

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
JULY 10, 2015
9:00 A.M.

AGENDA

I. MEETING OPENS

II. CHAIRPERSON'S COMMENTS – Dr. John A. Fagg will comment on matters of importance to the Commission, including the undertaking of a discussion of the Commission's policies governing the issuance of tax-exempt debt and compliance with the rules, regulations and contractual obligations created thereby. Question: Does anyone have any conflict of interest with any agenda item before the Commission today?

III. APPROVAL OF MINUTES from the May 15, 2015 Medical Care Commission Quarterly Meeting is requested (**attached as Exhibit A**).

IV. DIVISION DIRECTOR'S REPORT – Drexdal R. 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**):

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

May 7, 2015 – To consider a resolution authorizing the sale and issuance of bonds, the proceeds of which will be loaned to Rex Hospital, Inc. (**attached as Exhibit B**).

June 17, 2015 – To consider a final resolution authorizing the reissuance/conversion of bonds for Iredell Memorial Hospital and resolutions requesting preliminary approval for a refunding for The Pines at Davidson, Presbyterian Homes and Wayne Memorial. (**attached as Exhibit B/1**).

V. APPROVE THE FINAL SALE OF BONDS FOR PRESBYTERIAN HOMES (A resolution will be provided at the meeting).....Jeff Poley and Tad Melton

VI. DISCUSSION & EXPLANATION OF THE RECENTLY APPROVED BOND ISSUE FOR PENNYBYRN AT MARYFIELDMike Kelly & Jon Mize
(**Exhibit C will be provided at the meeting**)

VII. DISCUSSION & EXPLANATION OF THE RECENTLY APPROVED BOND ISSUE FOR VIDANT HEALTH.....Paul Billow & David Kasdin
(**Exhibit D will be provided at the meeting**)

VIII. COMPLIANCE DEFICIENCIES.....Crystal Watson-Abbott & Kathy Larrison
(**Exhibit H will be provided at the meeting**)

IX. BOND PROJECTS

- A. **Aldersgate United Methodist Retirement Community, Inc., Charlotte** -Christopher B. Taylor and Steven C. Lewis

Resolution: The Commission grants preliminary approval to a project for Aldersgate United Methodist Retirement Community, Inc. to provide funds, to be used together with other available funds, to fund the cost of a replacement 120 bed nursing home plus 5 home for the aged beds for a total of 125 beds (Second Phase of Master Plan) and to takeout the outstanding BB&T bank loan, the proceeds of which, were used to fund Phase 1 in the amount of \$5,500,000 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	\$49,420,000
Other Equity – Excess 2%	<u>341,000</u>
Total Sources	\$49,761,000

ESTIMATED USES OF FUNDS

Site Costs-Site utility development and accessibility costs	\$1,823,000
Construction contracts	29,343,000
Construction contingency (1% of construction contract)	301,560
Architect/engineer fees (4.4%) and reimbursables	1,350,000
Surveys, tests, insurance	838,000
Consultants’ fees Owner’s Representation	147,000
Consultants’ fees Project Management	336,000
Marketing costs	40,000
Interior Design	90,000
Amount required to repay BB&T loan	5,500,000
C.O.N. Consultant and application fee	105,000
Bond interest during construction	5,138,000
Debt service reserve fund	3,424,000
Underwriters’ discount/placement fee	865,000
Feasibility fees	121,000
Accountants fees	25,000
Legal fees for Corporation Counsel	75,000
Bond counsel	85,000
Trustee fees	5,000
Printing costs	10,000
DHSR reimbursables (G.S. 131E-267)	35,690
Local Government Commission fee	8,750
Survey	15,000
Title Insurance	75,000
Trustee’s Counsel	<u>5,000</u>
Total Uses	\$49,761,000

Tentative approval is given with the understanding that the governing board of Aldersgate United Methodist Retirement Community, 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 costs are reasonable	√	Yes	_____	No	_____	N/A

Attachment A

Aldersgate United Methodist Retirement Community, Inc.
Board & Resident Diversity



As requested, below is a summary of Aldersgate's board and resident diversity.

Board Diversity

- Racial Diversity: 92% Caucasian / 8% African American.
- Gender Diversity: 58% male / 42% female
- Economic Diversity: Aldersgate's board members are comprised of middle to upper middle socio-economic class members.

