

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

FEBRUARY 13, 2015
9:00 A.M.

AGENDA

I. MEETING OPENS

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 from the November 14, 2014 meeting is requested (**attached as Exhibit A**)

IV. DIVISION DIRECTOR'S REPORT – Drexdal Pratt

Mr. Pratt will report on matters of interest to the Commission. Other items to report on are listed below (see **Exhibits B-B/1**)

1. Quarterly Report on Bond Program (**attached as Exhibit B**)

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

December 10, 2014 – (**attached as Exhibit B/1**) – To (a) authorize the sale of bonds, the proceeds of which are to be loaned to The United Methodist Retirement Home, Incorporated and (b) authorize the execution and delivery of a First Supplemental Trust Agreement for the 2014A Bonds issued for the benefit of the Corporation.

January 27, 2015 – (**attached as Exhibit B/2**) - To consider a resolution which grants preliminary approval to a project for Mission Health System, Inc. and to consent to a sale of a facility by DePaul and the accompanying redemption of the Bonds associated with the facility.

V. PRESENTATION.....Kathy Larrison and Crystal Watson-Abbott
Update on FYE 2013 Bond compliance examinations during the quarter (**Exhibit C**) – **to be furnished at or prior to the meeting.**

VI. BOND PROJECTS:

- A. **Moravian Home, Inc. (d/b/a Salemtowne), Winston Salem** Christopher B. Taylor and Steven C. Lewis

Resolution: The Commission grants preliminary approval to a project for Moravian Home, Inc. to provide funds, to be used together with other available funds, for a project for the expansion and repositioning of Moravian Home, Inc. to be completed in two phases. Phase one (1) will be the construction of a new nursing facility with 60 skilled, 40 rehabilitation and 20 assisted living memory care beds. Phase two (2) will be the renovation of the existing Phillips Health Care Center (Skilled Nursing Facility) to be used as 46 assisted living apartments. Phase one (1) costs are in accordance with a preliminary application, plans and specifications and participation as follows: Phase two (2) is not a part of this application:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$37,255,000
Total Sources	\$37,255,000

ESTIMATED USES OF FUNDS

Site Cost	\$3,800,000
Site utility development and accessibility costs	1,250,000
Construction contracts	25,299,700
Construction contingency (5% of construction contract)	253,000
Architect/engineer fees and reimbursables	1,535,000
Surveys, tests, insurance	648,000
Consultants' fees related to construction Owner Representation	400,000
Consultants' fees related to construction Project Management	560,000
Marketing costs	115,000
Interior Design	118,000
Debt service reserve fund	2,437,000
Underwriters' discount/placement fee	447,000
Feasibility fees	100,000
Accountants fees	20,000
Legal fees for Corporation Counsel	25,000
Bond counsel	60,000
Rating agencies (Note 6)	35,550
Trustee fees	2,500
Printing	4,000
DHSR Construction Project Review fee (GS 131E-267)	41,500
Local Government Commission fee	8,750
Financial advisor fee	40,000
Survey	15,000

Title Policy	20,000
Appraisal	<u>20,000</u>
Total Uses	\$37,255,000

Tentative approval is given with the understanding that the governing board of Moravian Home, Inc. (d/b/a Salemtowne), 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	√	Yes	_____	No	_____ N/A
2.	Construction and related costs are reasonable	√	Yes	_____	No	_____ N/A

Notes:

- (1) **Information from 2014 Audit**
- | | |
|---|----------------------|
| Operating Loss | (\$241,444) |
| Increase in Unrestricted Net Assets | \$2,351,795 |
| Change in Net Assets | \$2,467,156 |
| Net Cash Provided by Operating Activities | \$2,234,645 |
| Net increase (decrease) in Cash and Cash Equivalents (A) | (\$1,310,439) |
- (A) Due primarily to purchase of property and equipment
- (2) **Rating- Neither the entity or its bonds are rated.**
- (3) **Community Benefits per GS 105 for 100% of Property Tax Exemption** **10.61%**
- (4) **Long Term Debt Coverage:**
- | | | |
|-----------------------|-------------|-------------|
| Actual FYE | 2014 | 1.55 |
| Forecasted FYE | 2015 | 2.65 |
| Forecasted FYE | 2016 | 2.43 |
| Forecasted FYE | 2017 | 2.18 |
- (5) **Transaction Participants:**
- | | |
|----------------------------|--|
| Underwriter | TBD |
| Bond Counsel | Robinson Bradshaw & Hinson, PA |
| Underwriter Counsel | TBD |
| Corporation Counsel | Womble Carlyle Sandridge & Rice, PLLC |
| Financial Advisor | PFM |
- (6) **To be discussed**

