

STATE OF NORTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

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

September 12, 2014

9:00 A.M.

AGENDA

- I. MEETING OPENS – ROLL CALL
- II. CHAIRPERSON’S COMMENTS – Dr. Fagg 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 May 16, 2014 meetings..... **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:..... **Exhibits B – B/6**

- 1. Quarterly Report on Bond Program ..... **Exhibit B**

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

**May 22, 2014** - To authorize the execution and delivery of a First Supplemental Trust Agreement for the 2001 Bonds issued for the benefit of The Presbyterian Home at Charlotte, Inc. To consider a resolution of an Escrow and Defeasance Agreement for Rutherford Hospital, and (3) to consider for approval a preliminary refunding for FirstHealth of the Carolinas. .... **Exhibit B/1**

**June 18, 2014** - To consider preliminary approval to refinancing projects for (1) United Methodist Retirement Homes and (2) Deerfield Episcopal Retirement Community..... **Exhibit B/2**

**June 25, 2014** - To grant preliminary approval to a project for Iredell Memorial Hospital and to authorize the execution and delivery of a Second Supplemental Trust Agreement for the 2007 Bonds issued for the benefit of Iredell Memorial Hospital, Incorporated..... **Exhibit B/3**

**July 10, 2014** - To consider resolutions authorizing the sale of bonds for Deerfield Episcopal Retirement Community, Inc., FirstHealth of the Carolinas, Inc., United Methodist Retirement Homes, and a preliminary approval for Galloway Ridge..... **Exhibit B/4**

**August 14, 2014** - To consider preliminary approval to refinancing project for United Methodist Retirement Homes (Cypress Glen Retirement Community) Series 2009A Bonds..... **Exhibit B/5**

**August 22, 2014** - To authorize the sale of bonds, the proceeds of which are to be loaned to Galloway Ridge, Inc., (2) To authorize the execution and delivery of a First Supplemental Trust Agreement for the 2009A Bonds issued for the benefit of The United Methodist Retirement Homes, Incorporated, the successor by merger to Cypress Glen Retirement Community, (3) A final resolution to approve the change from Bank of New York Mellon to Regions Bank as Master Trustee and Bond Trustee for all of Novant Health NCMCC Bond Issues and (4) A memorandum requesting that the NCMCC Executive Committee grant approval for Division of Health Service Regulation to move forward with the repeal of Subchapter 10A NCAC 13H, Licensing of Homes for Developmentally Disabled Adults

**Exhibit B/6**

V. **Presentation**

Primer on Bond Financing Legal Structure..... **Allen Robertson  
Robinson, Bradshaw, & Hinson P.A**

Results of Compliance Examination on Medical Care Commission Bond Issues for 2012  
**Crystal Watson-Abbott & Kathy Larrison, MCC Auditors**

VI. **Bonds**

1. **Duke University Health System, Inc., Durham - Christopher B. Taylor**

**Resolution:** The Commission grants preliminary approval to a project for Duke University Health System, Inc. for the establishment of a tax-exempt operating/capital master lease program (the “lease program”), to be capped at \$40 million. The lease program will cover the period July 1, 2014 through June 30, 2017. The new lease program will replace the lease program which expired on June 30, 2014. The \$40 million in leases for equipment will be utilized at Duke University Hospital, Duke Regional Hospital, Duke Raleigh Hospital, and/or other health care facilities operated by Duke University Health System, Inc. The lessor for this lease program will be selected prior to the final approval by the Commission and the closing of this transaction. The project is in accordance with an application, received as follows.

**ESTIMATED SOURCES OF FUNDS**

|                      |                     |
|----------------------|---------------------|
| Tax exempt lease     | \$40,000,000        |
| Equity contribution  | <u>60,000</u>       |
| <b>Total Sources</b> | <b>\$40,060,000</b> |

**ESTIMATED USES OF FUNDS**

|                           |                     |
|---------------------------|---------------------|
| Moveable equipment leases | \$40,000,000        |
| Bond counsel fee          | 30,000              |
| Corporation counsel fee   | <u>30,000</u>       |
| <b>Total uses</b>         | <b>\$40,060,000</b> |

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 draw on the leases.
3. Financial feasibility must be determined prior to the execution of the leases.
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 leases for this project and may approve the issuance of such greater amount of leases 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 leases shall be put in place 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 leases 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 leases, 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                          | <u>√</u> | Yes | _____ | No | _____    | N/A |
| 2. Construction and related costs are reasonable | _____    | Yes | _____ | No | <u>√</u> | N/A |

**Notes:**

- 1) Information from 2013 Audit for Duke University Health System, Inc. and Affiliates.

|  |                    |
|--|--------------------|
| Operating Income                                     | \$184,108,000      |
| Increase in unrestricted net assets                  | \$519,877,000      |
| Increase in net assets                               | \$516,787,000      |
| Net cash provided by operating activities            | \$281,856,000      |
| Net (decrease) increase in cash and cash equivalents | (\$66,020,000) (A) |

(A) Primarily due to capital expenditures, payments on debt and transfers to Duke University.

