

**AMARILLO HOSPITAL DISTRICT
REGULAR MEETING OF BOARD OF MANAGERS
AMARILLO CITY HALL
CITY COMMISSION CHAMBERS
MINUTES
JULY 31, 2007
7:30 A.M.**

<u>Members</u>	<u>Present</u>
Mr. Craig Bryan, Chairman	Yes
Mr. Alphonso Vaughn	Yes
Ms. Carol Lovelady	Yes
Mr. John Ben Blanchard	Yes
Mr. Greg Graham	Yes
Ms. Becky Dodson, Secretary	No
Dr. Paul Proffer	Yes

Also Present

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
Ms. Kelly Bevis	Wachovia Securities
Mr. Kyle Sanders	Northwest Texas Healthcare System
Mr. Rick Love	CEO, Regence Health Network (RHN)
Dr. J. Rush Pierce	Texas Tech University Health Sciences Center
Dr. Bonna G. Benjamin	Texas Tech University Health Sciences Center
Mr. John Turner, III	Past Chairman, AHD Board of Managers

ITEM 1: Mr. Bryan called the meeting to order at 7:32 am at City Hall and welcomed those in attendance.

ITEM 2: Presentations. Mr. Bryan presented Mr. John Turner with a plaque and thanked him for his time served as a member and Chairman of the Board of Directors of the Amarillo Hospital District from November 2002 to May 2007.

ITEM 3: The Board convened into Executive Session at 7:34 to consult with attorney on the following matters:

- (1.) Sec. 551.071 – Consult with attorney about pending or contemplated litigation.
- (2.) Sec. 551.071 – Consult with attorney on a matter in which the attorney’s duty to the governmental body under the Texas Disciplinary Rules of Professional Conduct conflicts with this chapter.

The Board completed its Executive Session at 7:55 am.

ITEM 4: Election of Chairman and Appointment of Investment Officer. Mr. Vaughn announced that the Nomination Committee had met and recommended Craig Bryan to serve as Chairman of the Board and Greg Graham to serve as the Board’s Investment Officer. The Board voted to accept the recommendations made by the Nomination Committee with no oppositions. Mr. Bryan stated that the appointment of Vice-Chairman would be announced at the next meeting.

ITEM 5: Approval of Minutes from May 22, 2007. Mr. Bryan presented the minutes from the last AHD Board of Managers meeting held May 22, 2007. There were no questions or comments. Motion for approval was made by Mr. Blanchard, seconded by Mr. Vaughn, and unanimously carried.

ITEM 6: Presentation and Discussion of the AHD Corpus Investment Performance. Ms. Bevis presented the Executive Summary for the Periods ending June 30, 2007. She reviewed that for the last quarter, the total Portfolio had a return of 0.15% versus -0.15% of the market index, and ranked in the 27th percentile. For the last year, Ms. Bevis stated that the Portfolio had a return of 5.51% versus 5.40% of the market index, ranking in the 14th percentile and for the last 3 years, the Portfolio had a return of 3.65% versus 3.45% and ranked in the 15th percentile. Since inception, Ms. Bevis reported that the Portfolio had a return of 5.10% versus 4.82% of the market and ranked in the 9th percentile. In reviewing the Investment Managers, Ms. Bevis stated that Amarillo National Bank had 0.34% in returns versus -0.14% of the market and ranked in the 23rd percentile for the last quarter and had returns of 5.53% versus 5.76% for the last year. Herring National Bank I, she stated, ranked in the 35th, 13th, and 2nd percentiles for the last quarter, year and 3 years respectively. Ms. Bevis reported that Herring National Bank II ranked in the 44th percentile for the last quarter and 15th percentiles for the year. The Tobacco Settlement Fund, Ms. Bevis stated, with total assets of \$5,971,456, had a return of 1.14% versus 1.24% of the market for the last quarter and had a return of 5.43% for the last year. On a risk return basis, she reported that the Portfolio is taking less risk than that of the market and receiving a higher return. In closing, Ms. Bevis stated that the money managers are to be congratulated.