B. Maryfield, Inc. d/b/a Pennybyrn at Maryfield, High Point Christopher B. Taylor

Resolution: The Commission grants preliminary approval to a project for Maryfield, Inc. to provide funds, to be used together with other available funds, to refund the North Carolina Medical Care Commission First Mortgage Revenue Bonds (Pennybyrn at Maryfield Project) \$67,315,000 Series 2005A, \$3,000,000 Series 2005B and the \$5,000,000 First Mortgage Revenue Refunding Bond Series 2010. The refunding is expected to generate approximately \$4.52 million in net present value savings or approximately 6.68%. The project is in accordance with an application received as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$69,980,000
Series 2005 Debt Service Reserve Fund	5,384,842
Series 2005 Principal Account	712,500
Corporation equity contribution	<u>54,330</u>
Total Sources	\$76,131,672

ESTIMATED USES OF FUNDS

Amount to refund Series 2005A, Series 2005B & Series 2010 Bonds	\$69,514,641
Debt Service Reserve Fund	5,159,830
Underwriter fees	1,119,680
Bond counsel	90,000
Corporation counsel	35,000
Underwriters' counsel	55,000
Accountants fees	50,000
Local Government Commission fee	8,750
Title survey and environmental	65,000
Bank trustee and counsel	10,500
Printing	8,500
Verification agent	1,500
Miscellaneous	<u>13,271</u>
Total Uses	\$76,131,672

Tentative approval is given with the understanding that the governing board of Maryfield, 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 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 | √
_____ | Yes | _____
_____ | No | _____
_____ | N/A |
| 2. | Construction and related | _____
_____ | | _____
_____ | | _____
_____ | |

center, café, administration and parking deck (4 levels), (3) 2nd Level – heart and vascular procedure rooms (5), 2 operating rooms, 4 cath labs, 2 EP labs, 10 PACU rooms, cardiac rehabilitation area, gift shop, family resource center, main lobby and registration, (4) 3rd Level – noninvasive cardiology, (5) 4th Level – cardiovascular intensive care unit (20 beds), (6) 5th Level – acuity adaptable (22 beds) and (7) 6th to 8th – telemetry (24 beds each floor). The project is in accordance with a preliminary application, plans and specifications and participation as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$150,000,000
Cash and negotiable securities from reserves	75,000,000
Other (Philanthropic sources)	<u>20,000,000</u>
Total Sources	\$245,000,000

ESTIMATED USES OF FUNDS

Site utility development and accessibility costs	\$20,346,111
Construction contracts	146,426,861
Construction contingency (1% of construction contract)	1,464,268
Architect/Engineer fees	9,813,239
Architect reimbursables	500,000
Consultants Fees	6,236,093
Moveable equipment	12,741,577
Surveys, tests, insurance	37,471,851
Bond interest during construction	8,934,000
Underwriters' discount/placement fee	162,500
Accountants fees	90,000
Legal fees for Corporation Counsel	70,000
Bond counsel	131,000
Rating agencies	150,000
Trustee fees	15,000
Printing costs	5,000
DHSR Construction Project Review Fee (GS 131E-267)	141,000
Local Government Commission fee	8,750
Bank Counsel	45,000
Underwriter's counsel	65,000
Financial Advisor	150,000
Contingency	<u>32,750</u>
Total Uses	\$245,000,000

Tentative approval is given with the understanding that the governing board of Rex Healthcare 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 | <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:

(1) Information from June 2014 audit for Rex Healthcare, Inc. and Subsidiaries:

Operating Income	\$14,486,000
Change in net position	\$23,673,000
Net Cash provided by operating activities	\$77,735,000
Decrease in cash and cash equivalents	(\$14,960,000)

(2) Ratings:

Moody's	<u>A1</u>
Standard & Poor's	<u>AA-</u>
Fitch	<u>AA-</u>

(3) Community Benefits per NCHA ANDI Report FYE 2014:

Total Community Benefits	\$90,269,878
Estimated Cost of Treating Bad Debt Patients	\$11,719,317

(4) Long Term Debt Service Coverage Ratios:

Actual	FYE 2014	5.69
Forecasted	FYE 2015	4.2
Forecasted	FYE 2016	4.7
Forecasted	FYE 2017	5.2

(5) Transaction Participants:

