

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

North Carolina Medical Care Commission
701 Barbour Drive
Raleigh, North Carolina

MINUTES

CALLED MEETING OF THE EXECUTIVE COMMITTEE OF THE COMMISSION
CONFERENCE TELEPHONE MEETING ORIGINATING
FROM THE OFFICES OF THE COMMISSION
FEBRUARY 27, 2015
11:00 A.M.

Members of the Commission Present:

John A. Fagg, MD, Chairman
Joseph D. Crocker, Vice-Chairman
Charles T. Frock
Charles H. Hauser
Albert F. Lockamy, RPh

Members of the Commission Absent:

George H. V. Cecil
Mary L. Piepenbring

Members of Staff Present:

Drexdal R. Pratt, DHSR Director/MCC Secretary
Christopher B. Taylor, CPA, Assistant Secretary
Crystal Watson-Abbott, Auditor
Alice S. Creech, Executive Assistant to the Assistant Secretary

Others Present

Charles Ayscue, Mission Health System
Sue Creekmuir, Duke University Health System, Inc.
Adam Garcia, Ziegler
Robert Hobson, Wells Fargo
Jon Mize, Womble Carlyle Sandridge & Rice, LLP
Paul Billow, Womble Carlyle Sandridge & Rice, LLP
Gary Shull, United Church Homes and Services
Robert Willis, Duke University Health System, Inc.

1. **Purpose of Meeting**

To consider a conversion of the Series 2006 Bonds for Duke Health, (2) a preliminary refunding for United Church Homes and Services and (3) a resolution authorizing the sale and issuance of bonds, the proceeds of which will be loaned to Mission Health System, Inc.

2. **Series Resolution Authorizing the Issuance of \$73,885,000 North Carolina Medical Care Commission Health System Revenue Refunding Bonds (Mission Health Combined Group), Series 2015 (the "Bonds")** – Remarks were made by Charles Ayscue, Paul Billow, Jon Mize and Robert Hobson.

Executive Committee Action: Motion was made by Mr. Lockamy, seconded by Mr. Frock and unanimously approved.

WHEREAS, the North Carolina Medical Care Commission (the "Commission") is a commission of the Department of Health and Human Services of the State of North Carolina and is authorized under Chapter 131A of the General Statutes of North Carolina, as amended (the "Act"), to borrow money and to issue in evidence thereof bonds and notes for the purpose of providing funds to pay all or any part of the cost of financing or refinancing health care facilities; and

WHEREAS, Mission Health System, Inc. (the "Parent Corporation") is a private, nonprofit corporation duly incorporated and validly existing under and by virtue of the laws of the State of North Carolina which owns and operates, by itself and through controlled affiliates, various health care facilities; and

WHEREAS, the Parent Corporation has made application to the Commission for a loan to be made to the Parent Corporation for the purpose of providing funds, together with other available funds, to (a) refund a portion of the Commission's outstanding North Carolina Medical Care Commission Health System Revenue Bonds (Mission Health Combined Group), Series 2007 (the "2007 Bonds") and (b) pay certain fees and expenses incurred in connection with the authorization, sale and issuance of the Bonds; and

WHEREAS, the Executive Committee of the Commission has, by resolution adopted on January 27, 2015, approved the issuance of the Bonds, subject to compliance with the conditions set forth in such resolution, and the Parent Corporation has complied with such conditions to the satisfaction of the Commission; and

WHEREAS, there have been presented at this meeting draft or copies, as applicable, of the following documents relating to the issuance of the Bonds:

(a) Trust Agreement, to be dated as of March 1, 2015 (the "Trust Agreement"), between the Commission and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bond Trustee"), together with the form of the Bonds attached thereto;

(b) Loan Agreement, to be dated as of March 1, 2015 (the "Loan Agreement"), between the Commission and the Parent Corporation;

(c) Contract of Purchase, to be dated the date of delivery thereof (the "Contract of Purchase"), between the North Carolina Local Government Commission (the "LGC") and Wells Fargo Bank, National Association, on behalf of itself and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriters"), and approved by the Commission and the Parent Corporation;

