

**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**

May 11, 2012

9:00 A.M.

AGENDA

I. MEETING OPENS

II. CHAIRPERSON'S COMMENTS - Mrs. Bode will comment on matters of importance to the Commission. *Question: Does anyone have any conflict of interest with any agenda item before the Commission today?*

III. APPROVAL OF MINUTES from the November 18, 2011 meeting. **(Exhibit A)**

IV. DIVISION DIRECTOR'S REPORT - Mr. Pratt will report matters of interest to the Commission.

Other items to report on are listed below (see **Exhibits B – B/7**):

1. Quarterly Report on Bond Program **(attached as Exhibit B)**
2. Underwriter Fees **(attached as Exhibit B/1)**
3. Bond Counsel Fees **(attached as Exhibit B/2)**

The Executive Committee held telephone conference meetings on the following dates:

January 26, 2012 - To authorize the execution and delivery of First Supplemental Trust Agreements for the 2009D Bonds and 2010 Bonds issued for the benefit of FirstHealth of the Carolinas, Inc. **(Exhibit B/3)**

February 28, 2012 – To authorize approval to a project for Duke University Health System, Inc. to provide funds, to be used together with other available funds, to effect a conversion of the North Carolina Medical Care Commission Health Care Facilities Revenue Refunding Bonds Series 2005A Bonds to a Bank-Bought mode, (2) To authorize the financing of certain health care equipment for the benefit of Duke University Health System, Inc. pursuant to a master lease and sublease agreement, (3) To authorize amendments to the Duke University Health System Series 2005B and 2005C Bonds to add Index Floating Rate and Bank-Bought Index Floating Rate modes. **(Exhibit B/4)**

March 13, 2012 - To consider a refunding of the Series 2002 Bonds for FirstHealth of the Carolinas, (2) to consider a refunding for the Series 2009A Bonds for FirstHealth of the Carolinas, (3) to refund the Series 1998A and the Series 2008C and the 2008E Bonds for Vidant Health, (4) a resolution in connection with the defeasance of the North Carolina Medical Care Commission Health Care Facility Revenue Bonds (Providence Place Retirement Community Nursing Home Project), Series 2001A, (5) to approve the conversion of the Commission's Health Care Facilities Revenue Refunding Bonds (Duke University Health System) Series 2005A to a "Bank-Bought Index Floating Rate", and (6) to authorize the sale of bonds, the proceeds of which are to be loaned to Carolina Adventist Retirement Systems, Inc. **(Exhibit B/5)**

April 17, 2012 - To authorize the sale of bonds, the proceeds of which are to be loaned to FirstHealth of the Carolinas, Inc. and to discuss a request from Edward Jones to be on the May Medical Care Commission Agenda for a presentation on its underwriting / financing model. **(Exhibit B/6)**

April 24, 2012 - To consider a resolution authorizing the issuance and sale of bonds, the proceeds of which will be loaned to University Health Systems of Eastern Carolina, Inc. d/b/a Vidant Health and Pitt County Memorial Hospital, Incorporated d/b/a Vidant Medical Center and to consider granting preliminary approval to refunding bond issues for Southeastern Regional Medical Center, WakeMed and Wayne Memorial Hospital. **(Exhibit B/7)**

Presentation

**Social Accountability.....Patricia Sprigg, President & CEO
Carol Woods Retirement Community**

V. Old Business

**EMS Rules.....Exhibit C & C/1
Megan Lamphere**

**Nursing Home Rules.....Exhibit D
Megan Lamphere**

VI. New Business

**Approval of Sale of Bonds for Wayne Memorial HospitalChris Taylor
(Series Resolution to be furnished on or before May 11th)**

Executive Order 70 – Rules Improvement Modification Program Update..... Megan Lamphere

**EMS Rules.....Exhibit E
Megan Lamphere**

**Nursing Home Rules.....Exhibit F
Megan Lamphere**

**Division Director Rules.....Exhibit G
Megan Lamphere**

Wake EMS Reimbursement Update.....Mary Piepenbring

VII. Bond Projects

1. Duke University Health system, Durham - Christopher B. Taylor and Steven C. Lewis

Resolution: The Commission grants preliminary approval to a project for Duke University Health System for the construction of a \$534,400,000 DUH Major Hospital addition/Duke Medicine Pavilion (DMP) at Duke University Hospital for which application was previously made and debt totaling \$120,000,000 issued in April 2010. The construction consists of a 627,000 sq ft tertiary care addition including 24 intensive care beds, two 32 intermediate /step-down beds, 16 operating rooms, expanding imaging facilities, the relocation /modernization of the Gastroenterology and Bronchoscope Suites and patient/family oriented amenities and 29,000 sq ft renovation to DUH, road improvements and parking projects. All in accordance with a preliminary application, plans and specifications and participation as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$300,000,000
Interest earned during construction	623,055
2010A Bonds and Interest on Construction Fund	119,691,021
Equity Contribution	125,016,537
Bond Premium	<u>24,286,593</u>
Total	\$569,617,206

