 2007, the Investment Portfolio was in compliance with the Amarillo Hospital District Investment Policy as amended on January 30, 2007 and the Public Funds Investment Act. He reported that agency securities (including mortgage backed securities) represent 79.57% of the total Portfolio, which is below the 85% Agency limit. Mortgage backed securities represent 14.50% of the total Portfolio, which is below the 30% limit. Obligations of state or local governments represent 5.85% of the total Portfolio, which is

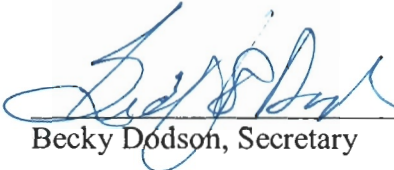
below the 10% limit. Treasuries and full faith and credit obligations comprise 10.82% of the total Portfolio. Cash balances including Money Market funds comprise about 3.76%. Investments with maturities greater than 10 years represent 26% of the total Portfolio, which is under the 50% restriction in the Policy. There are no securities with a maturity of greater than 30 years. The market value of the Portfolio is 99.6% of the book value, with a market value of \$208,991,738 and a book value of \$209,825,987. Mr. Bryan stated that in the current year, the AHD Budget called for \$10,113,222 in realized investment income. Current investment earnings through March 31, 2007 are \$4,084,102.

ITEM 17: Committee Reports. There were no Committee Reports for this quarter.

ITEM 18: Public Comments. There were no comments from the public.

ITEM 19: Consideration of Agenda Items for Next Board Meeting. There were no items at this time.

ITEM 20: There, being no further business, the meeting adjourned at 8:50 am. This meeting was recorded and all comments are on file in the City Finance Department.



Becky Dodson, Secretary



Craig Bryan, Chairman