Bartlett Regional Hospital

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Finance Committee Meeting Minutes
BRH Boardroom – March 13, 2019

Called to order at 7:00 a.m. by Finance Committee Chair, Dr. Bob Urata.

Finance Committee & Board Members: Dr. Bob Urata (Chair), Kenny Solomon-Gross, Mark Johnson, Marshal Kendziorek, Lance Stevens

Staff: Kevin Benson, CFO, Rose Lawhorne, Asst CCO, Billy Gardner, CCO, Megan Taylor, Executive Assistant

Guest: Bob Bartholomew, CBJ Finance

Mr. Johnson made a MOTION to approve the minutes from the February 14, 2019 Finance Committee Meeting. Dr. Urata noted no objections and they were approved.

January 2019 Finance Review – Kevin Benson, CFO

BRH experienced a break even month overall for the month of January 2019. 340B program saved BRH $160,000 in pharmaceutical costs. Contract labor was still over budget for the month, but less so than before. *(Continued after Mr. Bartholomew's presentation)* 26% of capital budget has been committed, but BRH is expected to underspend by $2 million. The major outstanding project was replacement of all the infusion pumps, with the price tag of $525,000, over the next 3-6 months.

Mr. Johnson asks for a status update on the Crisis Stabilization project, which Mr. Benson and Mr. Gardner deferred to Mr. Grigg on, who was not present at the meeting. This is to be addressed at the upcoming Board of Director's meeting on March 26th, 2019.

Mr. Johnson made a MOTION to move Mr. Bartholomew's Investment Review to the next item on the agenda. Upon hearing no objections, this was approved.

CBJ Investment Review

Dr. Urata explained that BRH has excess funds to invest, and inquired about CBJ policy on investment. Mr. Bartholomew began on page 19 of the packet, specifically pointing to the three BRH lines: Hospital, CIP, and Capital Reserve. CBJ allots funds into these accounts, but allows BRH to move funds between them as appropriate, and does not need to include the Assembly in these decisions. Any BRH technical questions on restricting funds will be determined with the auditors. The Assembly could restrict it, but isn't likely to do so, and leaves the decision-making to the board. Mr. Bartholomew explains that CIP is funds that have been approved by the board and appropriated by the Assembly. The Capital Reserve account is our general cash or cash flow operating reserve for two to three months. Funds can be moved from active status to the reserve account if needed.

Dr. Urata inquired if all funds will be applied to the more aggressive investment strategy. Mr. Bartholomew responded with an explanation of BRH's three levels of liquidity. First is the checking account at First National Bank of Alaska for daily activity, which averages $30-40 million worth of activity per month, with a maintained "overnight balance" of $12 million. The second level is the municipal pool, which is a state agency charged with providing investment services to municipalities, which oversees $20-60 million depending on time of year with taxes, tourism income, budgetary allocation, teacher payouts, etc. Third level is investments with Alaska Permanent Capital in Anchorage, investing in US treasury bonds or corporate bonds, and are managing $150 million, $40-50 million of which is attributed to BRH. These investments are a 36-month ladder. CBJ will be going out to bid, presenting their cash flow, investment guidelines and policies, and asking for what firms would do differently, accounting for changing interest rates. Mr. Bartholomew then explained bond performance over the last three years as it applies to BRH's investments. Bond values fluctuate with economy, market, and deficit.

Dr. Urata asked what the guiding factors are in BRH's investments, whether we have any say in those factors, and if we have a representative to act as a voice. Mr. Bartholomew responded that there is a municipal code, and an investment policy statement that is more detailed. Code is being rewritten due to outdated instruction. Mr. Benson has been kept in the loop and has participated in the process, with the five financial advisors, and in December and February it went to the Assembly Finance Committee, who vetted it and asked questions. Rewritten code is expected to be adopted April 1st, and becomes law 30 days later.

The new code includes objectives, which is where the Assembly had the most input. The objectives, in order of priority are: 1. Safety/Preservation of Principle, 2. Liquidity, and 3. Investment Return. Also included is what is allowed to be invested, and invested in, and the investment policy dictates how much is invested in money market, and whether it is 1, 2, 3, or 5-year maturities. Mr. Benson will be one of the four people on the selection committee for RFP's. CBJ cash flows are straight forward, with buffers for volatility. The externally managed $150 million has been above that amount for the last 10 years.