Underwriter	Bank of America Merrill Lynch
Co-manager	Wells Fargo Securities
Bond counsel	Womble Carlyle Sandridge & Rice, PLLC
Underwriter's counsel	McGuire Woods, LLC

**Financial Advisor
 Trustee**

**Ponder & Co.
 US Bank**

D. Vidant Health, Greenville

Christopher B. Taylor and Steven C. Lewis

Resolution: The Commission grants preliminary approval to a project for University Health Systems of Eastern Carolina, Inc. d/b/a Vidant Health to provide funds, to be used together with other available funds, to finance the building of a new 418,000 square foot, six story bed tower that will allow Vidant Medical Center to consolidate existing cancer services and add 65 acute beds in a single state of the art building. The building shall consist of 140,000 feet of outpatient cancer clinic, radiation oncology, infusion services, pharmacy, lab, and administration office space located on the first floor. The second and fourth floors shall consist of 48 inpatient beds and clinical space on each floor. The third floor shall house the mechanical, electrical and support space. The fifth and sixth floors will be used for storage, leaving space for possible expansion. The project also includes the refunding of the North Carolina Medical Care Commission \$119,715,000 Series 2008D Health Care Facilities Revenue Refunding Bonds (University Health System of Eastern Carolina) outstanding in the amount of \$119,715,000 and the acquisition of routine equipment in the amount of \$39,000,000. 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	\$300,805,000
Original Issue Premium	20,841,602
Cash and negotiable securities from reserves	11,278,296
Interest earned during construction	1,014,393
Cash reserves fundraising contribution	<u>40,000,000</u>
Total Sources	\$373,939,291

ESTIMATED USES OF FUNDS

Land acquisition	\$35,000
Site utility development and accessibility costs	4,000,000
Construction contracts	133,500,900
Construction contingency (3% of construction contract)	4,400,000
Architect/engineer fees and reimbursables	10,607,500
Moveable equipment for the project	18,262,500
Escrow amount to refund bonds	
144,734,155	
Other Equipment– See Attachment G	39,000,000
Bond interest during construction	16,697,525
Underwriters' discount/placement fee	1,759,709
Accountants fees	100,000
Legal fees for Corporation counsel	55,000
Bond counsel	128,000
Rating agencies	175,000

Trustee fees	6,000
Printing costs	5,000
DHSR Construction Project Revenue (GS 131E-267)	194,100
Local Government Commission fee	8,750
Financial Advisor	150,000
Underwriter's Counsel	90,000
Escrow Verification Agent	5,000
Miscellaneous	<u>25,152</u>
Total Uses	\$373,939,291

Tentative approval is given with the understanding that the governing board of University Health Systems of Eastern Carolina, Inc. d/b/a Vidant Health 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 | √
_____ | Yes | _____ | No | _____ | N/A |
| 2. Construction and related costs are reasonable | √
_____ | Yes | _____ | No | _____ | N/A |

Notes:

1) **Information from 2014 Audit: for University Health Systems of Eastern Carolina, Inc. d/b/a Vidant Health.**

Income from operations	\$82,469,000
Increase in net position	\$72,432,000
Net cash provided by operating activities	\$143,751,000
Net increase (decrease) in cash and cash equivalents	\$33,196,000

2) **Ratings:**

Moody's	<u>A1</u>
Standard & Poor'	<u>A+</u>

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

VII. NEW BUSINESS

RULES FOR INITIATING RULEMAKING APPROVAL

Permanent Health Care Cost Reduction & Transparency.....(attached as Exhibits F/1-F/4)

- Rules for the licensing of HospitalsNadine Pfeiffer & Azzie Conley
10A NCAC 13B
- Rules for the licensing of Ambulatory Surgical Facilities
10A NCAC 13C.....Nadine Pfeiffer & Azzie Conley

IX. REFUNDING OF COMMISSION BOND ISSUES Christopher B. Taylor

Recommended:

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 May 14, 2015 in Asheville, North Carolina;

THEREFORE, BE IT RESOLVED; that the Commission authorize its Executive Committee to approve projects involving the refunding of existing Commission debt between this date and May 14, 2015.

X. MEMBER REPORT

XI. QUESTIONS FROM THE PUBLIC - The Chairperson will receive questions from the public.

XII. EXECUTIVE COMMITTEE- Assuming the Bond Market holds, we are requesting that the Executive Committee convene on February 27, 2015 to consider preliminary approval to a refunding project for United Church and final approval to a bond sale for Mission Health.

XIII. ADJOURNMENT –A motion to adjourn is requested

