

**AMARILLO HOSPITAL DISTRICT
REGULAR MEETING OF BOARD OF MANAGERS
AMARILLO CITY HALL
CITY COMMISSION CHAMBERS
MINUTES
AUGUST 14, 2008
7:30 A.M.**

<u>Members</u>	<u>Present</u>
Mr. Craig Bryan, Chairman	Yes
Mr. Alphonso Vaughn	Yes
Mr. Greg Graham	Yes
Ms. Becky Dodson, Secretary	Yes
Dr. Paul Proffer	Yes
Ms. Liz Hughes	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. Kyle Sanders	Chief Operational Officer, Northwest Texas Healthcare System
Mr. Roy Browning	Investment Consultant, Wachovia Securities
Dr. Bonna G. Benjamin	Interim Region Chair, Department of Pediatrics, TTUHSC

ITEM 1: Mr. Bryan called the meeting to order at 7:30 am in the Commission Chambers of City Hall and welcomed those in attendance. He introduced Ms. Liz Hughes and stated that Ms. Hughes would be filling the vacancy left by Mr. Andy Obermueller.

ITEM 2: Approval of Minutes from June 24, 2008. Mr. Bryan presented the minutes from the last meeting held June 24, 2008. Motion was made by Ms. Dodson, seconded by Mr. Graham, and unanimously carried to approve the minutes.

ITEM 3: Presentation and Discussion of the Pension Fund Investment Performance. Mr. Browning presented the Quarterly Investment Review of the Amarillo Hospital District's Pension Fund at June 30, 2008. He reviewed the 2nd quarter market performance and stated that June had been the worst month since the depression. Mr. Browning reported that at the end of the 2nd quarter, 46.23% of the Portfolio was invested in equities, 36.98% in fixed income and 16.78% in cash and equivalents. In reviewing time-weighted returns for the quarter, Mr. Browning stated that the Fund received returns of 0.11% versus -2.23% of the market. He reviewed returns of -4.29% versus -4.47% for the latest year and 5.78% versus 4.57% for the latest 3 years. Reviewing equities for the quarter, Mr. Browning reported returns of -0.98% for the Fund, versus -2.73% of the market. On a risk-adjusted basis, for the reporting period of 08/31/1997 to 6/30/2008, he reviewed that the Fund is taking an equal amount of risk as the market and getting about the same return. Using the Sharpe Ratio, the measure of risk-adjusted return, of three years, Mr. Browning stated that the Fund received 0.28 units of return, per unit of risk taken, versus the policy of 0.08. He reviewed the Sharpe Ratio of the five-year period: 0.54 versus 0.46, and the ten year period: 0.20 versus 0.15. In summary, Mr. Browning stated that the Fund is doing great relative to the market, that the money manager is doing an excellent job.

ITEM 4: Presentation and Discussion of the AHD Corpus Investment Performance. Mr. Browning reported that at June 30, 2008, the Portfolio held total assets of approximately \$207.2 million. He stated that for the latest quarter, the Fund had returns of -0.83% versus the market index of -1.71% and ranked in the 39th percentile. For the last 12 months, he noted that the Fund had returns of 7.86% versus 8.99% of the market and ranked in the 35th percentile. Mr. Browning reported that the Portfolio had performed

better than the market index for the last 3 and 5-year periods and since inception. In reviewing returns for the investment managers, he reviewed that Amarillo National Bank (ANB) had returns of -1.11% versus the index of -1.71% and ranked in the 52nd percentile for the last quarter. He further reviewed that ANB had returns of 7.94% versus 8.99% and ranked in the 33rd percentile for the last 12 months, 4.84% versus 4.62% in the 10th percentile for the last 3 years, and 3.84% versus 3.69% ranking in the 19th percentile for the last 5 years. Herring I, Mr. Browning reported, had returns of -0.21% ranking in the 21st percentile for the last quarter, and 7.24% returns ranking in the 46th percentile for the last 12 months. He noted that Herring I was in the 13th percentile for the last 3 years and in the 16th percentile for the last 5 years. Mr. Browning announced that the Tobacco Settlement Fund had excellent, competitive numbers for all time periods. Reviewing rates of return for the total Fund versus the market, he reported 3.07% versus 3.34% for the quarter ending 9/30/07. He further reported 2.97% versus 3.35% for the quarter ending 12/31/07, 2.48% versus 3.81% ending 3/31/08, and -0.83 versus -1.71% for the quarter ending 6/30/08. In closing, Mr. Browning stated that the Fund has two very good investment managers that, through perilous markets, are doing an excellent job.

ITEM 5: Appointment of Board Officers. Mr. Bryan stated that with the recent resignation of Mr. Blanchard from the Board, the position of Vice-Chairman was now vacant. Motion to appoint Mr. Greg Graham as Vice-Chairman of the Amarillo Hospital District Board of Managers was made by Mr. Vaughn. Ms. Dodson seconded the motion and it carried unanimously.

