

**STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**MEDICAL CARE COMMISSION QUARTERLY MEETING
DIVISION OF HEALTH SERVICE REGULATION
801 BIGGS DRIVE, RALEIGH NC 27603
BROWN BUILDING CONFERENCE ROOM- 104**

November 14, 2014

9:00 AM

MINUTES

MEMBERS PRESENT	MEMBERS ABSENT
John A. Fagg, M.D., Chairperson George A. Binder, M.D. George H.V. Cecil Harold Garland Charles H. Hauser Elizabeth P. Kanof, M.D. Albert F. Lockamy, Jr., RPh G. Wayne Long Mary L. Piepenbring Carl K. Rust, M.D. Robert E. Schaaf, M.D. Henry A. Unger, M.D. <u>DIVISION OF HEALTH SERVICE REGULATION STAFF</u> Drexdal Pratt, Director, DHSR/Secretary, MCC Christopher B. Taylor, CPA, Assistant Secretary, MCC Steven Lewis, Chief, Construction Section, DHSR Megan Lamphere, Chief, Adult Care Licensure Section, DHSR Nadine Pfeiffer, Rules Coordinator, DHSR Azzie Conley, Chief, Acute & Home Care Licensure, DHSR Beverly Speroff, Chief, Nursing Home Licensure, DHSR Becky Wertz, Nursing Home Licensure, DHSR Kathy Larrison, Auditor, MCC/DHSR Crystal Watson-Abbott, Auditor, MCC/DHSR Diana Barbry, Executive Assistant, MCC/DHSR Alice Creech, Bond Program Assistant, MCC/DHSR	Joseph D. Crocker, Vice-Chairperson Charles T. Frock Eileen C. Kugler, RN, MSN, MPH, FNP Paul McGill, D.D.S. Paul M. Wiles

I. CHAIRPERSON’S COMMENTS:

- The meeting was called to order by Dr. Fagg who welcomed everyone to the meeting. Dr. Fagg then welcomed our new Member Mr. Wayne Long to the Commission and asked him to introduce himself.

- Dr. Fagg mentioned that Dr. McGill and Ms. Kugler called and could not attend today’s meeting. He also mentioned that Dr. McGill’s Wife has been appointed President of the North Carolina Medical Board.
- Dr. Fagg announced that Dr. Robert Schaaf was nominated as the new President of the North Carolina Medical Society Board of Directors.
- Dr. Fagg gave a brief update on Truven and reported that from feedback that he received they are a doing a much better job and we have much better cooperation. They have resolved the issue of people who have nothing to report and they can now fill out a short form like you can do on your Statement of Economic Interest instead of going through the form line by line.
- Dr. Fagg encouraged everyone to stay to the end of the meeting because he would be sharing two important comments.

II. APPROVAL OF MINUTES - September 12, 2014 meeting.....Exhibit A

Commission Action: A motion was made by Mr. Cecil seconded by Mr. Garland and unanimously approved.

III. ADOPTION OF RESOLUTIONS OF APPRECIATION.....Dr. Fagg

Gerald P. Cox – (Exhibit A/1)

Margaret Weller-Stargell – (Exhibit A/2)

Commission Action: It was unanimously approved that the resolutions for Gerald P. Cox and Margaret Weller-Stargell be recorded in the permanent minutes of the Commission.

IV. DIVISION DIRECTOR’S REPORT

Mr. Pratt reported on matters of interest to the Commission. He stated that effective Monday, November 17, 2014, Nadine Pfeiffer will be Division’s new Rules Manager. She takes the place of Megan Lamphere who is now the Chief of the DHSR Adult Care Licensure Section. Mr. Pratt said that the Division is looking at a multi-year project of regional offices and home based employees. The Division is going through a number of changes trying to reduce costs due to the budget shortfall.

Other items to report on are listed below:.....**Exhibits B - B/2**

1. Quarterly Report on Bond Program**Exhibit B**
2. The Executive Committee held two telephone conference meetings on the following dates:

October 2, 2014 - To authorize the execution and delivery of a First Supplemental Trust Agreement for the 2010A Bonds issued for the benefit of The United Methodist Retirement Homes, Inc. and to authorize an amendment of certain loan agreements with WakeMed. **(Exhibit B/1)**

October 16, 2014 – To consider a preliminary approval for a project to provide for the reissuance of the Series 2005B Bonds for The United Methodist Retirement Homes. **(Exhibit B/2)**

Commission Action: A motion was made by Dr. Rust seconded by Dr. Schaaf and unanimously approved.

