SPECIAL MEETING
OF THE BEXAR COUNTY HOSPITAL DISTRICT
BOARD OF MANAGERS

Monday, August 3, 2015
6:00 p.m.
University Hospital, Boardroom
4502 Medical Drive
San Antonio, Texas 78229-4493

MINUTES

BOARD MEMBERS PRESENT:

James R. Adams, Chair
Ira Smith, Vice Chair
Robert Engberg
Robert A. Gilbert
James C. Hasslocher

BOARD MEMBERS ABSENT

Roberto L. Jimenez, M.D., Immediate Past Chair
Dianna M. Burns, M.D., Secretary

OTHERS PRESENT:

George B. Hernández, Jr. President/Chief Executive Officer, University Health System
Bryan Alsip, M.D., Executive Vice President/Chief Medical Officer, University Health System
Edward Banos, Executive Vice President/Chief Operating Officer, University Health System
Tim Brierty, Chief Executive Officer, University Hospital
Ted Day, Senior Vice President/Strategic Planning & Business Development, University Health System
Sergio Farrell, Senior Vice President, Ambulatory Services, University Health System - Robert B. Green Campus
Donald Finley, Senior Writer, Corporate Communications, University Health System
Roe Garrett, Vice President/Controller, University Health System
Michael Hernandez, Vice President/Chief Legal Officer, University Health System
Reed Hurley, Executive Vice President/Chief Financial Officer, University Health System
Nancy Ray, Senior Vice President/Chief Nurse Executive, University Health System
Mark Webb, Executive Vice President/Chief Operating Officer, University Health System
Peggy O’Hare, San Antonio Express News
And other attendees.

CALL TO ORDER AND RECORD OF ATTENDANCE: JIM ADAMS, CHAIR, BOARD OF MANAGERS:

Mr. Adams called the meeting to order at 6:00 p.m.
PRESENTATION, DISCUSSION AND APPROPRIATE ACTION REGARDING THE APPROVAL TO REQUEST COMMISSIONERS COURT OF BEXAR COUNTY, TEXAS TO APPROVE A RESOLUTION AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO ISSUE CERTIFICATES OF OBLIGATION FOR THE BENEFIT OF THE BEXAR COUNTY HOSPITAL DISTRICT D/B/A UNIVERSITY HEALTH SYSTEM; AND RESOLVING OTHER MATTERS IN CONNECTION THEREWITH—GEORGE B. HERNÁNDEZ, JR/REED HURLEY

SUMMARY: Mr. Hernandez described the Health System’s capital projects recommended as top priorities, previously part of ongoing and recent strategic discussions with the Board:

Pediatric Facilities - Necessary to address the Horizon Tower’s suitability to serve as a children’s tower for pediatric care. The Board of Managers approved $8.4M for renovations in July, 2015. These renovations will allow for all of the pediatric inpatient units to be located in the Horizon Tower at University Hospital. This project will provide for more centralized pediatric services, be in the same building as the pediatric emergency department, and create a children’s tower. This project will also free up additional capacity for adult patients in the Sky Tower which is in high demand. Based on the financial performance, community need and the strategic importance of a strong pediatrics program for both the Health System and the School of Medicine, this is an essential project. Staff estimates an additional $3.1M in project costs for remaining pediatric projects. The total project cost for pediatric facilities is $11.5M.

Heart & Vascular Institute (HVI) - Partial funding for design services was approved by the Board in 2012. Since that time, Health System and Health Science Center staff have worked together to develop a thorough program and space plan that meets the current and future needs of the cardiology, vascular, and cardio thoracic surgery service as an aligned group. This project will provide new procedural areas, as well replacement and upgrade of existing equipment. The project cost is $17.8M.

Northwest Clinical Services and Dialysis Center -  This project is for the construction of a replacement facility in the South Texas Medical Center to provide primary care and house a 36-chair adult dialysis center and an 8-chair pediatric dialysis center which is integral to the Health System’s Transplant Program. This project eliminates a current lease expense of $446,000 per year and the total project cost is $21.1M

Recommendation: Staff recommends that the Board of Managers request the Bexar County Commissioners’ Court approve a Resolution (attached) authorizing the publication of a Notice of Intention to issue certificates of obligation for the benefit of the Bexar County Hospital District; and in support of this action, request the existing tax rate for the 2015 tax year be continued for 2016 in support of the Health System’s operating, debt service and capital requirements; and also in support of this action, request that the additional 2/3 cent increase( or $18.5M) in debt service rate be applied to secure low interest short term debt for the essential capital projects discussed today.

ACTION: A MOTION to approve staff’s recommendation was made by Mr. Smith, SECONDED by Mr. Engberg, and PASSED UNANIMOUSLY.
At the start of today’s meeting, Mr. Adams informed the Board that Dr. Burns and Dr. Jimenez would be unable to attend the meeting due to previously scheduled respective travel and patient care commitments. Mr. Adams pointed out that as Chairman, he is not allowed to vote except to break a tie; however, he was advised by legal counsel that Dr. Burns is allowed to listen in on the discussion and ask questions, as she requested, but is not allowed to vote and nor will she be counted present.

