

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

**MEDICAL CARE COMMISSION QUARTERLY MEETING
DIVISION OF HEALTH SERVICE REGULATION
801 BIGGS DRIVE
RALEIGH, NORTH CAROLINA 27603
FEBRUARY 10, 2017
9:00 A.M.**

AGENDA

- I. Meeting Opens**
- II. Chairman's Comments** - Dr. John A. Fagg will comment on matters of importance to the Commission and the new MCC Bylaws Subcommittee. Does anyone have a conflict of interest with any agenda item before the Commission today?
- III. Introduction of New Commission Members – Mr. Patrick D. Sebastian and Mr. J. William Paugh**
- IV. Approval of Minutes** from the November 4, 2016 Medical Care Commission Quarterly Meeting Conference Call is requested (**attached as Exhibit A**).
- V. Resolution of Appreciation for Christopher B. Taylor** Dr. John Fagg
(**attached as Exhibit A/1**)
- VI. DIVISION DIRECTOR'S REPORT – S. Mark Payne**

Mr. Payne will report on matters of interest to the Commission. Other items to report on are listed below (**see Exhibits B-B/3**):

1. Quarterly Report on Bond Program (**attached as Exhibit B**) Kathy Larrison
2. The Executive Committee held telephone conference call meetings on the following dates:

November 29, 2016 - To consider Resolutions granting preliminary approval to refunding transactions for Arbor Acres United Methodist Retirement Community, Series 2007, and Series 2010 (**attached as Exhibit B/1**).

December 12, 2016 - To consider Resolutions (a) authorizing the sale of bonds, the proceeds of which are to be loaned to Arbor Acres United Methodist Retirement Community, Inc., (b) authorizing the execution and delivery of a Second Supplemental Trust Agreement for the 2010 Bonds issued for the benefit of Arbor Acres United Methodist Retirement Community, Inc., and (c) authorizing the issuance and sale of bonds, the proceeds of which will be loaned to Blue Ridge HealthCare System, Inc. (**attached as Exhibit B/2**).

January 26, 2017 – To consider preliminary approval for a refunding transaction for Lutheran Services for the Aging, Inc. (**attached as Exhibit B/3**).

VII. Compliance Deficiencies

(Deferred until May Meeting)

VIII. BOND PROJECT

- A. Aldersgate United Methodist Retirement Community, Inc., Charlotte - Crystal Watson-Abbott and Steven C. Lewis**

Resolution: The Commission grants preliminary approval to a project for 62 new independent living units in three mid-rise buildings known as “Gateway.” The Series 2017 will be financed with a combination of bank debt and bond debt. It also will take out up to \$16.4 million of an existing taxable bank loan with SunTrust Bank, the proceeds of which, were used to fund the construction of a new community building 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 (Fixed Rate)	\$16,345,000
Tax-Exempt Intermediate Bank Bought Loan	16,461,100
Long Term Tax-Exempt Bank Bought Loan	15,249,369
Equity Contribution (Excess of 2%)	<u>218,119</u>
Total	\$48,273,588

ESTIMATED USES OF FUNDS

Site Costs - utility development and accessibility costs and necessary engineering fees	\$130,454
Construction contracts	21,344,091
Construction contingency (1% of construction contract)	215,597
Architect/engineer fees and reimbursables	690,842
Surveys, tests, insurance	632,001
Owner’s Representation	569,751
Project Management	470,834
Routine Capital Expenditures	3,400,000
Commons Boiling Project Fund	3,333,282
Sun Trust Loan takeout	9,942,548
Marketing costs	2,509,847
Interior Design	22,591
Bond interest during construction	2,615,253
Debt service reserve fund	1,214,031
Underwriters’ discount/placement fee	523,866
Feasibility fees	133,100
Accountants fees	27,500
Legal fees for Corporation counsel	82,500
Bond counsel	93,500
Trustee fees	5,500
Printing costs	11,000
DHSR reimbursables	44,000
Local Government Commission fee	8,750
Appraisal	11,000
Survey	16,500
Title Insurance	82,500
Trustee Counsel	5,500
Bank Counsel	38,500
Bank Commitment Fee	95,132

Additional Proceeds

3,618

Total

\$48,273,588

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.

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 | <u>√</u> | Yes | _____ | No | _____ | N/A |

Notes:

(1)	<u>Information from 2015 Audit</u>	
	Operating Income (Loss)	(\$1,598,676)
	Increase (Decrease) in Unrestricted Net Assets	(\$3,434,582)
	Increase (Decrease) in Net Assets	(\$3,536,313)
	Net Cash Provided by Operating Activities	(\$810,368)
	Increase (Decrease) in Cash and Cash Equivalents	\$451,508

(2) Aldersgate United Methodist Retirement Community, Inc. is not rated

(3) Community Benefits per GS 105 for 100% of Property Tax Exemption 5.56%

(4)	<u>Long Term Debt Coverage:</u>	
	Actual FYE 2015	2.41
	Unaudited FYE 2016	2.30
	Forecasted FYE 2017	2.31
	Forecasted FYE 2018	1.64
	Forecasted FYE 2019	1.94

(5)	<u>Transaction Participants:</u>	
	Underwriter	BB&T Capital Markets
	Bond Counsel	Parker Poe Adams & Bernstein, LLP
	Underwriter Counsel	Harris Beach PLLC
	Corporation Counsel	Poyner and Spruill
	Bank	SunTrust
	Bank Counsel	Moore & Van Allen
	Trustee	The Bank of New York Mellon Trust Company
	Development Consultant	Brian Schiff and Associates
	Feasibility Consultant	CliftonLarsonAllen

(6) **Other Information:**

(a) Board Diversity

Male: 8
Female: 6
Total: 14

Caucasian: 10
African American: 4
Total: 14

(b) Resident Diversity

Male: 33%
Female: 67%
Total: 100%

Caucasian = 98% with minimal representation from Asian, Latino and Mediterranean descent.

