AMERICA'S ESSENTIAL HOSPITALS

Finance Committee Meeting
October 28, 2014
Washington, DC

Board Members Present (8)	Board Members Absent (9)	Staff Present (2)
Reginald W. Coopwood, MD **Michael Karpf, MD** **Wright L. Lassiter III** **By phone:** **Roxane A. Townsend, MD**	**Donna K. Sollenberger, MA**	**Bruce Siegel, MD, MPH** **Rhonda Gold, CPA** **Alan Burk** **Caitlyn Furr**

Agenda Item	Minutes
Call to order and roll call	• **The meeting was called to order at 9:27am Eastern.**
Review of 2014 financial projection	• **Ms. Gold presented the 2014 financial projection included in the board book.** • **America's Essential Hospitals' 2014 projected revenue is $8.9 M, which is offset by $7.19 M in expenses, before items funded from reserves, leaving an operating surplus of $1.72 M. This projected surplus is $894,000 more than budget and $700,000 better than last projected in June. The increase is mostly a result of new membership dues.** • **Ms. Gold presented detail on significant budget variances, and she asked the committee to consider a motion to reserve an additional $100,000 for the 2015 office move. The $450,000 set aside in restricted net assets will cover the non-depreciable and non-amortizable costs of the move.** ***Ms. Gold asked for motion from the committee to reserve an additional $100,000 for the office move. Dr. Karpf made a motion, Mr. Lassiter seconded, and the motion was approved unanimously.***
Summary of investment portfolio	• **Ms. Gold reviewed the investment portfolio with the committee, and noted changes since Raffa Wealth Management was hired.** • **The long term reserve was funded with $2.85 M from the previous long-term reserve, along with a portion of the intermediate-term reserve. Based**

	on recommendations from the Board survey 55% is invested in stocks, and 45% is in bonds. We will keep the board updated on the investment portfolio. • The operating reserve was funded with $2.5 M from the previous operating reserve, as well as the intermediate reserve. This money is to be used for short term needs, such as the office move and is 100 percent invested in fixed income funds. • There were no questions from the committee.
Review of three year financial projection	• Gold presented an updated three- year financial forecast which assumes the new tiered dues structure in 2015. We are assuming six new members each year, but also projecting four membership losses as a result of the new dues structure. In 2014 we gained 11 new members and will lose two to three members. There are approximately a dozen active targets at any point; our growth has been accelerating each year. • The purpose of this forecast is to determine the income enhancements or expense reductions that will be needed to achieve a 5 percent profit margin. Staff, internally, strives to achieve this goal. • In the last forecast, we projected 1-percent profit margins; this latest projection reflects a 5 percent margin in 2015 and 4 percent margins in 2016 and 2017. • Dr. Karpf asked about our confidence in UHC relationship. Siegel responded that we have no reason to think that anything would change. Most of our growth is happening in the UHC space, as most of the UHC board members are our members. • On the expense side, we are planning for three new FTEs: a policy quality analyst, a marketing coordinator, and one new accountant. • Gold pointed out that Carefirst increased our 2015 health insurance premiums by 25 percent. Aetna proposed a plan that was 56 percent higher. The plan was rated in the "small business" sector as we had under 50 employees at the time of the census. Currently, we have more than 50 staff and we will attempt to have the plan re-rated in a few months.
Review of lease terms for new space	• Gold referred to the signed Letter of Intent with the finance committee materials at the meeting, and provided an office move update. • When the process began for the search for new space, the market was fairly soft, but began to tighten over time. • DTZ presented 35 potential buildings to Gold, Burk (HR Director) and Campbell (IT Director), of which 12 were visited. The list was further narrowed down to 3 finalists which were toured by the leadership team.

	Issues considered were cost, location, access to public transportation and space efficiency. Of the 3 buildings, 1 building was eliminated due to location and floor plan; the 2nd building was taken off the market; and the 3rd building (401 9th Street NW) was the remaining building, which happened to be staff's first choice. • The selected space at 401 9th Street is a large, fairly new building (14 years old), with amenities including a rooftop terrace, a fitness center, and retail in the area and in the building. The building is three blocks from the association's current location, is closer to Capitol Hill, and is in an emerging area of DC with convenient access to the metro. America's Essential Hospitals will occupy the south side of the 9th floor under a 15 year lease. The building is a class A Gold LEED building in close proximity to two Metro stops. • The team negotiated extensively, and signed a lengthy non-binding Letter of Intent with Boston Properties, the terms of which were shared with the finance committee. A formal lease agreement is being reviewed by the attorney. • Architects determined that approximately 21,100 square feet is needed – this will accommodate future staff growth and includes a large conference room to accommodate board meetings, several small conference rooms and a staff cafe. • In years 5 and 10, the organization will have a right to expand into 3-4,000 rentable square feet of contiguous space; however, if the first expansion option is not exercised, the second option will be forfeited. Furthermore, we will have an ongoing first right of refusal to lease up to 5,000 square feet of space on our floor, though this may not be contiguous space. We also have the opportunity to sublease. • The negotiated rental cost, rent abatement, and tenant improvement allowance is more favorable than the real estate brokers' original estimate and is substantially better than the assumptions previously communicated to the board. • The negotiated rent is $67.25/sf (inclusive of operating expenses) with 14 months of free rent abatements, 2.5% annual rent increase, and $115 per square feet in a tenant improvement allowance. Staff's original estimates assumed a rental cost of $70 per square foot for 20,000 square feet, $85-$95 per square foot in tenant improvement allowances, and 8 months of rent abatements. The rent abatement, which equates to a 7-8 percent cost reduction can be converted to an additional tenant improvement allowance. • A 4 month security deposit (approximately $483,400) is required in the form of an irrevocable Letter of Credit, reducing over time, with only one month deposit remaining after year 4, assuming the association's revenues are at least $8.5 million a year.

	• The lease will only be in the name of the Association; the Institute will not be named on the lease. It is best to name only the association on the lease, as its revenue stream is more consistent and reliable than the Institute's revenues based on grant and contract receipts. Most importantly, having two entities as co-tenants on a lease makes each entity jointly and severally liable for the entire amount of tenant obligations. • In a financial analysis prepared by DTZ, the annual rent will cost over $1.4 M which will escalate by 2.5 percent per year in base rent plus operating expenses. The total cost over 15 years is estimated at $25 M. • The total office move budget, including the office build-out, AV, furniture equipment and artwork, is estimated at $4.3 million, of which $2.4 million will come from the tenant improvement allowance, for a net cost of approximately $1.9 million (staff previously estimated a net cost of $2.3 million). • Gold mentioned that the new space will accommodate 70 employees, and we are currently at 58. There is some room for immediate growth plus the two expansion options for contiguous space in years 5 and 10. Dr. Siegel mentioned that we did not want to take more space than needed. Our growth has accelerated, but we wanted to be slightly conservative in our space estimate. • 401 9th Street is an A space, but not a trophy space. • Gold asked that the finance committee recommend approval of the terms to the board, which would allow Dr. Siegel to enter into a binding contract in accordance with the terms of the non-binding Letter of Intent. All questions were addressed. *Ms. Gold asked for a motion to recommend to the board that they authorize Dr. Siegel to enter into a binding lease agreement, as long as the key terms are in accordance with the signed Letter of Intent. Mr. Lassiter made a motion, Dr. Karpf seconded, and the motion passed unanimously.*
Adjourn	• The meeting was adjourned at 10:18am Eastern.

Submitted by:

Reginald W. Coopwood, MD
Chair