ESTIMATED USES OF FUNDS

Site costs	
Site utility development and accessibility costs	\$7,436,000
Construction contracts	329,964,000
Construction contingency (5% of construction contract)	17,000,000
Architect/engineer fees and reimbursables	29,000,000
Moveable equipment	144,000,000
Surveys, tests, insurance	6,000,000
Consultants' fees related to construction	1,000,000
Bond interest during construction	32,413,190
Underwriters' discount (\$6.67 per \$1,000 bonds)	2,000,766
Accountants fees	66,000
Legal fees for Hospital counsel	60,000
Bond counsel	125,000
Rating agencies	343,500
Trustee fees	7,000
Printing costs	3,000
Local Government Commission reimbursables	8,750
Underwriter's Counsel	85,000
Financial Advisor Fee and Expenses	<u>105,000</u>
Total	\$569,617,206

Tentative approval is given with the understanding that the governing board of Duke University Health System 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 or conversion of the bonds or notes.
3. Financial feasibility must be determined prior to the issuance or 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 or conversion of bonds for this project and may approve the issuance or conversion 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 or 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. 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 checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | N/A |

Notes:

1) Information from Audited Financials FYE 6/30/2011

Operating Income	\$189,467,000
Increase in unrestricted Net Assets	\$584,932,000
Increase in Net Assets	\$583,000,000
Net Cash provided by Operating Activities	\$292,998,000
Net increase (decrease) in Cash and Cash Equivalents	\$139,108,000

2) Long Term Debt Service Coverage Ratios

Actual FYE 6/30/2011	7.8
Forecasted 9/30/2012	6.51
9/30/2013	6.23
9/30/2014	6.09

3) Community Benefits per ANDI Report FYE 2011	\$300,524,901
Bad Debts	<u>23,010,938</u>
Total	\$323,535,839

4) Bond Ratings

Moody's - Aa2
Standard & Poor's - AA
Fitch - AA

5) Financing Participants

Underwriter- Senior Manager/JP Morgan Chase
Bond Counsel – Robinson Bradshaw & Hinson, PA

2. Carol Woods Retirement Community, Chapel Hill - Kathy Larrison & Steven Lewis

Resolution: The Commission grants preliminary approval for the issuance of variable rate Non-Bank Qualified bonds for the following Carol Woods projects: (1) constructing a 4-story wing to an existing apartment building adding 18 additional independent living apartments, a class room for resident and staff learning, and an expanded art studio for residents, (2) expanding an existing nursing facility to include more space for rehabilitation services, an all-season enclosure to a 2nd floor patio for nursing residents and an expanded employee café, while upgrading old chillers, HVAC, automated building system controls, the nurse call system and acoustical tiles throughout, (3) expanding an existing licensed adult care home on campus to add 6 additional private rooms, expand the residents dining, beauty salon and other spaces, and upgrade to the old chillers, boilers and building automation system, (4) constructing a new fitness center connected to an existing indoor aquatic center to include room for fitness equipment and aerobic rooms suitable to seniors, (5) expanding an existing resident library and resident craft building, (6) upgrading the serving lines and seating areas in the main residential dining room to provide more efficient traffic flow and more resident seating, (7) upgrading the front entrance of the main building for more protection from the elements, (8) renovating and furnishing independent living units in the existing facilities on the campus upon turnover to new residents, (9) acquiring and installing movable equipment, fixtures, elevators and furnishings for use in the existing facilities on the campus, and (10) performing routine capital improvements to and renovating the existing facilities on the campus. The cost of the projects, capitalized interest during the construction period, and certain expenses incurred in connection with the authorization and issuance of the bonds will be paid in accordance with a preliminary application, plans and specifications, and participation as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$22,000,000
Equity from Carol Woods	<u>450,000</u>
Total	\$22,450,000