ITEM 7: Presentation and Discussion of the Pension Fund Investment Performance. Mr. Browning reported that the Portfolio composition of the Pension Fund included 53.69% equities, 32.11% fixed income, and 14.20% cash and equivalents. Mr. Browning stated that Matt Ramsey and his team at Amarillo National Bank had done a terrific job. In reviewing time-weighted returns for the latest quarter, Mr. Browning reported that the Portfolio had a return of 4.70% versus 3.77% of the market, 6.75% versus 4.81% for the last six months and 16.61% versus 14.37% for the year. In equities, Mr. Browning reviewed that for the latest quarter, the Portfolio received a return of 7.82% versus 6.28% of the market, 10.50% versus 6.96% for the last six months and 24.01% versus 20.59% for the latest year. On a risk adjusted return, Mr. Browning stated that for entire reporting periods 8/31/97 to 6/30/07, the Portfolio's return is very competitive with the market. He reported that the Portfolio was in the 14th percentile for the latest quarter, 9th percentile for the last six months and latest year. Mr. Browning stated that the Portfolio has had a remarkable turn around and the Board should stand in great appreciation of the work the money managers have done.

ITEM 8: Presentation of AHD Estimated Future Available Funds. Mr. Frigo presented a spreadsheet, estimating AHD future available funds and stated that for the balance of the contract, approximately 15 years, he is attempting to estimate net assets, and with the available funds projection, trying to estimate investable funds using two assumptions. The first assumption, Mr. Frigo stated, is with the Hospital District funding only the sale items or those items that were included in the contract at the time of the sale of the hospital: Indigent Care, Public Health, the Pension Plan and outstanding claims along with the District's operating expenses. The second assumption would be adding non-sale items: Pediatric Support Contract, Dental Clinic, Tobacco Free Amarillo Initiative and the Community Health Assessment Study. Mr. Frigo estimated that at the end of 2007, using the District's average return of 5.23%, the Fund would have approximately \$220 million if the Hospital District funded only the sale items. If the District funded the non-sale items, the Fund would have approximately \$218 million in available assets at the end of the year. Mr. Frigo projected that in year 2021, using the same interest rate; the District would have roughly \$276 million in available funds if it were to fund only the sale items and approximately \$224 million if the District were to continue funding the non-sale items. Mr. Frigo stated that it appeared the Amarillo Hospital District could fund all programs and be as well off as it is today with no significant changes should the earnings rate stay around 5.25% with an inflation rate of 3%. At the time of the sale in 1996, Mr. Frigo reviewed, the interest rates were considerably better than they are now; that the ten-year treasury bonded yield of 6.87% and a comparable agency security yielded about 7.34%. Currently, Mr. Frigo reported, the District is invested about 80% in agency securities and 20% in treasury securities. He

stated that by using the 80/20 blend at the time of the sale, the blended rate would be 7.25%. Using the 7.25% rate, Mr. Frigo projected that in year 2021, the District would have \$392 million in available funds if it only funded the items mentioned in the sales agreement and \$331 million if the District continued to fund its current programs. Mr. Frigo noted that these figures would have been even more significant considering the entire 25 years of the contract, further noting that even small changes in investment returns can produce dramatic results over time. He stated that the Board should review and update the spreadsheet annually in order to true up numbers and keep the District on track for the balance of the contract. Mr. Bryan stated that the District has seen historically record low interest rates during this time period. Mr. Blanchard stated that he applauded the report and agreed that the spreadsheet should be updated annually.

ITEM 9: Consider Contract with UHS for Pediatric and Dental Services and Tobacco Free Amarillo. Mr. Sanders reviewed UHS' proposal to contract pediatric and dental services and Tobacco Free Amarillo. He updated the Board on the current status of the contract and stated that UHS is still working on contractual terms and coming to an agreement between Northwest Texas Hospital, the Amarillo Hospital District, and the vendors. He stated that Nwth is working on adding specific language to the contract on quality management, reporting and auditing that will be provided by the hospital. Mr. Sanders further stated that the subcontract for pediatric services would continue with Texas Tech and with the American Cancer Society for Tobacco Free Amarillo. He announced that there are ongoing discussions about combining dental services between Nwth, Regence Health Network and Texas Tech. Mr. Sanders reported that UHS' proposal for dental services would move the current dental services being provided for at the community dental clinic to Regence Health Network; that the Amarillo Hospital District would contract with Nwth for oversight of the dental program. Mr. Sanders reviewed that Nwth is proposing to fund the above-mentioned services at a 10% savings to the District for an annual up-front payment in the amount of \$1,697,444. He stated that the main purpose for the proposal was for UHS to obtain matching UPL funds. Dr. Proffer questioned to whom the savings were passed with the combining of dental clinics. Mr. Sanders answered that was another detail being worked on in the contract; that perhaps the savings could be passed along in the next fiscal year contract. Mr. Bryan stated that securing money that has been pre-paid by the District was another detail being discussed in the contract. Mr. Sanders requested that an additional Board meeting be held once the contracts are completed to discuss and receive final approval.

