

**AMARILLO HOSPITAL DISTRICT
FINANCE COMMITTEE MEETING
AMARILLO CITY HALL
Room 306
May 21, 2007
12:00 P.M.**

Members

Mr. Craig Bryan, Chair
Mr. John Turner
Ms. Carol Lovelady

Present

Yes
Yes
Yes

Also Present

Mr. Greg Graham	Amarillo Hospital District Board Member
Mr. Dean Frigo	Finance Director, City of Amarillo
Ms. Andrea Rains	Recording Secretary, City of Amarillo
Mr. John Crider	Actuary
Mr. Andy Ray	Clifton Gunderson
Mr. Jerry McMillon	Clifton Gunderson
Mr. Matt Ramsey	Amarillo National Bank
Mr. Herman Shirly	Herring National Bank
Dr. Fred McCurdy	Chairman of Pediatrics, TTUHSC
Mr. David Clark	AAHS

ITEM 1 Mr. Bryan called the meeting to order at 12:10 p.m. at City Hall, 509 East 7th Street, Third Floor, Room 306, and welcomed those in attendance.

ITEM 2. Mr. Bryan presented the minutes of the last finance committee meeting held January 29, 2007. Motion for approval was made by Mr. Turner, seconded by Ms. Lovelady, and unanimously carried.

ITEM 3. Presentation of Actuarial Report on the Pension Plan. Mr. Crider presented the Retirement Plan for Employees of Northwest Texas Healthcare System Valuation as of October 1, 2006. Mr. Crider stated that the results were not much different from the year before. The Actuarial value of assets was \$18,377,526 and the actuarial present value of accumulated plan benefits was \$32,900,382; producing a ratio of 55.9% for accumulated benefit funding. Mr. Crider reported that the ten-year funding contribution decreased from \$2,124,176 in 2005 to \$2,115,601 in 2006; the twenty-year funding from October 1, 1998 increased from \$1,850,125 in 2005 to \$1,917,429 in 2006, which is 12 years funding as of the evaluation date and would fund the plan by September 30, 2018. The 30-year funding decreased from \$1,391,164 in 2005 to \$1,385,220 in 2006. Mr. Crider stated that the amount of \$1,850,125 budgeted for the current year will be sufficient to meet all the contribution requirements and will also meet all actuarial, accounting, and State of Texas standards. Mr. Crider noted three reasons for the increase in contribution levels under the old assumptions and methods. The first reason being that active members of the plan are continuing to retire earlier than the assumed retirement age. The second reason was the change in age at which plan members were assumed to retire: age 57 in 2006 down from age 58 in 2005, noting that he would assume age 56 for the 2007 valuation. The third reason, Mr. Crider stated, was the rate of return on the actuarial value of assets, which was lower than the 8% rate assumed for purposes of valuing the plan. Mr. Crider reported that using the market value of assets, the approximate annual rates of return for the plan years ending September 30, 2002 through 2006, were: -5.9%, 11.9%, 6.6%, 4.8% and 7.5%, respectively. Mr. Crider recommended that the Amarillo Hospital District budget \$1,915,336 for contributions in 2007. In closing, Mr. Crider stated he considers it a privilege to work on the Northwest Texas Hospital pension

plan, that it represents a promise kept; further stating that the Board has exercised good judgment and has remained faithful to the employees of the hospital.

ITEM 4. 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 overall it was a clean audit.

ITEM 5. Presentation and Discussion on 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. He stated that the report was consistent and there were no issues. Mr. McMillon reported that the audit served the purpose of due diligence by the Board.

ITEM 6. Presentation of AHD Tobacco Cost Report. Mr. Frigo presented the 2007 Tobacco Cost Report and 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 was \$14,915,016. Mr. Frigo announced that the law allows the Hospital District to reprice the 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. Mr. Frigo stated that the Amarillo Hospital District was eleventh in payee recipients, receiving a total distribution of \$668,663.09. 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 amount received by the Amarillo Hospital District was more than what had been budgeted.