ESTIMATED USES OF FUNDS

Site utility development and accessibility costs	\$2,107,000
Construction contracts	15,443,073
(1) Expand Rehab & Café Space in Nursing Facility (\$1,028,000)	
(2) Expand Adult Care Home Facility (\$1,296,900)	
(3) 18-Apartment Wing Addition (\$5,629,700)	
(4) Fitness Center Expansion (\$2,063,700)	
(5) Library & Craft Shop Expansions (\$517,300)	
(6) Front Entrance & Bio-Retention Pond Upgrades (\$173,800)	
(7) Refurbish Main Dining Room (\$283,600)	
(8) Upgrades to Chillers, Boilers, Controls in Nursing Facility (\$397,870)	
(9) Upgrade Nurse Call System in Nursing Facility (\$53,000)	
(10) Power Ventilate Attic Space in Adult Care Homes (\$40,000)	
(11) Exhaust Fan Upgrades in Main & Nursing Kitchens (\$11,900)	
(12) Capital Maintenance Projects (\$3,947,303)	
Construction contingency (~1% of construction contract)	154,431
Architect/Engineer fees & reimbursables	1,196,678
Moveable equipment	1,467,179
Surveys, tests & insurance	205,100
Consultant fees related to construction:	
(1) Utility Mapping & Pool Structural Analysis	29,625
(2) Campus Master Planning	82,681
Internal cost of Master Planning	137,694
Bond interest during construction	1,075,458

Placement fee	90,000
Feasibility fees	50,000
Accountants fees	10,000
Trustee fees	10,000
Bank Commitment fee	56,081
Corporation Counsel	25,000
Bond Counsel	45,000
Bank Counsel	30,000
DHSR reimbursables (G.S 131E-267)	200,000
Local Government Commission fee	8,750
Title/Real Estate	20,000
Miscellaneous	6,250
Total	\$22,450,000

Tentative approval is given with the understanding that the governing board of Carol Woods Retirement Community 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.

Based on information furnished by applicant, the project is -

- | | | | |
|--|------------------|------------------|-------------------|
| 1. Financially feasible | <u> ✓ </u> Yes | <u> </u> No | <u> </u> N/A |
| 2. Construction and related costs are reasonable | <u> ✓ </u> Yes | <u> </u> No | <u> </u> N/A |

Notes:

(A) Selected audited information from Fiscal Year ending 12/31/2011:

1. Operating Income (Loss)	\$(132,358)
2. Increase (Decrease) in Unrestricted Net Assets	\$(7,274,108)
3. Increase (Decrease) in Net Assets	\$(7,257,980)
4. Net Cash Provided by Operating Activities	\$2,092,165
5. Increase (Decrease) in Cash and Cash Equivalents	\$47,169

(B) Long Term Debt Service Coverage Ratio

1. Audited 12/31/2011	1.63
2. Forecasted 12/31/2012	2.11
3. Forecasted 12/31/2013	2.74
4. Forecasted 12/31/2014	1.92
5. Forecasted 12/31/2015	1.97
6. Forecasted 12/31/2016	2.00

(C) Current Rating- S&P

A

(D) Community Benefits Percentage under GS-105

1. Actual 12/31/2010	5.6%
2. Actual 12/31/2011	(not yet available but expected to exceed 5%)

(E) Financing Participants

1. Bond Counsel	McGuire Woods
2. Placement Agent	BB&T Capital Markets
3. Bond Purchaser	First Tennessee

**3. RESOLUTION OF THE NORTH CAROLINA MEDICAL CARE COMMISSION
APPROVING THE DEFEASANCE OF THE NORTH CAROLINA MEDICAL CARE
COMMISSION FHA INSURED MORTGAGE REVENUE BONDS (ROWAN REGIONAL
MEDICAL CENTER PROJECT), SERIES 2004 AND CERTAIN MATTERS RELATED
THERE TO**

WHEREAS, the North Carolina Medical Care Commission (the "Commission") has heretofore issued, pursuant to a Trust Indenture, dated as of August 1, 2004 (the "Trust Indenture"), between the Commission and The Bank of New York, as trustee (the "Bond Trustee"), its \$87,125,000 FHA Insured Mortgage Revenue Bonds (Rowan Regional Medical Center Project), Series 2004 (the "2004 Bonds"), for the purpose of (a) repaying a loan from the North Carolina Medical Care Commission Hospital Revenue Bonds (Pooled Equipment Financing Project), Series 1985 and repaying a loan from the North Carolina Medical Care Commission Variable Rate Hospital Revenue Bonds (Pooled Financing Project), Series 1996A, (b) paying the costs of certain improvements to the health care facilities of Rowan Regional Medical Center, Inc. (the "Corporation"), (c) paying a portion of the interest accruing on the Bonds during construction thereof, (d) funding the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Requirement (as such terms are defined in the Trust Indenture) and (e) paying certain expenses incurred in connection with the authorization, sale and issuance of the 2004 Bonds; and