ITEM 10: Presentation and Discussion of the Proposed Consolidation of Dental Services. Dr. Rush Pierce stated that for 2 ½ years, Texas Tech has operated the Dental Clinic as a community service and is very proud of the Clinic's accomplishments. He reviewed that the clinic is currently under contract through September and had made an offer to continue the clinic next fiscal year for approximately \$394 thousand and affirmed that Texas Tech would honor the Dental Clinic obligation. Dr. Pierce stated now that Regence Health Network (RHN) is local; he felt that with a bigger facility and more experience, RHN could do a better job and save the District money. He reported that he has met with RHN staff and feels confident that they could take over the community dental clinic and provide the same level of care, if not better, for the same amount of money. Dr. Rush stated that he recommended that the Board consider RHN's offer to run the community dental clinic. Mr. Rick Love was introduced to the Board by Dr. Pierce and stated that RHN, formally South Plains Health Provider Organization, is a non-profit regionally integrated network of federally qualified health clinics, funded in part by an annual \$3.8 million federal grant administered under the federal oversight of the Health Resources Services Administration and the Bureau of Primary Healthcare. He reported that RHN is governed by a 10-member volunteered board of directors and has an annual operating budget of \$16 million. Mr. Love stated that RHN provides medical, dental, behavioral, social and nutritional services to the community and has an ongoing commitment to provide quality healthcare at each one of its 20 centers. The local RHN center, Mr. Love reviewed, is a \$4 million family medical center built in March of 2007 and is located on Martin Road. Mr. Love further reviewed that the center houses a lab, pharmacy, and a dental clinic with 8 fully equipped operatories and space for 3 full-time dentists and 3 full-time hygienists. Currently, he informed the Board, the center employs 1 full-time dentist and 1 full-time hygienist; that RHN's intent is to have the dental services fully operational by end of the year noting that there is no oral

surgery agreement at the present. Mr. Love stated that RHS hopes that the new facility will serve as a vehicle to facilitate the development of new partnerships and joint ventures with Texas Tech, NWTB, BSA and the community of Amarillo. He announced that the target population for RHS is the underserved, and/or underinsured and provides services to Medicaid and Medicare patients, the uninsured, as well as commercial payers within the Texas Panhandle and South Plains region. Mr. Love stated that RHS would see indigent patients under contract with NWTB. Mr. Bryan questioned if RHN would mirror the quality of service currently being offered by Texas Tech and Mr. Love replied that RHS would exceed Texas Tech. Mr. Love stated that RHS patients pay at minimum a \$20 co-pay; that in order to see the same patients being treated at the Community Dental Clinic for free, a capitated arrangement would need to be made with NWTB. Dr. Pierce stated that he thinks the contract is a good idea, that he is currently working with RHS and finds them to be honorable. Mr. Sanders stated that he agrees with Dr. Pierce and said that UHS is excited about the opportunity to work with RHS and the ability to improve care to patients and reduce costs. Mr. Sanders reported that UHS is working with RHN on a start date as well as working with Amarillo College's hygiene program. Dr. Pierce stated that currently, the Community Dental Clinic has no full time dentist and will not hire one if the contract works out with RHN. Ms. Lovelady reviewed that even though RHN provides services other than dental, the Amarillo Hospital District would only be contracting dental services and stated that the Board needs to be aware of the change that it will make in the market and hopefully it will benefit the entire community.

ITEM 11: Consider Recommendation on 2007-2008 AHD Budget. Mr. Frigo announced that the 2007-2008 AHD Budget had been previously discussed and recommended by both the Indigent Care/Funding Priorities Committee as well as the Finance Committee. For the current year, Mr. Frigo stated, the District began with approximately \$214 million in available operating funds; which included the prepayment made to UHS. He noted the revised estimate of \$9.5 million in revenue with budgeted expenses of \$10.2 million. Due to interest receipts being lower than estimated, Mr. Frigo reported that the District unintentionally dipped into corpus when it originally expected to have \$83 thousand in excess revenue. In the proposed 2007-2008 budget, he reviewed that that District would start with almost \$213 million in available operating funds and project approximately \$11.7 million in revenue. Mr. Frigo noted the largest expense being Indigent Care Contract at \$6.3 million, followed by nearly \$2 million in pension contributions. He reported that if the projected budget numbers are met, the District would have approximately \$10.2 in expenses and would see the corpus increase by \$1.4 million. In reviewing tobacco funds, Mr. Frigo stated that Pediatric Support Services will continue to be funded at \$1.2 million, and the Dental Clinic, with a \$75,000 increase due to loss of funding as explained by Dr. Pierce, is being funded at \$394 thousand. He reviewed that Tobacco Free Amarillo will continue to have a budgeted amount of \$250 thousand. Mr. Frigo stated that these numbers do not reflect the contract proposed with Mr. Sanders; that should the contract be approved, the numbers would slightly decrease. Mr. Graham motioned to approve the 2007-2008 Amarillo Hospital District Budget as proposed, Mr. Vaughn seconded and the motioned unanimously carried.