VI. Update on Compliance Examinations on Medical Care Commission Bond Issues for 2013
.....**Crystal Watson-Abbott & Kathy Larrison**
(Exhibit E)

VII. OLD BUSINESS

A. Rules for Final Adoption–.....**(Exhibits C – C/4)**

Health Care Cost Reduction & Transparency Rules.....**Nadine Pfeiffer**

Data Reporting Temporary Rules.....**Azzie Conley**

10A NCAC 13B Licensing of Hospitals

10A NCAC 13C Licensing of Ambulatory Surgical Facilities

Commission Action: Motion was made by Mr. Hauser, seconded by Dr. Schaaf and unanimously approved with Dr. Liz Kanof opposing.

B. Periodic Review of Existing Rules (HB 74) – Review of Public Comments (Exhibits D-D/6)

10A NCAC 13A Executive Committee.....**Nadine Pfeiffer**

10A NCAC 13D Rules for the Licensing of Nursing Homes.....**Becky Wertz**

Commission Action: Motion was made by Mr. Garland, seconded by Dr. Unger and unanimously approved.

VIII. NEW BUSINESS

A. Executive Committee.....**Dr. Fagg**

Dr. Fagg appointed two new members to the Executive Committee. The new Executive Committee Members will be Mr. Charles Frock and Mr. Charles Hauser. Their term on the Executive Committee will begin on January 1, 2015.

B. Resolution of the North Carolina Medical Care Commission Approving and Authorizing Execution and Delivery of a First Supplemental Trust Agreement Relating to the North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Bonds (The United Methodist Retirement Homes Project), Series 2005B (the “Bonds”)

Statements were given by Chris Taylor, Tommy Brewer, Jonathan Erickson, and Allen Robertson.

Commission Action: Motion was made by Mr. Lockamy seconded by Mr. Hauser and unanimously approved with Dr. Fagg, Dr. Rust, and Mr. Cecil abstaining from the vote.

WHEREAS, on February 16, 2005, the North Carolina Medical Care Commission (the “Commission”), a commission of the Department of Health and Human Services of the State of North Carolina, issued \$24,250,000 aggregate principal amount of its Retirement Facilities First Mortgage Revenue Bonds (The United Methodist Retirement Homes Project), Series 2005B, of which \$9,990,000 aggregate principal is outstanding (the “Bonds”), pursuant to the terms of a Trust Agreement dated as of February 1, 2005 (the “Original Trust Agreement”) between the Commission and First-Citizens Bank & Trust Company, succeeded by U.S. Bank National Association, as Bond Trustee (the “Bond Trustee”); and

WHEREAS, on February 19, 2010 (the “Conversion Date”) the Commission and the Bond Trustee entered into an Amended and Restated Trust Agreement dated as of February 1, 2010 (the “Trust Agreement”) for the purpose of amending and restating the Original Trust Agreement to add a “Bank-Bought Rate” mode and convert to that mode; and

WHEREAS, the Commission has loaned the proceeds of the Bonds to the Corporation pursuant to an Amended and Restated Loan Agreement dated as of February 1, 2010 (the “Agreement”) between the Commission and the Corporation; and

WHEREAS, the Bonds were purchased on the Conversion Date and continue to be held by Branch Banking and Trust Company (the “Bank Holder”); and

WHEREAS, since the Conversion Date, the Bonds have been bearing interest at a Bank-Bought Rate (as defined in the Trust Agreement) equal to 68% of One-Month LIBOR plus 1.625% per annum; and

WHEREAS, during the initial Bank-Bought Rate Period (as defined in the Trust Agreement), the Bonds are subject to mandatory tender upon notice by the Majority Bank Holders (as defined in the Trust Agreement) on or after the last day of the Bank-Bought Minimum Holding Period (as defined in the Trust Agreement), which was initially specified to be February 4, 2015; and

WHEREAS, the Bank has proposed to reduce the Bank-Bought Rate to 68% of One-Month LIBOR plus 1.1325% per annum and extend the Bank-Bought Minimum Holding Period to October 1, 2024 (the “Modifications”); and

WHEREAS, the Modifications will be treated as a “reissuance” (i.e., a deemed current refunding) of the Bonds for federal income tax purposes; and

WHEREAS, on July 16, 2014, \$1,285,000 principal amount of the Bonds were redeemed, and the Corporation instructed the Bond Trustee to apply such amount to the original Sinking Fund Requirements due on October 1, 2014, 2015, 2016 and 2017; and

WHEREAS, Section 11.02 and 11.08 of the Trust Agreement permit the Commission and the Bond Trustee, with the consent of the Bank Holder as the Holder (as defined in the Trust Agreement) of 100% of the Bonds, to enter into agreements supplemental to the Trust Agreement to make any change to the Trust Agreement; and