(c) Entrance fees and service fee schedule (attached as Exhibit D)

(d) Compliance

Aldersgate did not timely file their Operating and Capital Budget for FYE 2015 but remedied the covenant violation by filing the document in May 2015. Aldersgate is in compliance with the Commission's Policy on Compliance by Borrowers for their routine annual and quarterly bond document filings from May 2015 to the most recent routine annual and quarterly document review as of January 18, 2017. Aldersgate met their Long Term Debt Service Coverage Ratio, Days Cash on Hand and Reserve Ratio financial covenants required per the Master Trust Indenture and Loan Agreement. At the time the in depth compliance examination for FYE 2015 and FYE 2016 are completed, other findings may be identified that are not routine and typical.

IX. MCC Bond Sale Approval Policy – Continued Discussion

Dr. John Fagg

Whereas, the Commission (MCC) is desirous of having full and more timely information, as it relates to the pricing of and sale of tax-exempt debt, the Commission hereby adopts the following policy related to publicly offered bonds and privately placed bonds:

As to Publicly Offered Bonds the Following Shall Apply:

- (1) Preliminary Approval
The agenda item submitted for consideration for preliminary approval by the MCC of a proposed transaction shall include a summary of the best estimate at the time of interest rates, maturities, true interest cost of the proposed bond issue and, if applicable, the estimated net present value savings on refunded bonds.
- (2) Mailing of Preliminary Official Statement
At time, the Preliminary Official Statement (POS) is delivered to potential investors, the MCC shall be provided with a summary of the proposed transaction including sources and uses, maturities, interest rates, and if applicable, projected net present value savings on refunded bonds.
- (3) Final Approval by Executive Committee
At time of the request for final approval of the bond sale, the MCC shall be provided with the final interest rates, maturities, true interest cost and, if applicable the net present value savings on refunded bonds, and a verbal explanation of the differences between the summary of the proposed transaction at the time of delivery of the POS, and at the time of final approval.

As to Privately Placed Bonds (Bank Bought Bonds) the Following Shall Apply:

The information provided above as part of the request for preliminary approval shall also be provided to the MCC in connection with a privately placed bond issue. The MCC shall also be provided as part of the Series Resolution, the maturity schedule and the interest rate as soon as they are available but no later than the day prior to the MCC meeting to consider final approval of the tax-exempt debt transaction.

The policy is effective as of the date of adoption.

X. OLD BUSINESS

- A. Rules for Adoption (Rules and Comments) Nadine Pfeiffer**
- 1) Adult Care Home Administrator Licensure Rules (Megan Lamphere & Nadine Pfeiffer)
Exhibits G-G/2
 - a) Licensing of Homes for the Aged and Infirm
Adoptions - 10A NCAC 13F .0401, .1701-.1703
 - b) Licensing of Family Care Homes
Adoptions and Repeal - 10A NCAC 13G .0401, .1501-.1502
 - 2) Licensing of Overnight Respite Services Rules (Megan Lamphere & Nadine Pfeiffer)
Exhibits G/3-G/6
Adoptions for 45 rules in new Subchapter 10A NCAC 13E
 - 3) Emergency Medical Services and Trauma Rules (Tom Mitchell & Nadine Pfeiffer)
Exhibits G/7-G/13
 - a) Readoption with Substantial Change Republication – 10A NCAC 13P .0203
 - b) Readoption – 10A NCAC 13P .0204
- B. Periodic Review of Existing Rules (HB 74) – Final Category Determination**
- 10A NCAC 13B, Licensing of Hospitals (Nadine Pfeiffer & Azzie Conley)
Comments review, final report approval **Exhibits H-H/4**

XI. NEW BUSINESS

Periodic Review of Existing Rules (HB 74) – Initial Category Determination

- 1) 10A NCAC 13C, Licensing of Ambulatory Surgical Facilities (Nadine Pfeiffer)
Azzie Conley & Steven Lewis
Exhibits I-I/2
- 2) 10A NCAC 14A, Rulemaking (Nadine Pfeiffer)
Section .0300 – Hearings: Transfers and Discharges **Exhibits I/3-I/5**

XII. Executive Committee Appointment Dr. John Fagg

The Chairman will appoint a Commission Member to serve out Mr. Charles Frock’s term on the Executive Committee, which will end on December 31, 2018.

XIII. Medicaid Expansion Discussion Dr. John Fagg

XIV. Refunding of Commission Bond Issues

Kathy Larrison

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 12, 2017 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 May 12, 2017.

XV. Adjournment – A motion to adjourn is requested.