- 2) Ratings

|                   |            |
|-------------------|------------|
| Fitch             | <u>AA</u>  |
| Moody's           | <u>Aa2</u> |
| Standard & Poor's | <u>AA</u>  |

- 3) Community Benefits from 2013 ANDI Report

|                 | Community Benefits | Costs of Treating Bad Debt Patients |
|-----------------|--------------------|-------------------------------------|
| Duke University | \$255,814,938      | \$13,681,224                        |

|               |               |              |
|---------------|---------------|--------------|
| Duke Regional | \$ 54,587,887 | \$ 4,193,073 |
| Duke Raleigh  | \$ 48,768,659 | \$ 3,759,965 |
| Total         | \$359,171,484 | \$21,634,262 |

4) Long Term Debt Coverage Ratios

|            |      |      |
|------------|------|------|
| Actual     | 2013 | 4.80 |
| Forecasted | 2014 | 4.84 |
| Forecasted | 2015 | 5.53 |
| Forecasted | 2016 | 5.66 |
| Forecasted | 2017 | 5.75 |

5) Participants in transaction

|                     |                                  |
|---------------------|----------------------------------|
| Bond counsel        | Robinson Bradshaw & Hinson, PA   |
| Corporation counsel | Sutherland Asbill & Brennan, LLP |
| Lessor              | TBD                              |
| Lessor counsel      | TBD                              |

2. **United Methodist Retirement Homes, Durham, NC - Christopher B. Taylor**

**Resolution:** 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 effect a reissuance for federal tax purposes of the North Carolina Medical Care Commission \$14,300,000 Retirement Facilities First Mortgage Revenue Bonds (The United Methodist Retirement Homes Project) Series 2010A. The Series 2010A Bonds are currently outstanding in the amount of \$9,415,000. The transaction will extend the initial put period for approximately ten years from February 1, 2015 to October 1, 2024. The interest rate for the period will be changed from 68% of one month LIBOR plus 1.625% to 68% of one month LIBOR plus 1.1325%. The Series 2010A Bonds are currently held by BB&T as Bank Bought Bonds and will be held by BB&T after the completion of the transaction. The project is in accordance with an application received as follows:

**ESTIMATED SOURCES OF FUNDS**

|  |                    |
|--|--------------------|
| Principal amount of bonds to be issued | \$9,415,000        |
| Equity contribution                    | <u>68,453</u>      |
| <b>Total Sources</b>                   | <b>\$9,483,453</b> |

**ESTIMATED USES OF FUNDS**

|                           |                    |
|---------------------------|--------------------|
| Reissuance of 2010A Bonds | \$9,415,000        |
| Structuring agent fee     | 32,953             |
| Corporation counsel       | 7,000              |
| Bond counsel              | 15,000             |
| Bank counsel              | 3,500              |
| Miscellaneous             | <u>10,000</u>      |
| <b>Total Uses</b>         | <b>\$9,483,453</b> |

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 reissuance of the bonds or notes.
3. Financial feasibility must be determined prior to the reissuance 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 reissuance of bonds for this project and may approve the reissuance 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. 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     | <u>1.77</u> |
| Forecasted | FYE 2014 | <u>2.04</u> |
| Forecasted | FYE 2015 | <u>2.15</u> |
| Forecasted | FYE 2016 | <u>2.29</u> |

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                               |

**VII. Old Business**

**Nursing Home Licensure & Certification Rules**

**Megan Lamphere**

- o Final Adoption of Rules and Fiscal Note 10A NCAC 13D .2402, .2503

**Health Care Cost Reduction & Transparency Rules**

**Chuck Frock**

- o Final Adoption of Rules and Fiscal Note (Fair Billing and Collections Practices) **Nadine Pfeiffer**

10A NCAC 13B Licensing of Hospitals .3110, .3502 **Azzie Conley**

10A NCAC 13C Licensing of Ambulatory Surgical Facilities .0202, .0205, .0301 **Megan Lamphere**

- o **Withdraw/Rescind Rules (Health Care Cost Data Reporting)**

10A NCAC 13B Licensing of Hospitals .2101, .2102, .2103, .2104, .2105

10A NCAC 13C Licensing of Ambulatory Surgical Facilities .0103, .0206, .0207, .0208

- o **Approval to Propose Temporary Rules (Health Care Cost Data Reporting)**

10A NCAC 13B Licensing of Hospitals .2101, .2102

10A NCAC 13C Licensing of Ambulatory Surgical Facilities .0103, .0206

**VII. New Business**

**Licensing of Homes for Developmentally Disabled Adults**

- o Repeal of Subchapter H (Update from Executive Committee Meeting)

**Stephanie Gilliam**

**Megan Lamphere**

**Licensing of Homes for the Aged and Infirm (Adult Care Homes)**

- o Approval to Propose Permanent Rules 10A NCAC 13F .1003, .1010

**Jan Brickley**

**Licensing of Family Care Homes**

- o Approval to Propose Permanent Rules 10A NCAC 13G .1003, .1010

**Jan Brickley**

**HB 74—Periodic Review of Existing Rules per G.S. 150B-21.3**

**Initial Category Determinations for the following Subchapters:**

- o 10A NCAC 13L Nursing Pool Licensure
- o 10A NCAC 13M Mammogram and Pap Smear Certification
- o 10A NCAC 13O Health Care Personnel Registry

**Azzie Conley**

**Azzie Conley**

**Jesse Goodman**

**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 November 14, 2014,

**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 November 14, 2014.

**IX. MEMBER REPORT**

**X. ADJOURNMENT** - A motion to adjourn is requested.