(d) Supplemental Master Indenture for Obligation No. 23, to be dated as of March 1, 2015 (the "Supplemental Indenture"), between the Parent Corporation and The Bank of New York Mellon Trust Company, N.A. (as successor to First Union National Bank) (in such capacity, the "Master Trustee"), supplementing an Amended and Restated Master Trust Indenture, dated as of November 1, 1998 (as supplemented, the "Master Indenture"), by and among the Parent Corporation, Mission Hospital and the Master Trustee;

(e) the Master Indenture;

(f) Obligation No. 23, to be dated the date of delivery thereof ("Obligation No. 23"), to be issued by the Parent Corporation to the Commission;

(g) Preliminary Official Statement, dated the date of delivery thereof (the "Preliminary Official Statement"), relating to the offering and sale of the Bonds; and

(h) Escrow Deposit Agreement, to be dated as of March 1, 2015 (the "Escrow Deposit Agreement"), among the Commission, the Parent Corporation and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"), relating to the refunding of a portion of the 2007 Bonds with the proceeds of the Bonds, the proceeds of certain taxable bonds to be issued directly by the Parent Corporation and certain other available funds of the Parent Corporation; and

WHEREAS, the Commission has determined that the Parent Corporation and the other members of the Combined Group are financially responsible and capable of fulfilling their respective obligations, as applicable, under each of the documents described above to which the Parent Corporation is a party; and

WHEREAS, the Commission has determined that the public interest will be served by the proposed refinancing and that adequate provision has been made for the payment of the principal of, redemption premium, if any, and interest on the Bonds;

NOW THEREFORE, BE IT RESOLVED by the Executive Committee of the North Carolina Medical Care Commission as follows:

Section 1. Capitalized terms used in this Series Resolution and not defined herein shall have the meanings given such terms in the Trust Agreement, the Loan Agreement and the Master Indenture.

Section 2. Pursuant to the authority granted to it by the Act, the Commission hereby authorizes the issuance of the Bonds in the aggregate principal amount of \$73,885,000. The Bonds shall be dated as of the date of delivery thereof and shall mature in such amounts and at such times and shall bear interest at such rates as are set forth in Exhibit A attached hereto and made a part hereof.

The Bonds shall be issued as fully registered bonds in denominations of \$5,000 or any whole multiple thereof. The Bonds shall be initially issued in book-entry only form as described in the Trust Agreement. Interest on the Bonds shall be payable semiannually on each April 1 and October 1, beginning October 1, 2015, until the Bonds are fully paid. Payments of principal of and interest on the Bonds shall be forwarded by the Bond Trustee to the registered owners of the Bonds in such manner as is set forth in the Trust Agreement.

Section 3. The Bonds shall be subject to optional, extraordinary and mandatory sinking fund redemption at the times, upon the terms and conditions and at the prices set forth in the Trust Agreement.

Section 4. The proceeds of the Bonds shall be applied as provided in Section 208 of the Trust Agreement.

Section 5. The forms, terms and provisions of the Loan Agreement, the Trust Agreement and the Escrow Deposit Agreement are hereby approved in all respects, and the Chairman, the Vice Chairman or any member of the Commission designated in writing by the Chairman for such purpose and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute and deliver the Loan Agreement, the Trust Agreement and the Escrow Deposit Agreement in substantially the forms presented at this meeting, together with such changes, modifications and deletions as they, with the advice of counsel, may deem necessary or appropriate, including but not limited to changes, modifications and deletions necessary to incorporate the final terms of the Bonds as shall be set forth in the Contract of Purchase; and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 6. The forms, terms and provisions of the Contract of Purchase are hereby approved in all respects and the Chairman, the Vice Chairman or any member of the Commission designated in writing by the Chairman for such purpose is hereby authorized and directed to execute and deliver the Contract of Purchase in substantially the form presented at this meeting, together with such changes, modifications, insertions and deletions as such Chairman, the Vice Chairman or such member of the Commission, with the advice of counsel, may deem necessary or appropriate, including but not limited to changes, modifications and deletions necessary to incorporate the final terms of the Bonds; and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 7. The forms of the Bonds set forth in the Trust Agreement are hereby approved in all respects and the Chairman, the Vice Chairman or any member of the Commission designated in writing by the Chairman for such purpose and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute, by manual or facsimile signature as provided in such form of the Bonds, and to deliver to the Bond Trustee for