WHEREAS, by a resolution adopted on October 16, 2014, the Commission preliminarily approved the Modifications, subject to compliance by the Corporation with the conditions set forth in such resolution, and the Corporation has complied with such conditions to the satisfaction of the Commission; and

WHEREAS, there has been presented at this meeting a draft copy of a First Supplemental Trust Agreement, to be dated the date of delivery thereof (the “Supplement”) between the Commission and the Bond Trustee, that would amend the Trust Agreement to make the Modifications and reflect the application of the optional redemption to the Sinking Fund Requirements; and

WHEREAS, the Corporation has requested that the Commission approve the Supplement and authorize its execution and delivery;

NOW, THEREFORE, THE NORTH CAROLINA MEDICAL CARE COMMISSION DOES HEREBY RESOLVE, as follows:

Section 1. The form, terms and provisions of the Supplement are hereby approved in all respects, and the Chairman, Vice Chairman, Secretary or Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) is hereby authorized and directed to execute and deliver the Supplement in substantially the form presented at this meeting, together with such changes, modifications and deletions as they, with the advice of bond counsel, may deem necessary and appropriate, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

As set forth in the Trust Agreement and the Supplement, the Bonds will mature on October 1, 2035 and are subject to the Sinking Fund Requirements set forth in Schedule 1 hereto.

Section 2. The Chairman, Vice Chairman, Secretary or Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) are authorized and directed to execute and deliver a replacement Bond reflecting the terms of the Supplement to the Bank Holder and to take such other action and to execute and deliver any such other documents, certificates, undertakings, agreements or other instruments as they, with the advice of bond counsel, may deem necessary or appropriate to effect the changes made in the Supplement and the reissuance of the Bonds.

Section 3. This Resolution shall take effect immediately upon its passage.

Schedule 1

Required Redemption of the Bonds

<u>October 1,</u>	<u>Amount</u>	<u>October 1,</u>	<u>Amount</u>
2017	\$ 35,000	2026	\$610,000
2018	440,000	2027	635,000
2019	455,000	2028	665,000
2020	475,000	2029	690,000
2021	495,000	2030	725,000
2022	520,000	2031	755,000
2023	540,000	2032	780,000
2024	560,000	2033	820,000
2025	585,000	2034	185,000
		2035*	20,000

* Final Maturity

Professional Fees Comparison for
UMRH Series 2005B Bonds (2014 Reissuance)

<u>Professional</u>	<u>Fees Estimated In Preliminary Approval Resolution</u>	<u>Actual Fees</u>
Bank counsel	\$ 3,500	\$3,500
Bond counsel	15,000	10,500
Corporation counsel	7,000	5,000
Structuring agent fee	34,965	34,965

C. PRESENTATION- United Methodist Retirement Homes Tommy Brewer and Jonathan Erickson (Exhibit F)

D. United Methodist Retirement Homes, Durham, NC

Statements were given by Chris Taylor, Tommy Brewer and Allen Robertson

Commission Action: A motion was made Ms. Piepenbring, seconded by Dr. Unger and unanimously approved with Mr. Cecil, Dr. Fagg and Dr. Rust abstaining from the vote.

Resolved: The Commission grants preliminary approval to a project for United Methodist Retirement Homes to provide funds, to be used, together with other available funds, to refund in part the North Carolina Medical Care Commission \$47,835,000 Retirement Facilities First Mortgage Revenue Refunding Bonds (The United Methodist Retirement Homes Project) Series 2005C. The proposed 2014 Bonds will refund the \$6,390,000 5.125% Term Bonds due October 1, 2019 and the \$10,040,000 5.250% Term Bonds due October 1, 2024. The 2014 Bonds will be purchased by BB& T and held as Bank Bought Bonds. The refunding will be expected to generate approximately \$750,000 in savings. The project is in accordance with an application received as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	<u>\$16,625,000</u>
Total Sources	\$16,645,000

ESTIMATED USES OF FUNDS

Refund in part the Series 2005C Bonds	\$16,430,000
Structuring agent fee	83,125
Corporation counsel	20,000
Bond counsel	50,000
Bank counsel	20,000
Bank commitment fee	20,000
Trustee fee	1,000
Local Government Commission fee	8,750
Miscellaneous	<u>12,125</u>
Total Uses	\$16,645,000

Tentative approval is given with the understanding that the governing board of The United Methodist Retirement Homes accepts the following conditions:

1. The project will continue to be developed pursuant to the applicable Medical Care Commission guidelines.
2. Any required certificate of need must be in effect at the time of the issuance of the bonds or notes.
3. Financial feasibility must be determined prior to the issuance of bonds.
4. The project must, in all respects, meet requirements of §G.S. 131A (Health Care Facilities Finance Act).