ITEM 7. Presentation and Discussion of Amarillo Hospital District Historic Expenditures. Mr. Frigo presented Amarillo Hospital District's operating revenues, expenses, assets, liabilities and net assets from 1996 through 2006. In reviewing the operating revenues, Mr. Frigo stated that the District's first payment from the tobacco settlement was in 1998, receiving almost \$2.9 million, no payment was received in 1999, \$1.2 million and \$700 thousand was received in years 2000 and 2001 respectively. He noted that from 1998 to 2001, the payments were distributed from the proceeds of the lawsuit and that starting in 2002 to the present, the distributions were being distributed from the earnings of the permanent trust fund. He stated that the District should receive an annual payment from the settlement, as long as the District turns in a cost report. The only year receiving patient revenue was in 1996 of \$72 million. In 1997 to 2000, Mr. Frigo explained, the District received grant revenue from the state and contracted with Northwest Texas Hospital to run the Poison Center. In years 2001 to 2003, the hospital contracted directly with the State, reverting back to the District in 2004, which then contracted with the Texas Tech Pharmacy School to run the Poison Center. Mr. Frigo stated the District received \$748 thousand in grant revenue from the state in 2006 to run the Poison Center and further stated that the grant expense is the same amount as the grant revenue. Medicare and Medicaid payments were being received from refunds of disputes and old cost reports in years 1996 thru 2002, receiving almost \$8.3 million in 1996. Since the District had not submitted a Medicaid/Medicare cost report in over ten years, the reserve for third party liabilities was written off to income in the amount of \$205 thousand in 2006. Mr. Frigo reported that UHS revenue sharing was an agreement made at the sale of the hospital that for seven years after the sale, if certain income targets were met, UHS would share part of its revenue with the District. The largest receipt from UHS was in 1998 in the amount of \$550 thousand, with additional receipts of \$130 thousand in 2002 and \$55 thousand in 2003, the last year of the agreement. Mr. Frigo stated that there were additional small amounts of revenue that he was unable to identify in the prior years due to the lack of supporting documentation. In reviewing the District's operating expenses, Mr. Frigo announced that the \$4 thousand amount in 2006 for supplies/other category had been reduced to an insignificant amount. Insurance for Directors and Officers Liability cost the District approximately \$30 thousand annually. Self-insurance costs were \$1.2 million in 1997, reducing in 1998 and 2000. Mr. Ray stated that even though the Amarillo Hospital District sold the