authentication on behalf of the Commission, the Bonds in definitive form, which shall be in substantially the form presented at this meeting, together with such changes, modifications and deletions as they, with the advice of counsel, may deem necessary or appropriate and consistent with the Trust Agreement; and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 8. The forms, terms and provisions of the Supplemental Indenture and Obligation No. 23 are hereby approved in substantially the forms presented at this meeting, together with such changes, modifications and deletions as the Chairman or Vice Chairman, with the advice of counsel, may deem necessary and appropriate; and the execution and delivery of the Trust Agreement by the Commission shall be conclusive evidence of the approval of the Supplemental Indenture and Obligation No. 23 by the Commission.

Section 9. The Commission hereby approves the action of the LGC in awarding the Bonds to the Underwriters at the price of \$82,096,320.75 (which price represents the aggregate principal amount of the Bonds, plus a net original issue premium of \$8,580,745.75 and less an underwriters' discount of \$369,425.00).

Section 10. Upon execution of the Bonds in the form and manner set forth in the Trust Agreement, the Bonds shall be deposited with the Bond Trustee for authentication, and the Bond Trustee is hereby authorized and directed to authenticate the Bonds and, upon compliance with the provisions of Section 208 of the Trust Agreement, the Bond Trustee shall deliver the Bonds to the Underwriters against payment therefor.

Section 11. The Commission hereby ratifies the use and distribution of the Preliminary Official Statement in connection with the offering and sale of the Bonds. The preparation and distribution of a final Official Statement (the "Official Statement"), in substantially the form of the Preliminary Official Statement, with such changes as are necessary to reflect the final terms of the Bonds, is hereby approved, and the Chairman, the Vice Chairman or any member of the Commission designated in writing by the Chairman for such purpose is hereby authorized to execute and deliver, on behalf of the Commission, the Official Statement in substantially such form, together with such changes, modifications and deletions as the Chairman, the Vice Chairman or such member of the Commission, with the advice of counsel, may deem necessary or appropriate; and such execution and delivery shall be conclusive evidence of the approval thereof by the Commission. The Commission hereby approves and authorizes the distribution and use of copies of the Loan Agreement, the Trust Agreement, the Supplemental Indenture, Obligation No. 23 and the Master Indenture by the Underwriters in connection with the offering and sale of the Bonds.

Section 12. The Bank of New York Mellon Trust Company, N.A. is hereby appointed as the Bond Trustee for the Bonds and the Escrow Agent.

Section 13. The Depository Trust Company ("DTC"), New York, New York, is hereby appointed as the initial Securities Depository for the Bonds, with Cede & Co., as nominee of DTC, being the initial Securities Depository Nominee and initial registered owner of the Bonds. The Commission has heretofore executed and delivered to DTC a Blanket Letter of Representations.

Section 14. Drexdal R. Pratt, Secretary of the Commission, Christopher B. Taylor, C.P.A., Assistant Secretary, Kathy C. Larrison, Auditor, and Crystal Watson-Abbott, Auditor, for the Commission, are each hereby appointed a Commission Representative (as that term is defined in the Loan Agreement) of the Commission with full power to carry out the duties set forth therein.

Section 15. The Chairman, the Vice Chairman, any member of the Commission designated in writing by the Chairman, the Secretary and any Assistant Secretary of the Commission are authorized and directed (without limitation except as may be expressly set forth herein) to take such action and to execute and deliver any such documents, certificates, undertakings, agreements or other instruments as they, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by the Loan Agreement, the Trust Agreement, the Contract of Purchase, the Escrow Deposit Agreement and the Official Statement.

Section 16. The Commission hereby recommends that the Governor of the State of North Carolina approve the issuance of the Bonds pursuant to Section 147(f) of the Internal Revenue Code of 1986, as amended, and hereby requests such approval.

Section 17. A comparison of the professional fees as set forth in the resolution of the Executive Committee of the Commission granting preliminary approval of this financing with the actual professional fees incurred in connection with the financing is set forth as Exhibit B hereto.