Dr. Urata asked for the philosophy of maintaining investment income while accounting for inflation. Mr. Bartholomew explained that the city has two endowments they manage. With these they try to maintain purchasing power, which is done by using interest to cover inflation. Cash flow value is determined by the interest rate market more than inflation. Most governments are 1-5 year bonds, so at 3 years, CBJ may be below average. CBJ is 60% US government bonds, and 40% corporate bonds. Most governments don't have as many corporate bonds. The hope with the RFP's is to have someone say, "We believe we can offer the same return, with less risk in corporate bonds." CBJ has already lowered the percentage of corporate bonds, as it was previously 50/50.

Mr. Stevens inquired about CBJ funds versus Bartlett funds for investing. Mr. Bartholomew clarifies that Bartlett funds are seen as separate, and CBJ essentially ignores them when investing. He states Kenai has 10% of their investment in equities, and they are sending Mr. Bartholomew their numbers over the last three years, but he states this is probably not the ideal approach for CBJ or BRH.

Mr. Johnson asked if there has been a situation where the city or hospital has had to sell bonds before maturity, to which Mr. Bartholomew replied that he has been with the city seven years, and they haven't had to do that yet. There are almost always US treasury bonds within 30-90 days of maturity that we can sell and get a return on the investment. $5 million a month are maturing, and then reinvested.

Mr. Benson states that having 90 days cash on hand in an operating reserve is adequate since BRH's cash flow is steadier throughout the year than the city's cash flow. The last board meeting, the board designated moving $10 million into the capital improvements fund and for reimbursement benefit. There is $25 million in operating funds, invested in a money market, which has been producing almost 2%, because the difference between the 1-3 year markets are so narrow. Mr. Benson expressed his belief that the city money managers are doing a good job. The oversight committee he is a part of meets two to four times a year, and includes presentations on progress.

Mr. Bartholomew stated that when the proposals return is the time for people to weigh in, and that the Assembly will be informed about the evaluation process, but they wouldn't be involved.

Dr. Urata referenced concerns that BRH's cash reserves could be allocated by the city to projects unrelated to the hospital, and asked for input on this. Mr. Bartholomew stated it is legally possible if the Assembly wanted to do it. His example, however, of what is more likely to occur is like the Housing First project, where the city can approach the hospital and request contribution, since the hospital is related to or affected by the project. Each enterprise has been gradually raising their rates to cover costs, and contribute to infrastructure replacement. Money has been left over after operating budget needs, but not enough to cover infrastructure needs, similar to the 1% sales tax allotment every five years for the hospital.

Budget Follow-up Items

The asbestos issue in some flooring was discussed, referencing the floor plan graphic in the packet and associated photos of the flooring itself. These are all non-patient care areas. This was included to clarify need for replacement. The cost explanation was included in the FY 2020 budget, for the amount of $500,000.

Mr. Kendziorek brought up the issue of "restricted funds", seeking clarification on the pros and cons. He clarified that designating funds for the purpose of planning can have the downside of needing to be un-designated if issues come up (i.e. CAMHU project). Mr. Stevens explained that it shows intent and that un-designating is simply a matter of bringing it to the board again.

Mr. Benson presented a graph of the previous three years of revenue to demonstrate trends by month. The only visible trend was the month of August tends to be higher, and the month of December didn't necessarily demonstrate a consistent decrease as previously speculated.

Mr. Johnson expressed some confusion in keeping track of employed physicians, versus hospitalists, versus locums. Dr. Urata clarified that locums are used for areas with less sustainable demand (i.e. Orthopedics). To this point Mr. Stevens stated concern that the budgeted amount for locums was significantly less than the previous year's budgeted amount despite consistency over those years. Mr. Benson explained that goals have changed – to move toward employed staff, and the budget reflected this.

Mr. Stevens brought up a letter from Mr. Bill and the State Hospital Association with statistics, which Mr. Bill wanted approval on. Mr. Stevens wasn't comfortable approving it until it had been vetted by the Finance Committee. Mr. Benson clarified intent of letter: to gather information from hospitals in the state, regarding potential budget cuts. It is presumed that they will put together a campaign to communicate effect of cuts on healthcare.

Next Meeting: April 10, 2019 at 7:00 a.m. in BRH Boardroom

Adjourned – 8:07 a.m.