hospital, the contract stated that the District would be responsible for certain on-going activities such as Medicaid/Medicare costs, self-insurance costs for malpractice, and workers compensation. The audit fees costs approximately \$50 thousand annually, custodial fees were \$7 thousand for 2006. Fiscal agent fees paid to the City, Mr. Frigo noted, increased from \$12 thousand in 2001 to \$26 thousand in 2002 due to the Board's decision to utilize the City's Attorney in an effort to decrease the use of outside legal council; further noting the outside legal costs of \$78 thousand in 2000 to \$1,400 in 2006. Mr. Frigo stated that the investment reviews increased from \$3 thousand in 2003 to \$30 thousand in 2005 to include performance reviews as well as compliance reviews. Mr. Frigo reviewed the annual expenses of the actuary fees for valuing claims, money management fees paid to Amarillo National Bank and Herring National Bank for managing the portfolio, as well as consultant studies and fees and stated that the indigent care cost is a contractual obligation. In 1997 and 1998, Mr. Frigo reported that there were no contribution payments made to the pension plan, noting a \$1 million contribution in 1999 and increasing to a present contribution of \$2 million annually. HPA (Healthcare Professional Associates) was a non-profit organization created in 1994 and practiced pediatric sub-specialty care, Mr. Frigo stated. The organization dissolved in 1999 and the Districted started the pediatric subspecialty care contract with Texas Tech. The participation in the cost of the children's facility was an agreement at the sale of the hospital that the District would participate in expanded children facilities for 10 years. The most significant payment to the facility was in 2003 of \$1.6 million when one floor was dedicated to pediatric care in the new heart hospital of Northwest Texas Hospital. Mr. Frigo reported that the AHD and UHS had an agreement to half the cost of public health for the first 5 years after the sale of the hospital, noting that the costs of \$160 thousand in 1997, \$175 thousand in 98, \$179 thousand in 99, \$208 thousand in 2000, and \$373 thousand in 2001 were the amounts that had been split with UHS. In 2002, the agreement to split the cost was over and the amount paid for public health was \$590 thousand. Mr. Frigo noted that most of public health is grant funded; the portion Amarillo Hospital District pays is the unfunded amounts. The access to care clearinghouse was originated from results of the 1999 community health assessment study. The study showed that people were having problems accessing the healthcare system and as a result, the District contracted with United Way agencies to help those get to the care that was needed. When earnings started to drop, the District cut the program in 2004. The tobacco initiative was also derived from the 1999 study that showed high incidents of young people starting to smoke. The largest cost of the tobacco initiative was in 2002 and part of that cost annually is a study that measures results. Mr. Frigo reported that the tobacco initiative study shows impressive results. The community dental clinic also resulted from the community health study of 1999 and started in 2001. The expenses, Mr. Frigo noted, were higher in 2001 at \$678 thousand originating from dental equipment purchases and dropping in 2002 to \$428 thousand and to \$285 thousand in 2006 further noting that the District has cut expenses with the dental clinic as the investment income dropped. Mr. Frigo stated that the \$3 thousand in depreciation was from the donated building accepted that is now the dental clinic building. In reviewing the investment income, Mr. Frigo stated that the District's best year for interest, dividends and realized gains and losses was 2003 at \$17.9 million and the worst year was 1997 at \$2.9 million; further stating that the investment income for 2006 was \$8 million. Mr. Frigo reported that the District has seen some of the worst interest rates in the ten year time period; hitting a 30-year low. The change in value showed a \$13 million loss in 1999 and showed a \$10 million gain the year before in 1998. Mr. Frigo stated that for 1996, the citizens were paying \$8.4 million in ad valorem taxes, and the District collected \$13 thousand in 2006. The gain on the hospital, Mr. Frigo reported, was almost \$43 million in 1996. The decrease in net assets was \$1.4 million in 2006 from \$5.4 million in 2005. The best year for net assets was in 1998 with the increase of almost \$19 million, noting that \$10 million was from the increase in value of the assets. Mr. Frigo reviewed that the net assets in the beginning of year in 1996 was \$134 million and the net assets for the end of the year in 2006 was \$220 million. He announced that the report agreed with the audits. Mr. Turner stated that there was very little the Board could control in reference to the District's expenses; stating that indigent care, the District's largest expense, is a contract. He announced that in order to live up to the District's promise, the Retirement Plan is an expense that the District will have to incur. Mr. Turner stated that in 2006, there were only three expenses that the Board could actually control: Pediatric Subspecialty Care, Tobacco Initiative, and the Dental Clinic; further

stating that the Board has made the decision to spend those monies in those areas and he believes that it is money well spent. Mr. Turner reported that of the \$11.7 million in expenses, \$10 million is set in stone.

ITEM 8. 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 and transfer the property to a new owner who will pay the taxes. Mr. Bryan motioned to recommend to the full Board that it approve the Potter County Sheriff Sale Property. Ms. Lovelady seconded the motion and it carried unanimously.

ITEM 9. Consider Pension Plan Investment Policy. Mr. Frigo stated that two recommended changes were needed to clarify the Investment Policy Statement Pension Plan. The changes included: the addition of REITs (Real Estate Investment Trust) in the asset mix allocation at a maximum of 10%, and the addition of ETFs (Exchange Traded Funds) so that plan assets may be invested in ETFs provided the ETFs meet the same requirements as investing in equities. Mr. Ramsey stated that he supports the changes. Mr. Bryan motioned to recommend the changes to the Investment Policy to the full Board, seconded by Ms. Lovelady and carried unanimously.