Section 18. This Series Resolution shall take effect immediately upon its passage.

EXHIBIT A

MATURITY SCHEDULE

<u>Due October 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2015	\$ 150,000	2.00%
2016	295,000	3.00
2017	305,000	3.00
2018	2,235,000	4.00
2019	2,710,000	5.00
2020	2,835,000	5.00
2021	2,960,000	5.00
2022	3,100,000	5.00
2023	3,240,000	5.00
2024	3,390,000	5.00
2025	3,660,000	5.00
2026	4,190,000	5.00
2027	470,000	3.00
2028	2,685,000	3.00
2029	1,920,000	3.00
2030	5,040,000	3.125
2031	5,200,000	3.25
2032	4,485,000	3.375
2036	25,015,000	5.00

\$25,015,000 5.00% Term Bond due October 1, 2036

<u>Due October 1</u>	<u>Sinking Fund Requirement</u>
2033	\$5,560,000
2034	5,840,000
2035	6,130,000
2036	7,485,000

PROFESSIONAL FEES

<u>Professional</u>	<u>Preliminary Approval</u>	<u>Actual</u>
Underwriters	\$392,400	\$369,425
Accountant/Auditor	54,800	53,600
Bond Counsel	60,000	60,000
Underwriters' Counsel	37,500	35,733
Combined Group Counsel	8,500	11,500
Trustee (including counsel)	2,250	8,500

3. Duke University Health System, Inc., Durham Christopher B. Taylor
 Remarks were made by Robert Willis

Executive Committee Action: Motion was made by Mr. Hauser, seconded by Mr. Frock and unanimously approved.

Resolution: The Commission grants preliminary approval to a project for Duke University Health System, Inc. (DUHS) to provide funds, to be used together with other available funds, to extend the bank holding period for which will be treated as a reissuance for federal income tax purposes of the North Carolina Medical Care Commission \$150,715,000 Health Care Facilities Revenue Bonds (Duke University Health System) Series 2006 consisting of Series 2006A, 2006B and 2006C, currently outstanding in the amount of \$128,325,000. The extension/reissuance is being accomplished through amending the 2006A, 2006B and 2006C Bonds pursuant to Supplemental Trust Agreements to provide for an extension of the holding period under an agreement with Specialized Lending, LLC (a Bank of America Affiliate). The amendment extends the holding period from October 4, 2018 to October 6, 2025 and changes the interest rate formula from .67% of one month LIBOR plus 48 Basis Points to .67% of one Month LIBOR plus 72 Basis Points. The project is in accordance with an application received as follows.

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be reissued	\$128,325,000
Corporation equity	<u>81,250</u>
Total Sources	\$128,406,250

ESTIMATED USES OF FUNDS

Refund for federal tax purposes the 2006 bonds	\$128,325,000
Corporation counsel	30,000
Bond counsel	30,000
Trustee fee	2,500
Bank fee	2,500
Bank counsel	7,500
Miscellaneous	<u>8,750</u>
Total Uses	\$128,406,250

Tentative approval is given with the understanding that the governing board of Duke University Health System, Inc. 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/conversion of the bonds or notes.
3. Financial feasibility must be determined prior to the issuance/conversion 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/conversion of bonds of 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/converted 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. The borrower will provide the Commission annually a copy of the Advocacy Needs Data Initiative (ANDI) form it files with the North Carolina Hospital Association (NCHA) in accordance with a resolution passed by the Commission on February 9, 2007 adopting the NCHA Community Benefits reporting format and methodology for hospitals reporting to the Commission.
8. All health care facilities and services directly or indirectly owned or controlled by the health care organization, including physician practices, shall be available to Medicare and Medicaid patients with no limitations imposed as a result of the source of reimbursement.
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. 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.

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 Duke University Health System, Inc. and Affiliates 2014 Audit.

Operating Income	\$96,408,000
Increase in unrestricted net assets	\$414,450,000
Increase in net assets	\$426,586,000
Net cash provided by operating activities	\$226,190,000
Net decrease in cash and cash equivalents (A)	(\$10,005,000)

(A) Primarily due to capital expenditures.