Resident Diversity

- Racial Diversity:
 - 98% Caucasian and minimal representation of Asian, Latino, and Mediterranean descent.
 - In the Medicare Part A practice, at any point in time we are serving non-Caucasians, largely African American individuals in our Part A beds.
- Gender Diversity: 67% female / 33% male
- Economic Diversity:
 - Largely upper middle economic status
 - In the Medicare Part A beds Aldersgate typically serves low-middle to middle income individuals.

Attachment B

Refundable Entrance Fee Schedule Existing Independent Living Units – Effective January 1, 2015

Residence Type	Approx. Sq. Ft	90% Refundable Plan	50% Refundable Plan	0% Refundable Plan
Apartments				
1 Bedroom	585	\$125,000	\$125,000	\$87,500
1 Bedroom	585	\$135,200	\$135,200	\$97,800
1 Bedroom/Kitchen	585	\$152,900	\$152,900	\$107,000
2 Bedroom	782	\$177,700	\$177,700	\$124,400
2 Bedroom/Kitchen	1067	\$195,200	\$195,200	\$136,700
2 Bedroom/Kitchen	1170	\$227,600	\$227,600	\$162,400
1 Bedroom/1 Bath	750	\$175,100	\$175,100	\$122,600
1 Bedroom/1.5 Bath	955	\$216,300	\$216,300	\$151,400
2 Bedroom/2 Bath/Balcony	1050	\$236,900	\$236,900	\$165,800
2 Bedroom/2 Bath/Balcony	1075	\$242,000	\$242,000	\$169,500
2 Bedroom/2 Bath/Dining	1150	\$257,500	\$257,500	\$180,200
2 Bedroom/2 Bath/Dining	1180	\$262,600	\$262,600	\$183,900
2 Bedroom/2 Bath/Dining/Balcony	1250	\$278,100	\$278,100	\$194,700
2 Bedroom/2 Bath/Den/Dining/Balcony	1400	\$309,000	\$309,000	\$216,300
2 Bedroom/2 Bath/Den/Dining/Balcony	1500	\$329,600	\$329,600	\$230,700
2 Bedroom/2.5 Bath/Den/Dining/Balcony	1660	\$365,600	\$365,600	\$256,000
Cottages/Executive Homes				
2 bedroom/1 or 1.5 bath	1302	\$166,200	\$166,200	\$116,400
2 bedroom/2 or 2.5 bath	1378	\$166,200	\$166,200	\$116,400
2 bedroom/2 or 2/5 bath	2500	\$306,600	\$306,600	\$214,600
3 bedroom/2 bath	1420	\$166,200	\$166,200	\$116,400
3 bedroom/2 bath	1894	\$306,600	\$306,600	\$214,600
2 Bedroom/2 Bath/Garage	1740	\$386,500	\$386,500	\$270,500
2 Bedroom/2 Bath/Den/Garage	1867	\$412,800	\$412,800	\$289,900
2 bedroom/2 Bath	1598	\$357,100	\$357,100	\$250,000
2 Bedroom/2 Bath/Den/Garage	1598	\$366,300	\$366,300	\$256,500
2 Bedroom/2 Bath	1650	\$401,950	\$401,950	\$281,400
2 Bedroom/2.5 Bath/Den	1880	\$426,450	\$426,450	\$298,500
2 Bedroom/2.5 Bath/Den	2035	\$438,700	\$438,700	\$307,100
2 Bedroom/2.5 Bath/Den	2340	\$370,000	\$370,000	\$259,000

Fees shown above apply to either single- or double-occupancy in the same residence.

Attachment B

Monthly Service Fee Schedule Existing Independent Living Units – Effective January 1, 2015