ITEM 10. Presentation of Quarterly Financial Statements. Mr. Frigo presented the quarterly financial statements at March 31, 2007 and stated that the total Fund balance was \$221,194,428. In reviewing Budget vs. Actual, Mr. Frigo noted that the budget was behind on realized investment income budgeted at \$9,995,052 and actual \$3,980,125, or 40% realized. Mr. Ramsey stated that the income last year from Amarillo National Bank at March 31, 2006 was \$7 million off of a \$148 million corpus and is looking to surpass that amount by \$150 thousand this year with a \$135 million corpus. In comparing 2007 to 2006, Mr. Ramsey stated that the amount will be approximately the same dollar figure and on a yield basis, a much higher amount because it will be made on less principle. Mr. Ramsey noted that he has increased the yield by 62 basis points. Mr. Shirley announced that his income has increased by 7% since the changes were approved that he requested in January. Instead of earning \$3.3 million, the Portfolio is earning \$3.5 million, which is approximately \$250 thousand more in the first 4 months. Mr. Shirley and Mr. Ramsey both stated that they were not expecting realized losses. Mr. Frigo reviewed that the District has funded the Pediatric Support contract, the Dental Clinic and Tobacco Free Amarillo program in the Tobacco Fund Budget. He stated that the Tobacco Fund had almost \$104 thousand in realized investment income vs. the budgeted \$118,170. Mr. Frigo noted that the District was intentionally spending down accumulated Tobacco funds.

ITEM 11. Quarterly Investment Report from Investment Officer. Mr. Bryan announced that he would like to present the Quarterly Investment Report at the next morning's Board of Directors meeting on May 22, 2007.

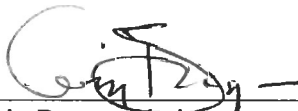
ITEM 12. Public Comments.

Mr. Ramsey and Mr. Crider discussed the benchmark used by Mr. Crider in his study and stated that managing liquidity is one of the largest challenges of the Portfolio.

Dr. Fred McCurdy thanked the Finance Committee for their consideration of continuing the Pediatric Support Contract. He stated that the contract is collaboration between Northwest Texas Hospital and Texas Tech University Health Sciences Center to provide pediatric services that would otherwise not be available to a market the size of the city. Ms. Lovelady stated that she feels that there are few people in the community who realize what Texas Tech has to offer unless their services are needed and explained that

Texas Tech is a benefit to the quality of life in the community and would like to continually look for ways to promote the information of the sub-specialty services. Dr. McCurdy stated that without the two oncologists at Texas Tech, patients would have to travel to Dallas. If a patient was in need of emergency surgery and needed a pediatric surgeon, there are two in the community who can provide that service which is phenomenal for a community the size of Amarillo. Dr. McCurdy announced that Texas Tech would not be able to support the sub-specialty services if it were not for the grant from the Amarillo Hospital District. Mr. Bryan questioned what part of Texas Tech's patients were under funded versus non-funded. Dr. McCurdy reported that 78% of the patients were under funded versus 13% being non-funded with less than 5% being fully funded. The 5% of patients were being treated for services that only Texas Tech could provide. Dr. McCurdy stated that the total pediatric sub-specialty practice in Amarillo is at Texas Tech, that there were no other pediatric sub-specialty practice in Amarillo other than one allergy and one infectious diseases pediatrician, further stating that Texas Tech is the sole provider for pediatric sub-specialties and the sole provider for safety net care. Mr. David Clark stated that the pediatric sub-specialties is an on-going service carried on after the sale of the hospital through different contractual relationships such as the current contract with Texas Tech. Mr. Clark further stated that these services are not optional services if promises are to be kept, that the services were in place at the time of the sale and were promised to continue.

ITEM 13. Adjournment. There, being no further business, Mr. Bryan adjourned the meeting at 1:55 p.m. This meeting was recorded and all comments are on file in the City Finance Department.



Craig Bryan, Chair



Carol Lovelady, Secretary