For discussion purposes, staff provided a spreadsheet identifying potential loss of revenue in 2016 and 2017 from federal and state programs that currently supplement the Health System’s bottom line. Given the high probability of significant turmoil in Texas hospital reimbursement over the next two to three years, staff believes it’s prudent to keep sufficient cash reserves to assure the Health System can buffer the fiscal uncertainty. Maintaining the exiting tax rate will result in approximately a 2/3 cent growth in the debt service fund or nearly $8.8M annually. These funds could be used to pay off or defease some of the bonds from 2008. The savings to the Health System for this option is approximately $250,000.

In the alternative, staff and financial advisers believe that short term (3-5 years) debt not unlike interim financing can be secured at approximately 1.5 percent interest. This will allow the Health System to withstand the current hospital financing uncertainty. If the 1115 Waiver or some alternative to traditional Medicaid expansion materializes and substantially improves our bottom line, the debt can be advanced and paid off. In the event of a worst case scenario, the debt service fund will pay off the short term debt in three to five years.

The Board of Managers has choices and the staff is willing to hear counter-proposals. Moreover, while staff is recommending $50M in essential capital projects, the Board can choose to reduce the capital investment. For example, the $50M recommended by staff includes the $8.4M of Board approved pediatric projects from July 2015. This is because the issuance of this short term debt allows for the reimbursement of projects approved within a 60-day retrospective window. Including the approved pediatric projects allows the Health System to keep its cash. The alternative of not including the pediatric projects will reduce the short term debt request to approximately $42M and could result in an interest rate less than 1.5 percent.

Board members agreed that the lack of Medicaid expansion in Texas is costing the Health System a lot of money. Mr. Adams will continue to press the issue with various legislators and he encouraged Board members to do the same because the Health System cannot survive long term without changes at that level. He commended the staff for looking ahead to attract a funded payor mix. Mr. Engberg agreed and expressed confidence in the staff’s recommendation - all three projects are critical and this is a responsible approach. The Health System is adequately covered by the 90-day emergency operating account which is currently at $201 million. Further, he thanked Mr. Smith for his determination to replenish the long-term reserve account for the Capital Improvement Program funds in the amount of $120 million (current unencumbered balance of $45.7 million). However, he cautioned that the Health System must have a 3, 5 or 10 year long range capital plan. In response to an inquiry from Mr. Gilbert about
other high priority capital needs that the Board is not yet aware of, Mr. Hernandez replied that there is nothing more pressing than what the staff has identified today. Mr. Adams commended the staff for planning to make UHS the most effective and best health system in the state. At this time, he asked for the record to show that a significant issue for the Board today is the value placed by UTHSCSA partners on these projects as discussed in joint planning sessions. By the same token, our UTHSCSA partners need to understand that a good part of the Board’s reasoning is continuing support for the high quality that both teams want to achieve. The Board agreed to pursue $18.5 million in certificates of obligation and $24 million from capital reserves, in addition to the $8.4 million approved in July 2015 for pediatric facilities.

FOLLOW UP: Mr. Adams asked the staff to research the telephone conference option for the Board of Managers. Mr. Hernandez agreed that some governmental entities have pursued legislation that will allow telephone participation, for example the UT Board of Regents.

Mr. Adams announced that he is doing some work for a company, Oncore, out of Dallas, Texas, as Chairman of the Board. Oncore is part of a larger entity that has filed bankruptcy. The issue is getting Oncore out of bankruptcy to a new owner. His commitment to Oncore is about 1.5 days per month, which will occasionally conflict with Board of Managers meetings as currently scheduled. He will work with Mr. Hernandez to minimize these conflicts.

Mr. Hernandez received notification from the Construction Management Association of America (CMMA) regarding the selection of Mark Webb as their Person of the Year for 2015. CMAA confers its Person of the Year Award upon leaders who have made significant contributions on behalf of the construction management industry and profession. Award winners “must possess unparalleled leadership skills, a high degree of professionalism and have an outstanding track record of making a difference in this industry.”

Mr. Adams reported that on Sunday, August 2, 2015, his church congregation held a service for a young Mongolian girl who had surgery at University Hospital, a case in which Dr. Adil Husain was the lead surgeon. There were approximately 200 people who attended the recognition service to pay homage to Health System nurses and Dr. Husain. At the luncheon, Mr. Adams had a chance to visit with Dr. Husain who is very upbeat about the pediatric projects currently being pursued.

ADJOURNMENT:

There being no further business, the public meeting adjourned at 6:50 p.m.