Residence Type	Approx. Sq. Ft	90% Refundable Plan	50% Refundable Plan	0% Refundable Plan
Apartments				
1 Bedroom	585	\$2,230	\$1,785	\$2,230
1 Bedroom	585	\$2,355	\$1,836	\$2,355
1 Bedroom/Kitchen	585	\$2,355	\$1,868	\$2,355
2 Bedroom	782	\$2,386	\$1,908	\$2,386
2 Bedroom/Kitchen	1067	\$2,470	\$1,975	\$2,470
2 Bedroom/Kitchen	1170	\$2,577	\$2,062	\$2,577
1 Bedroom/1 Bath	750	\$2,673	\$2,138	\$2,673
1 Bedroom/1.5 Bath	955	\$2,994	\$2,395	\$2,994
2 Bedroom/2 Bath/Balcony	1050	\$3,315	\$2,652	\$3,315
2 Bedroom/2 Bath/Balcony	1075	\$3,423	\$2,738	\$3,423
2 Bedroom/2 Bath/Dining	1150	\$3,530	\$2,824	\$3,530
2 Bedroom/2 Bath/Dining	1180	\$3,637	\$2,909	\$3,637
2 Bedroom/2 Bath/Dining/Balcony	1250	\$3,851	\$3,081	\$3,851
2 Bedroom/2 Bath/Den/Dining/Balcony	1400	\$4,172	\$3,338	\$4,172
2 Bedroom/2 Bath/Den/Dining/Balcony	1500	\$4,387	\$3,509	\$4,387
2 Bedroom/2.5 Bath/Den/Dining/Balcony	1660	\$4,708	\$3,766	\$4,708
Cottages/Executive Homes				
2 bedroom/1 or 1.5 bath	1302	\$3,154	\$2,524	\$3,154
2 bedroom/2 or 2.5 bath	1378	\$3,154	\$2,524	\$3,154
2 bedroom/2 or 2/5 bath	2500	\$3,154	\$2,656	\$3,154
3 bedroom/2 bath	1420	\$3,154	\$2,524	\$3,154
3 bedroom/2 bath	1894	\$3,154	\$2,656	\$3,154
2 Bedroom/2 Bath/Garage	1740	\$4,024	\$3,219	\$4,024
2 Bedroom/2 Bath/Den/Garage	1867	\$4,176	\$3,340	\$4,176
2 bedroom/2 Bath	1598	\$3,952	\$3,161	\$3,952
2 Bedroom/2 Bath/Den/Garage	1598	\$3,815	\$3,052	\$3,815
2 Bedroom/2 Bath	1650	\$4,067	\$3,253	\$4,067
2 Bedroom/2.5 Bath/Den	1880	\$4,307	\$3,446	\$4,307
2 Bedroom/2.5 Bath/Den	2035	\$4,514	\$3,611	\$4,514
2 Bedroom/2.5 Bath/Den	2340	\$4,566	\$4,566	\$4,566

Rates shown above apply to single-occupancy. The rates for double-occupancy include an additional \$864 per month regardless of residence type.

One meal per day is included in the rates for Independent Living Residents with an option for a two or three meal per day plan at an additional charge.

Attachment B

Monthly Service Fee Schedule <u>Existing Health Care Beds</u>– Effective January 1, 2015		
Residence Type	Temporary Transfers	Permanent Transfers
Parker Terrace (Assisted Living)		
Studio		
- Tier 1	\$4,531/month	
- Tier 2	\$5,442/month	
- Life Care Rate		\$4,242/month
One Bedroom Apartment**		
- Tier 1	\$4,713/month	
- Tier 2	\$5,613/month	
- Life Care Rate		\$4,242/month
Cuthbertson Village Memory Support (Assisted Living)		
One Bedroom Apartment		
- Tier 1	\$5,517/month	
- Tier 2	\$6,374/month	
- Life Care Rate		\$4,242/month
Asbury Care Center (Health Care Facility)		
- Tier 1	\$253/day	
- Tier 2	\$287/day	
- Life Care Rate		\$4,019/month

Rates for residents of Asbury Care Center, Cuthbertson Village and Parker Terrace Assisted Living include three meals per day.

Temporary absence of the Resident from Aldersgate for vacation, travel, business, medical care or otherwise does not change the Resident's obligation to pay the full monthly fee.

***Health Care Fees for Non-Members at Asbury Care Center** (all rooms are private)

Tier 1 \$253/day
 Tier 2 \$287/day

***Health Care Fees for Non-Members at Cuthbertson Village** (all rooms are private)

Tier 1 \$5,517/monthly fee
 Tier 2 \$6,374/monthly fee

Attachment C

Compliance

Aldersgate United Methodist Retirement Community, Inc. (Aldersgate) FYE 2012 compliance examination was completed in March 2014 and in March of 2014, the CEO and CFO were notified of the eight (8) findings for FYE 2012. The FYE 2013 compliance examination completed in March 2015 yielded a total of sixteen (16) findings involving documents not being timely filed to the Commission, and in March of 2015, the CEO and CFO were notified of the findings for FYE 2013. Of the 16 findings reported for FYE 2013, 4 of the findings were reoccurring findings from FYE 2012, 8 of the findings related to the new 2013 Bond Issue, and 4 of the findings were not new filing requirements for FYE 2013 and were complied with for FYE 2012.