ITEM 6: Appointment of TIRZ Representative. Mr. Graham motioned to appoint Dr. Proffer as the TIRZ representative for the Amarillo Hospital District. Mr. Vaughn seconded the motion and it carried unanimously.

ITEM 7: Consider proposal from UHS for Pediatric and Dental Services and Tobacco Free Amarillo. Mr. Sanders reviewed that the current contract between Texas Tech University Health Sciences Center (TTUHSC) and Northwest Texas Healthcare System (NWTHS) is \$1,241,496. He reported that TTUHSC is proposing a 10% increase to \$1,365,646 and noted the following issues currently facing the Pediatric Specialty Program: Many of the sub-specialists are over 60 years of age and several are approaching 70 years of age. The market value and cost of retention continues to increase. There is a growing need to recruit a Pediatric Neurologist, as well as a need to recruit an additional Pediatric Surgeon. He stated that current losses incurred by TTUHSC are \$900 thousand. Mr. Sanders reported that the current contract between Regence Health Network (RHN) and NWTHS for dental services is \$351,067. For the budget year 2008/2009, he stated that RHN is proposing a decrease to \$100 thousand. Mr. Sanders reviewed the following dental statistics: RHN had 685 indigent visits through June 30, 2008, averaging 57 visits per month. He noted an average of 250 visits per month at the former community dental clinic. He reported that RHN is currently recruiting 2 replacement dentists. Mr. Sanders stated that the current contract between the American Cancer Society (ACS) for Tobacco Free Amarillo and NWTHS is \$250 thousand. He announced that the ACS is proposing an increase to \$272,500 for the 2008/2009 budget year. Successes in the past five years of the Tobacco Free Amarillo program, he reported, include: a decrease in 6th grade smoking by 78%, 8th grade smoking decreased by 69%, 9th grade smoking decreased by 71%, and 12th grade smoking has decreased by 53%. Mr. Sanders reported a total of \$1,738,146 for all three provider contracts with NWTHS. He stated that the contract between AHD and NWTHS would be \$1,366,081 with the difference of \$372,065 being paid by NWTHS.

ITEM 8: Consider 2008/2009 AHD Budget. Mr. Frigo presented the proposed 2008/2009 budget for the Amarillo Hospital District and stated that it had been reviewed and recommended by both the Indigent Care Committee and the Finance Committee. He reviewed that, for the current year, the District's Operating Fund began the year with approximately \$219 million in available funds and received budgeted revenue of about \$12.7 million. Mr. Frigo reported the largest budgeted expense being the Indigent Care Contract at \$6.3 million and reviewed a decrease in the contract to approximately \$6.1 million for the 2008/2009 proposed budget. The second largest expense, he noted, is the contribution to the NWTHS Pension Plan in the amount of \$1,915,336 in 2007/2008 to \$1,978,698 in 2008/2009. He reviewed that the proposed contribution amount to the Pension Plan for 08/09 is the 20-year funding amount

recommended by the Actuary, John Crider. Mr. Frigo reported that the third largest budgeted expense of the District was the Public Health Contract amount of \$709 thousand. He noted an increase in the Public Health contract to approximately \$909 thousand in the proposed 08/09 budget and stated that the increase was related to the Public Health Department moving into a new building that would require equipment, utilities, and miscellaneous one-time expenses. Mr. Frigo reported that the request under Other Community Projects, in the amount of \$250 thousand, was needed to help with funding of the new Department of Public Health building. If the estimated numbers are met, Mr. Frigo stated that the District should begin the next year with approximately \$222 million in assets, budgeting \$11.6 million in revenues and \$10.4 million in expenditures, adding \$1.2 million to the corpus, and ending the year with \$222.9 million in available funds. Reviewing the 2008/09 proposed budget for the Tobacco Funds, Mr. Frigo reported approximately \$2 million in available funds at the beginning of the year with \$860 thousand in budgeted revenue. He reviewed expenditures of approximately \$1.3 million under professional services and noted that this is the amount paid to Northwest Texas Hospital for the Non-Hospital Services Agreement between the Amarillo Hospital District and Northwest Texas Healthcare Systems. Mr. Frigo reported available funds in the amount of \$1.5 million at the end of the year are projected. In closing, Mr. Frigo stated that the budget is balanced, that the District is providing indigent care and other needs throughout the community. Mr. Graham motioned to approve the 2008/2009 AHD Budget as presented. Dr. Proffer seconded the motion and it carried unanimously.