5. The Executive Committee of the Commission is delegated the authority to approve the issuance of bonds for this project and may approve the issuance of such greater principal amount of the loan as shall be necessary to finance the project; provided, however, that the amount set forth above shall not be increased by more than ten percent (10%).
6. The bonds or notes shall be sold in such a manner and upon such terms and conditions as will, in the sole judgment of the Executive Committee of the Commission, result in the lowest cost to the facility and its patients.
7. If public approval of the bonds is required for the purpose of Section 147(f) of the Internal Revenue Code of 1986, as amended (“Section 147(f)”), this tentative approval shall constitute the recommendation of the Commission that the Governor of the State of North Carolina (the “Governor”) approve the issuance of such bonds, subject to the satisfaction of the requirements of Section 147(f) concerning the holding of a public hearing prior to the submission of such recommendation to the Governor.
8. The borrower will comply with the Commission’s Resolution: Community Benefits/Charity Care Agreement and Program Description for CCRC’s as adopted
9. The borrower will furnish, prior to the sale of or reissuance of the bonds or notes or execution of the leases, evidence that it is in compliance with the covenants of all of its outstanding Medical Care Commission debt.
10. Based on information furnished by applicant, the project is -

- | | | | | | | |
|--|-------------------------------------|-----|--------------------------|----|-------------------------------------|-----|
| 1. Financially feasible | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | N/A |
| 2. Construction and related costs are reasonable | <input type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input checked="" type="checkbox"/> | N/A |

Notes:

1) Information from 2013 Audits for Cypress Glen (CG) and United Methodist Retirement Homes (UMRH) (They merged as of October 1, 2013)

	<u>CG</u>	<u>UMRH</u>
Operating income	\$1,527,624	\$2,984,779
Change in unrestricted net assets	\$1,363,539	\$4,045,270
Change in net assets	\$2,045,074	\$4,235,164
Net cash provided by operating activities	\$3,946,865	\$5,756,582

Net change in cash \$229,762 (\$1,291,195)

2) Ratings: Neither UMRH or CG are rated

3) Long Term Service Coverage Ratios

Actual FYE 2013 1.77
 Projected FYE 2014 2.04
 Projected FYE 2015 2.15
 Projected FYE 2016 2.29

4) Community Benefit Percentage G.S. 105- for FYE 2013

	<u>CG</u>	<u>UMRH</u>
G.S. 105 Percentage	8.72%	10.78%
Property tax exemption	100%	100%

5) Transaction Participants

Structuring agent - Ziegler Securities
 Borrowers counsel - Womble Carlyle Sandridge & Rice, PLLC
 Bond counsel - Robinson Bradshaw & Hinson, PA
 Bank purchaser - BB&T
 Bank counsel - Moore & Van Allen
 Bond trustee - US Bank

IX. REFUNDING OF COMMISSION BOND ISSUES

Recommended:.....**Chris Taylor**

WHEREAS, the bond market is in a period of generally fluctuating interest rates, and

WHEREAS, in the event of decline of rates during the next quarter, refunding of certain projects could result in significant savings in interest expense thereby reducing the cost of health care to patients, and

WHEREAS, the Commission will not meet again until February 12-13, 2015,

THEREFORE, BE IT RESOLVED; that the Commission authorizes its Executive Committee to approve projects involving only the refunding of existing Commission debt between this date and February 12-13, 2015.

X. MEMBER REPORT

The following dates were unanimously approved for the quarterly meetings in 2015:

- February 12th & 13th
- May 14th & 15th
- August 13th & 14
- November 12 & 13th

XI. SPECIAL CALLED MEETING –Dr. Fagg

The Chairman asked the Commission if they would be interested in having a special called meeting dedicated to Medicaid. He would like for the meeting to take place in January. Since the Commission is involved in rule making activities regarding Medicaid, it would be beneficial to hear from both sides of the isle that are for and against. The Commission will address the following three issues that may be helpful and will acknowledge to the public how they feel on the following:

- 1) **Should Medicaid be expanded with or without waivers?**
- 2) **Should Medicaid be siloed into a separate entity?**
- 3) **Should Medicaid be managed?**

XII. QUESTIONS FROM THE PUBLIC – The Chairman will receive questions from the public.

XIII. ADJOURNMENT – There being no further business, a motion to adjourn was made by Dr. Binder, seconded by Dr. Unger and unanimously approved. The meeting adjourned at 11:15 a.m.

Drexdal R. Pratt, Secretary

Date