- 2) Ratings**
- | | |
|-------------------|-----|
| Moody's | Aa2 |
| Standard & Poor's | AA |
| Fitch | AA |

3) Community Benefits per ANDI Report for Duke University Health System for FYE 6/30/2014

Total Community Benefits	\$426,190,833
Estimated Costs of Treating Bad Debt Patients	\$ 21,652,702

4) Long Term Debt Service Coverage Ratio

Actual	FYE	2014	6.14%
Forecasted	FYE	2015	6.03%
Forecasted	FYE	2016	5.62%
Forecasted	FYE	2017	5.66%

5) Transaction Participants

Bank Purchaser America Affiliate)	Specialized Lending, LLC (Bank of
Bond counsel	Robinson Bradshaw & Hinson, PA
Corporation counsel	Sutherland Asbill & Brennan, LLP
Bank counsel	McGuire Woods, LLP

4. United Church Homes and Services, Newton, NC Christopher B. Taylor,
Remarks were made by Tommy Brewer and Gary Shull

Executive Committee Action: Motion was made by Mr. Frock, seconded by Mr. Hauser and unanimously approved.

Resolution: The Commission grants preliminary approval to a project for United Church Homes and Services, to provide funds, to be used together with other available funds, to refund the \$23,225,000 North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Bonds (United Church Homes and Services) Series 2010, of which \$21,565,116 will be outstanding as of the date of the refunding (April 1, 2015). The proposed refunding will reduce variable rate exposure and free up bank capacity for future capital needs. The 2010 Bonds are held by SunTrust Bank as Bank Qualified Bonds. The proposed 2015 Bonds will be sold as fixed rate non-rated bonds. The project is in accordance with an application, plans and received as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$23,360,000
Corporation equity contribution	<u>322,810</u>
Total Sources	\$23,682,810

ESTIMATED USES OF FUNDS

Amount to refund Series 2010 bonds	21,565,116
Debt Service Reserve Fund	1,326,296

Underwriters discount	369,680
Bond Counsel	73,500
Corporation counsel	25,000
Underwriters counsel	50,000
Accountants' fee	15,000
Trustee fee & counsel	10,500
Printing	8,500
Feasibility study	145,000
Local Government Commission fee	8,750
Title, survey & environmental	70,000
Miscellaneous	<u>11,388</u>
Total Uses	\$23,682,810

Tentative approval is given with the understanding that the governing board of United Church Homes and Services 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 on November 9, 2007.
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	<u>√</u>	Yes	_____	No	_____	N/A
2. Construction and related costs are reasonable	_____	Yes	_____	No	<u>√</u>	N/A

Notes:

1) Information from 2014 Audit for United Church Homes and Services and Affiliates:

Operating Loss	(\$4,630,972)
Change in unrestricted net assets	\$769,002
Change in net assets	(\$210,399)
Net cash provided by operating activities	\$5,724,305
Net decrease in cash and cash equivalents	(\$673,980)

2) Community Benefits Percentage per GS 105 for FYE 2014 17.46%

3) Neither the entity or the bonds are/or will be rated

4) Long Term Debt Source Coverage Ratios:

Actual	FYE 9/30/2014	1.93
Forecasted	FYE 9/30/2015	1.55
Forecasted	FYE 9/30/2016	1.72
Forecasted	FYE 9/30/2017	1.88

5) Transaction Participants:

Underwriter	Ziegler
Bond counsel	McGuire Woods, LLP
Corporation counsel	Ellinger & Carr

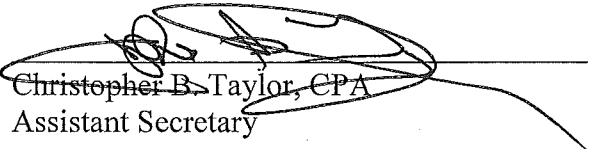
Underwriters counsel
Trustee

Robinson Bradshaw & Hinson, PA
Bank of New York Mellon Trust Company

5. **Adjournment**

There being no further business, the meeting was adjourned at 11:35 a.m.

Respectfully submitted,


Christopher B. Taylor, CPA
Assistant Secretary