James R. Adams
Chairman, Board of Managers

Dianna M. Burns, M.D.
Secretary, Board of Managers

Sandra D. García, Recording Secretary
RESOLUTION OF THE BOARD OF MANAGERS OF THE BEXAR COUNTY HOSPITAL DISTRICT REQUESTING THAT THE COMMISSIONERS COURT OF BEXAR COUNTY, TEXAS APPROVE A RESOLUTION AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO ISSUE CERTIFICATES OF OBLIGATION FOR THE BENEFIT OF THE BEXAR COUNTY HOSPITAL DISTRICT; AND AUTHORIZING ALL OTHER REQUIRED ACTIONS ON BEHALF OF THE DISTRICT

WHEREAS, pursuant to Subchapter C of Chapter 271, Texas Local Government Code, as amended (the "Act"), the Board of Managers (the "Board") of the Bexar County Hospital District, doing business as the University Health System (the "District"); is authorized and empowered to issue certificates of obligation for the purpose of paying contractual obligations of the District to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) acquiring, purchasing, constructing, reconstructing, improving, renovating, rehabilitating or equipping a building or buildings, purchasing technology equipment and related hardware and software, and the purchase and improvement of the necessary sites therefor, for constructing or improving District buildings at and around the University Hospital Campus, including (a) renovation, rehabilitation, remodeling and equipping new and expanded pediatric facilities, (b) renovation, rehabilitation, remodeling and equipping new and expanded cardiovascular and heart facilities, and (c) acquiring land in the Medical Center area and constructing and equipping new and expanded dialysis treatment and clinic facilities, and related parking and infrastructure, and (2) the payment of professional services related to the design, construction, and financing of the aforementioned projects (collectively, the "Project"); and

WHEREAS, the Board and the Commissioners Court (the "Court") of Bexar County, Texas (the "County") previously approved the Project, based upon certain financial obligations and commitments by the District, relating to the Project and the issuance of one or more series of certificates of obligation; and

WHEREAS, the Board anticipates that the portion of the Project costs to be financed at this time will be approximately $18,500,000, and, therefore, hereby finds and determines that such portion of the Project costs be financed with the proceeds derived from the issuance of certificates of obligation to be sold and delivered in accordance with the provisions of the Act or other applicable law; and

WHEREAS, prior to the issuance of certificates of obligation, the Act requires that a notice of intention to issue certificates of obligation be published as provided in the Act; and

WHEREAS, pursuant to the provisions of Chapter 281 of the Texas Health and Safety Code, as amended ("Chapter 281"), the Court, in the name of the District and primarily based on the faith and credit of the District, is authorized to issue certificates of obligation in the amount and for the purposes herein described; and

WHEREAS, the District desires that the Court issue certificates of obligation in the name of the District, for the benefit of the District, and primarily based on the faith and credit of the District to provide certain funds to finance a portion of the Project and pay issuance costs; and
WHEREAS, the Board considers it in the best interest of the District to request that the Court approve a resolution authorizing the publication of a notice of intention to issue certificates of obligation to pay a portion of the costs of the Project in the amount of $18,500,000; and

WHEREAS, the Board also considers it in the best interest of the District to request further that, at the appropriate time after publication of the notice of intention, the Court adopt an order authorizing the issuance of the District's certificates of obligation to be issued by the Court, for the benefit, in the name, and primarily based on the faith and credit of, the District; and

WHEREAS, the District has previously retained Estrada Hinojosa & Company, Inc. and the First Southwest Company, LLC, San Antonio, Texas, collectively, as its co-financial advisors (the "Co-Financial Advisors") relating to the proposed issuance of any debt; and

WHEREAS, the Co-Financial Advisors and the District staff have carefully evaluated the District's financing alternatives and have recommended that such certificates of obligation be sold at this time pursuant to a competitive private placement process; and

WHEREAS, it is officially found, determined, and declared that the meeting at which this Resolution is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Resolution, was given, all as required by Chapter 551, as amended, Texas Government Code; now therefore,

BE IT RESOLVED BY THE BOARD OF MANAGERS OF THE BEXAR COUNTY HOSPITAL DISTRICT:

SECTION 1. The Board hereby requests that the Court adopt a resolution authorizing publication of a Notice of Intention to issue the Certificates to fund a portion of the costs of the Project. The Board hereby approves such publication and further requests the Court pass and approve an order (the "Order") authorizing and approving the issuance and sale of the Certificates which shall be issued by the Court, but in the name of and payable primarily based upon the faith and credit of the District.

SECTION 2. The Co-Financial Advisors are hereby authorized and directed to coordinate the sale of the Certificates with Bracewell & Giuliani LLP, San Antonio, Texas as Bond Counsel to the District ("Bond Counsel"), the District’s staff and the County’s staff, and to otherwise coordinate the financial aspects relating to this transaction to ensure that the District receives the lowest possible interest rate on the Certificates and to comply with all applicable regulations and rules promulgated by the Municipal Securities Rule Making Board.

SECTION 3. The recitals contained in the preamble hereof are hereby found to be true, and such recitals are hereby made a part of this Resolution for all purposes and are adopted as a part of the judgment and findings of the Board.

SECTION 4. This Resolution shall be in force and effect from and after the date of its adoption, and it is so resolved.

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PASSED AND APPROVED, this the 3rd day of August, 2015.

BEXAR COUNTY HOSPITAL DISTRICT

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Chairman, Board of Managers

ATTEST:

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Assistant Secretary, Board of Managers

(SEAL OF THE BEXAR COUNTY HOSPITAL DISTRICT)