ITEM 12: Presentation of Quarterly Financial Statements. Mr. Frigo presented the quarterly financial statements for the period ending June 30, 2007. He reported that the total fund balance at June 30, 2007 was \$218 million and received approximately \$7 million in total revenue versus \$9.2 million in total expenses for an operating loss of \$2.2 million. In reviewing budget versus actual, Mr. Frigo reported that the District was behind in realized investment income, having budgeted \$9.9 million versus \$7 million actual. He stated that the Tobacco Fund is doing better in income than budgeted due to the increase in short-term interest rates and receiving more money from the tobacco settlement than expected; \$610 thousand budgeted versus \$650 thousand actual. Mr. Frigo reviewed that the Dental Clinic, Pediatric Support Services and the Tobacco Initiative are all funded by the tobacco budget.

ITEM 13: Quarterly Investment Report from Investment Officer. Mr. Bryan reported that for the quarter ending June 30, 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 80.84% of the total Portfolio, which is below the 85% Agency limit. Mortgage backed securities represent 14.45% of the total

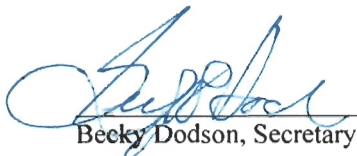
Portfolio, which is below the 30% limit. Obligations of state or local governments represent 6.29% of the total Portfolio, which is below the 10% limit. Treasuries and full faith and credit obligations comprise 10.31% of the total Portfolio. Cash balances including Money Market funds comprise about 2.56%. Investments with maturities greater than 10 years represent 27.34% 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 98.31% of the book value, with a market value of \$207,098,820 and a book value of \$210,668,556. Mr. Bryan stated that in the current year, the AHD Budget called for \$10,113,222 in realized investment income. Current investment earnings through June 30, 2007 are \$7,203,417.

ITEM 14: Presentation of the Proposed Public Health Department Facility by Matt Richardson. Mr. Richardson updated the Board on the current status of the expansion and relocation project of the new Department of Public Health Facility. Mr. Richardson stated that the current Public Health Facility occupies 3,500 square feet at the J.O. Wyatt Clinic, rents 4 additional offices at the Texas Tech Facility and has medical records stored at 5 different city facilities. He reviewed that Public Health funded 14 positions in 1996 and currently funds 31 positions with no increase in space. Mr. Richardson stated that there is no room for program growth at the current Public Health location and is unable to accept additional grants because he does not have adequate space for the funded positions. In reviewing the new building details, Mr. Richardson reported that the estimated facility space is 11,500 square feet and would be located just north of the RHN building. He stated that the projected location on Martin Road would be convenient; just 2 blocks away from the current facility and closest to the majority of Public Health's patients. Mr. Richardson announced that the estimated cost of the facility is \$2.1 million. He stated the City of Amarillo will include \$1 million for the new facility, should the certificates of obligation pass, and the Amarillo Health Facilities Corporation has earmarked \$623,095 towards the facility as well; further stating he would need a little over \$500,000 before beginning construction. Mr. Richardson explained that his intent is to wait for entire funding of the project prior to construction; that he is looking at other options before requesting help from the Amarillo Hospital District.

ITEM 15: Committee Reports. There were no Committee Reports for this quarter.

ITEM 16: Public Comments. Dr. Pierce stated that as a citizen, he thinks the contract with UHS is a good idea and added that he recommended the Board be cautious; that local projects being provided by local organizations and approved by a local Board in a locally publicly accountable forum will change under the contract with UHS; the District will contract with UHS and UHS will contract vendors of their choice. He urged the Board to make sure they have approval of the vendors and any proposed changes of vendors in the contract. Dr. Benjamin thanked the Board for the support given to pediatrics and stated that she is proud to be a part of a community that provides services to children. She reminded the Board that many of these children would mature and cost more in the end if they are not treated in the beginning. Dr. Benjamin reported that all projects the District currently funds, including smoke-free Amarillo, are programs that will actually save money in the long run.

ITEM 17: There, being no further business, the meeting adjourned at 9:25 am. This meeting was recorded and all comments are on file in the City Finance Department.



Becky Dodson, Secretary



Craig Bryan, Chairman