ITEM 9: Discussion and Consideration of additional collateral by UHS for AHD Health Services Agreement. Mr. Sanders announced that the structure proposed by UHS at the last Finance Committee meeting, regarding collateralization of the District's advances to the Health Services Agreement, had been advised against after review between UHS' legal council and CMS (Centers for Medicare and Medicaid Services). He stated that more time was needed for UHS and their legal council to brainstorm with AHD and its legal council for other ideas. Mr. Frigo added that although a tremendous amount of collateral (the land, building, and equipment) already exists under the sale of the hospital contract, none of that collateral could be liquidated or converted to cash; it is not in the form needed and other options would be explored.

ITEM 10: Review and Consider Pension Plan Amendment. Mr. Frigo reviewed that there had been some technical changes in the IRS code regarding W-2 income and stated that although the Amarillo Hospital District no longer has employees, the changes were needed for the compliance purposes. He noted that the Pension Plan's lawyer, Mark Miller of Fulbright & Jaworski, LLP recommended the changes and stated that the changes had to be adopted by September 30, 2008 in order to be in compliance with the IRS. Mr. Graham moved to approve the 8th amendment to the retirement plan for the employees of Northwest Texas Healthcare System, seconded by Ms. Dodson and carried unanimously.

ITEM 11: Presentation of Quarterly Financial Statements. Mr. Frigo presented the Quarterly Financial Statements for the third quarter of the year at June 30, 2008 and reported total cash and investments were approximately \$209 million. He stated that \$10.2 million in securities lending was listed both as an asset and a liability. He reviewed that the District had prepaid the Indigent Care Agreement, through August 2010, approximately \$12.9 million. Mr. Frigo reported that the Fund is in very good shape with a total balance of \$225.6 million. He reviewed \$11.2 million total revenue versus \$9.1 million total expenses. He noted that indigent care remains the District's largest expense at \$4.7 million, followed by the \$1.9 million contribution to the Pension Plan, \$626 thousand to the Poison Control Grant, and \$453 thousand to Public Health. Mr. Frigo reported an operating income amount of \$2,073,088 and noted that if this amount were adjusted for the unrealized gains, the total operating income amount would still be \$1.2 million. In reviewing Donor Restricted Funds, he stated that the total cash and cash equivalents amount was \$51,514.07. Mr. Frigo reviewed the Operating Fund's budget versus actual report and reported a budget of \$10,800,000 versus an actual amount of \$8,923,254 in realized investment income. He noted that this was 82.62% at June 30th, whereas 75% would be $\frac{3}{4}$ of the year. He announced that the operating expenses were all at where they should be for the year; pointing out that Public Health was below budget at 59.16%. Mr. Frigo reported actual cash from operations of \$1,614,461 versus a budget of \$1,476,253. Reviewing the Tobacco Funds, he noted actual total revenue of \$864,749 versus total expenses of \$1,241,951. He reported Dental Clinic actual expenses of \$214,197 and \$168,750 in actual expenses to

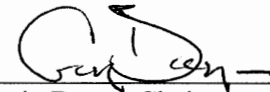
the Tobacco Initiative. He stated that the District's largest expense from the Tobacco Funds, Pediatric Support Services, had budgeted \$1,241,496 versus \$838,008 actual. In closing, Mr. Frigo stated that the District's financials look very good through June.

ITEM 12: Quarterly Investment Report from Investment Officer. Mr. Graham reported that for the quarter ending June 30, 2008, 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 reviewed that agency securities, including mortgage-backed securities, represent 81.54% of the total Portfolio, which is below the 85% Agency limit. Mortgage backed securities, he stated, represent 13.86% of the total Portfolio, which is below the 30% limit, and obligations of state or local governments represent 7.83% of the total Portfolio, which is below the 10% limit. He reported that treasuries and full faith and credit obligations comprise 5.10% of the total Portfolio and cash balances, including Money Market funds, comprise about 5.54%. Investments with maturities greater than 10 years represent 38.65% 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 100.47% of the book value, with a market value of \$209,259,826 and a book value of \$208,277,603. Mr. Graham reviewed that in the current year, the AHD Budget called for \$10,911,046 in realized investment income and the current investment earnings through June 30, 2008 were \$9,020,663.

ITEM 13: Committee Reports. There were no committee reports at this time.

ITEM 14: Public Comments. Dr. Benjamin stated that the Texas Tech Department of Pediatrics appreciated the Amarillo Hospital District and expressed how much the District is needed by the Department. She shared with the Board a narrative of a child recently treated by the TTUHSC Pediatric Department and stated that she felt it was important for the Board to see, on a personal level, what the District does for the Department of Pediatrics.

ITEM 15: Adjournment. There, being no further business, the meeting adjourned at 8:30 am. This meeting was recorded and all comments are on file in the City Finance Department.



Craig Bryan, Chairman


Secretary - Murielle Barnes