WHEREAS, the Commission has heretofore loaned the proceeds of the 2004 Bonds to the Corporation pursuant to a Loan Agreement, dated as of August 1, 2004 (the "Loan Agreement"), between the Corporation and the Commission, and the Corporation's obligations thereunder are evidenced by a Deed of Trust Note, dated as of August 18, 2004 (the "2004 Note"), from the Corporation to the Bond Trustee; and

WHEREAS, the Corporation's obligations under the Series 2004 Note are secured by a Deed of Trust and Assignment of Rents, Profits and Income, dated August 17, 2004 (the "Mortgage"), executed by the Corporation and granting to a deed of trust trustee named therein, for the benefit of the Bond Trustee, a first lien on certain real property of the Corporation; and

WHEREAS, the United States Secretary of Housing and Urban Development, acting through the Federal Housing Commissioner or his authorized agents (“FHA”), has insured the 2004 Note and the Mortgage pursuant to Section 242 of the National Housing Act, as amended; and

WHEREAS, the Corporation desires to defease and cause to be prepaid the 2004 Note by causing all of the outstanding 2004 Bonds to be defeased in accordance with Section 1101 of the Trust Indenture; and

WHEREAS, the Corporation also desires to cause the outstanding 2004 Bonds maturing on or after March 1, 2015 to be called for optional redemption by the Commission on September 1, 2014 at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus accrued interest to the redemption date pursuant to Section 501(a) the Trust Indenture; and

WHEREAS, the amounts to be used to defease the outstanding 2004 Bonds as described above shall be derived from certain proceeds of the 2004 Bonds and other amounts held in various funds and accounts established under the Trust Indenture, together with other available funds of the Corporation (including funds received from Novant Health, Inc.); and

WHEREAS, in connection with such defeasance transaction, it will be necessary for the Commission to enter into an Escrow Deposit Agreement, to be dated as of July 1, 2012 or some other mutually agreeable date (the “Escrow Agreement”), among the Commission, the Corporation and The Bank of New York, as escrow agent (the “Escrow Agent”), pursuant to which an escrow fund composed of non-callable federal securities and/or cash shall be held in trust for the timely payment of principal or redemption price of and interest on all of the outstanding when the same becomes due and payable; and

WHEREAS, there has been presented at this meeting a draft of the Escrow Agreement; and

WHEREAS, the Commission has determined that the Corporation and Novant Health, Inc. are financially responsible and capable of fulfilling their obligations under the proposed transaction; and

WHEREAS, the Commission has determined that the public interest will be served by the defeasance and prepayment of the 2004 Note by causing all of the 2004 Bonds to be defeased and to take such other actions as may be necessary or appropriate in connection therewith;

NOW, THEREFORE, BE IT RESOLVED by the Commission as follows:

Section 1. The form, terms and provisions of the Escrow Agreement are hereby authorized and approved in all respects, and each of 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 (the “Authorized Officers”) are each hereby authorized to execute and deliver on behalf of the Commission the Escrow Agreement in substantially the form presented at this meeting, together with such additions, deletions or other modifications not inconsistent with the general tenor of said document as the Authorized Officer executing such document, with the advice of counsel, may deem necessary or appropriate, such execution and delivery to be conclusive evidence of the authorization and approval thereof by the Commission.

Section 2. The Authorized Officers are hereby authorized and directed to take such action and to execute and deliver any certificates, undertakings, agreements or other instruments as they, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by this resolution and the documents described in this resolution, including, without limitation, such actions as may be necessary to defease and redeem the 2004 Bonds, provided such actions are not inconsistent with the provisions of this resolution.

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

ADOPTED the ____ day of May, 2012

Respectfully submitted,

Christopher B. Taylor, CPA
Assistant Secretary

Date: May __, 2012

VIII. 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 August 10, 2012

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 August 10, 2012.

IX. MEMBER REPORT

X. ADJOURNMENT - A motion to adjourn is requested.