It should be noted that since 2011, Aldersgate has been through several transitions with regards to their CEO and CFO. In April 2011, Ms. Suzanne Pugh officially became the CEO of Aldersgate due to the former CEO's abrupt departure. In March 2013, Aldersgate's longtime CFO departed for another job leaving Aldersgate without a permanent CFO until the new CFO could be hired. During the transition time of the new CFO starting in September 2013, the former CFO provided Aldersgate with limited consulting services to aid in their continued compliance. Once the new CFO began in September 2013, the CFO had to gain an understanding of the compliance requirements relating to the bond issues. Finally, in October 2013, Aldersgate refunded the 2009 and 2013 Bond Series with the issuance of the 2013 Bond Series. Therefore, for FYE 2013, Aldersgate had to comply with the requirements of the 2009 and 2010 Bonds until the bonds were refunded in October 2013 with the issuance of the 2013 Series Bonds.

In November 2013, the Commission's auditor was made aware of Aldersgate hiring a new CFO. At that time, the Commission's auditor spoke with the new CFO concerning the bond covenant requirements and the timing of when documents are required to be filed to the Commission and other entities. The Commission's auditor offered to meet with the new CFO to discuss in further detail the covenant requirements of the bond documents, but was informed by the new CFO that they needed additional time acclimating themselves with the bond documents before meeting with the Commission's auditor since bond compliance requirements were new to the CFO. While working on the FYE 2012 compliance examination in February 2014, the Commission's auditor offered to meet with the CFO to discuss the covenant requirements for the outstanding 2009 and 2010 bonds in addition to the new filing requirements for the 2013 Bond Series and offered to provide the CFO with the Commission auditor's checklist for the 2009 and 2010 Bond Series along with an updated checklist including the 2013 Bond Series. Finally, in May of 2014, the Commission's auditor met Aldersgate's CFO at the annual Leading Age Conference and once again offered to meet with the CFO to discuss in detail the covenant requirements and offer any assistance to ensure Aldersgate complied with the document filings. The CFO never accepted the Commission's auditor's offer for the compliance checklist nor to meet in person to discuss in detail the bond covenant requirements.

It should be noted the findings for FYE 2013 will be prevalent for the FYE 2014 compliance examination. The Commission's auditor often times had to request the CFO file the required document filings on a quarterly and annual basis, as it was apparent the CFO did not have procedures in place to ensure documents were submitted as required. When a document had to be requested more than twice from the CFO, the CEO was copied on the email correspondence to the CFO listing the dates the document was originally requested. It should be noted the first quarter financial report required for FYE 2015 was timely filed to the Commission by the CEO.

The CEO of Aldersgate, Ms. Suzanne Pugh, has implemented the following steps to improve Aldersgate's compliance with the bond covenants:

1. The Aldersgate CFO for FYE 2013 and FYE 2014 is no longer employed by Aldersgate effective March 27, 2015.
2. Aldersgate has created a matrix concerning all regulatory & reporting requirements that will be maintained by the Controller, CFO, CEO, COO and HR Director and will entail the following procedures:

a. Processes:

- i. Matrix will be reviewed each month by senior management to ensure the regulatory and reporting requirements for Aldersgate are current based upon the documents at that time.
- ii. All tasks "reporting requirements" will be placed in the Task Manager section of Outlook for each individual assigned to produce, review and submit each task.
 1. First reminder will be sent to each individual 30 days before the due date.
 2. After the first reminder, subsequent reminders will be sent on a weekly basis to the individual assigned to the report (document).
 3. Two weeks before the due date, the CEO, CFO, and Controller will receive a reminder of the task to be performed and the individual it is assigned to.
- iii. Once the report has been produced, the task will be marked as completed in Task Manager.
 1. An individual with knowledge of the information will review the report (document) before submission to check for accuracy, completeness & format.
 2. There will be separation of duties so that the person preparing the document is not the person reviewing the document.
 3. This review will take place one week before the due date of the report (document).
- iv. After the final review, report (document) will be submitted to the appropriate recipients.
 1. Upon submission of the report (document), the producer, review and submitter will initial & date the printout of the compliance matrix which will be contained in the "Compliance Control Notebook".
 - a. Samples of the report and validation of the submission will be maintained in the book.
 2. Administrative Assistant and CEO will be copied on all submissions.
 3. The book will be maintained by the CFO or Controller.

b. Accountability for Compliance:

- i. Will become part of the performance review for individuals assigned to any part of the process.
- ii. Board of Directors will receive an updated compliance matrix at each quarterly meeting and time will be allotted for members to ask questions.

- iii. Finance Committee Board will do a more detailed review of the compliance requirements to ensure Aldersgate is up to date & accurate with compliance
- iv. The Compliance Policy and related processes will be reviewed on an annual basis by Senior Management & the Finance Committee to ensure the processes continue to be effective.
- v. CFO or Controller will notify the CEO immediately if a covenant becomes problematic (based upon actual or projected financial performance).
 - 1. If a remedy cannot be identified, the Finance Committee Chair will be informed within 5 business days.

c. Organizational Capability:

- i. Finance Department Restructuring
 - 1. Addition of a Controller and Accounting Manager to allow the CFO to operate more in a review capacity.
 - 2. Both positions will be cross trained to ensure key reports can be produced if either position becomes vacant.
- ii. Key financial reports will be cross checked
- iii. CFO, Controller and Accounting Manager will be trained and will create a suite of reports tailored to meet the needs of internal & external reporting requirements. The training will be documented so it will continue if one individual leaves the organization.
- iv. CEO will have enhanced transparency of the effectiveness of the CFO – how success is both defined & achieved will be outlined for each position in the Finance Department.
- v. Transparency, accountability & cross-checks will be in place to ensure compliance becomes a part of what the organization does every day.
 - 1. Compliance will become an organization responsibility.

In 2013, Aldersgate subdivided several parcels of land on its existing property that already exempt from property taxes. When the CFO left in March 2015, Aldersgate learned the County of Mecklenburg considered the parcels that were subdivided in 2013 to not be exempt from property taxes. The loss of the property tax exemption placed Aldersgate on the list of delinquent businesses with regards to property taxes owed to the County of Mecklenburg. Once the CEO became aware of the issue, the CEO, along with the assistance of their attorney quickly filed the proper property tax exemption forms and on May 9, 2015, the County approved Aldersgate's request for tax exemption status of the parcels subdivided in 2013.

In addition, during the work to resolve the property tax exemption listed above, the CEO discovered there are three small parcels of land on the Aldersgate property that had never been designated as tax-exempt. The CEO has filed the appropriate paper-work to obtain property tax exemption status for the three parcels of land and is awaiting approval from the Mecklenburg Board of Equalization and Review.

X. OLD BUSINESS

- Rules for Final AdoptionNadine Pfeiffer
Exhibits E-E/3)
- Health Care Cost Reduction & Transparency Rules
 - (1) Licensing of Hospitals, 10A NCAC 13B. 2101 and .2102
 - (2) Licensing of Ambulatory Surgical Facilities, 10A NCAC 13C .0103 and .0206

XI. NEW BUSINESS

- A.** Rules for Initiating Rulemaking Approval (Rules & Fiscal Note).....Nadine Pfeiffer
 - (1) Health Care Personnel Registry Rule **(Exhibits F-F/1)**
Adoption of 1 Rule for Nurse Aide Registry Training, 10A NCAC .0301
- B.** Periodic Review of Existing Rules (HB 74) – Initial Category Determination
10A NCAC 13J, The Licensing of Home Care Agencies.....**(Exhibits G-G/1)**
- C.** Discussion of the Commission’s Tax–Exempt Bond Program.....Dr. John A. Fagg
 - (1) Guidelines for Implementation of Health Care Facilities Finance Act
 - (2) Bond Rating Policy
 - (3) Swap Policy
- D.** Conflict of Interest Policy.....Dr. John Fagg & Bethany Burgon

XII. 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 November 13, 2015 in Raleigh, 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 November 13, 2015.

XIII. MEMBER REPORT

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

XV. EXECUTIVE COMMITTEE.....Christopher B. Taylor

We will be asking the Executive Committee to re-convene on Monday, July 20th to consider final approval for the sale of bonds for Wayne Memorial. The fixed interest rate for the Wayne Memorial Bonds will not be determined until Friday, July 17th to be effective on Tuesday, July 21st upon the closing of the bond issue.

XVI. ELECTION OF AN EXECUTIVE COMMITTEE MEMBER.....Dr. John A. Fagg

We will be asking the Commission to elect a member to the Executive Committee to serve out George Cecil's un-expired term ending December 31, 2015.

XVII. ADJOURNMENT - A motion to adjourn is requested.