

STATE OF NORTH CAROLINA
 DEPARTMENT OF HEALTH AND HUMAN SERVICES
 NORTH CAROLINA MEDICAL CARE COMMISSION MEETING
 DOUBLETREE BY HILTON-ASHEVILLE-BILTMORE
 115 HENDERSONVILLE ROAD ASHEVILLE, NORTH CAROLINA 28803
 CONFERENCE ROOM BURGHLEY A

MEDICAL CARE COMMISSION QUARTERLY MEETING
MAY 15, 2015
9:00 A.M.

AGENDA

I. MEDICAL CARE COMMISSION MEETING– May 15, 2015

MEMBERS PRESENT	MEMBERS ABSENT
John A. Fagg, M.D., Chairperson Joseph D. Crocker, Vice-Chairperson George A. Binder, M.D. George H.V. Cecil Charles T. Frock Harold Garland Charles H. Hauser Eileen C. Kugler, RN, MSN, MPH, FNP Albert F. Lockamy, Jr., RPh Paul A. McGill, D.D.S. Mary L. Piepenbring Henry A. Unger, M.D. Paul M. Wiles <u>DIVISION OF HEALTH SERVICE REGULATION STAFF</u> Drexdal Pratt, Director, DHSR/Secretary, MCC Christopher B. Taylor, CPA, Assistant Secretary, MCC Patricia L. Christian, PhD Steven Lewis, Chief, Construction Section, DHSR Tom Mitchell, Office of Emergency Medical Services, DHSR Nadine Pfeiffer, Rules Coordinator, DHSR Diana Barbry, Executive Assistant, DHSR Alice Creech, Executive Assistant, MCC	Elizabeth P. Kanof, M.D. G. Wayne Long Carl K. Rust, M.D. Robert E. Schaaf, M.D.

OTHER ATTENDANCE: (attached as Exhibit E)

II. CHAIRPERSON'S COMMENTS – Dr. Fagg welcomed everyone to the meeting and thanked Mr. George H. V. Cecil for the dinner and hospitality last night and hosting the meeting at his hotel. Dr. Fagg then questioned the Members to see if anyone had a conflict of interest with anything coming before the Commission. Dr. Fagg reminded the Members that in accordance with the Advisory Opinion dated November 19, 2010, any Commission Member with \$10,000 or more invested in a particular bank would need to abstain from voting on a project, in which the bank was involved. He said respect to the conflict of interest, the Commission requested some help from the Ethics Commission two years ago and they said we did not have enough information. So Dr. Fagg sent a lengthy letter to the Ethics Commission. He thanked the Commission

Members who shared with him their private holdings in banks and they were identified in the letter as Commissioner A, Commissioner B, and Commissioner C. The Ethics Commission came back and looked at our information and told us they do not think the banks have a conflict because the banks are so big and money is so small compared to their capitalism. Therefore, it would be stretching the imagination to think that a Commission Member would have a conflict. The Ethics Commission came back to us and said that ethically we are okay. Then the Attorney General's Office told us if you own one dollar in a bank you have a conflict of interest and the definition of participation means vote. So if Commission Members have money in a particular bank that comes before for the Commission, you can participate in the discussion up until the vote. Bethany Burgon of the Attorney General's Office is presently working on a conflict of interest policy for the Commission Members in regards to voting.

III. APPROVAL OF MINUTES from the February 11 & 12, 2015 Medicaid Reform Meeting and February 13, 2015 Quarterly Medical Care Meeting is requested (attached as Exhibit A**)**

Commission Action: Motion was made by Dr. McGill, seconded by Mr. Crocker and unanimously approved.

**IV. RESOLUTION OF APPRECIATION WAS APPROVED FOR:
George H. V. Cecil (**attached as Exhibit A/2**)**

Commission Action: Motion was made by Mr. Crocker, seconded by Mr. Lockamy and unanimously approved with Mr. Cecil abstaining from the vote.

V. DIVISION DIRECTOR'S REPORT – Drexdal Pratt

Mr. Pratt reported that the Budget came out from the House of Representatives side and it doesn't seem to be that bad as in the past. We are waiting for the Senate to come out with their version of the Budget and it should be available sometime next week. One of the things that we have noticed that we will be taking up with the Commission Members is the General Assembly is putting in bills and directing them to the Department of Health and Human Services instead of directing them to the Medical Care Commission for rulemaking. One of the bills introduced will be to make overnight respite statewide available for those who need it. This will be a lengthy process. We feel that this will need to come to the Commission for approval. Other things that we have pending in the Budget to make you aware of regarding CON is they are planning to setup a pilot project in three areas of the State with a maximum of 50 beds each for rural hospitals that want to convert unused acute care beds to psych beds to see how it works. This is already a CON exemption and they have added money to the project this time to see if it will work. My staff is working very hard. We have consolidated a couple of sections within the Division. The Medical Facilities Planning Section and the Certificate of Need Section are now one section. Our Compliant Intake Unit has been consolidated with our Healthcare Personnel Registry Section. We are trying to home base more folks and close regional offices to save money and be more efficient. Mr. Pratt congratulated Mr. Cecil on his retirement from the Commission and thanked him for working with the staff for so many years. Other items of note are listed below (**see Exhibits B-B/5**)

1. Quarterly Report on Bond Program (**attached as Exhibit B**).
2. Report on 30 Years of Issuance Data July 1, 1984 - June 30, 2014 (**attached as Exhibit B/1**).

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

February 27, 2015 – To consider (1) a conversion of the Series 2006 Bonds for Duke Health, (2) a preliminary refunding for United Church Homes and Services and (3) a resolution authorizing the sale and issuance of bonds, the proceeds of which will be loaned to Mission Health System, Inc. (**attached as Exhibit B/2**).

March 17, 2015 – To consider (1) a resolution authorizing the sale and issuance 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, (2) the extension of the bank holding period for the Commission's Health Care Facilities Revenue Bonds (Duke University Health System) Series 2006, consisting of Series 2006A, Series 2006B and Series 2006C and (3) 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. (**attached as Exhibit B/3**).

March 24, 2015 – To consider a resolution authorizing the issuance and sale of bonds, the proceeds of which will be loaned to United Church Homes and Services and to discuss Rex Hospital's Immediate Jeopardy Status. (**attached as Exhibit B/4**).

April 2, 2015 – To consider a resolution authorizing the sale of bonds, the proceeds of which will be loaned to Maryfield, Incorporated. (**attached as Exhibit B/5**).

VI. **PRESENTATION**Kathy Larrison & Crystal Watson-Abbott
Update on Quarterly 2013 Bond Compliance Examinations. (**attached as Exhibit C**).

VII. **BOND PROJECTS**

A. **Deerfield Episcopal Retirement Community, Inc. – Asheville, NC**

Statements were given by: Christopher Taylor, Robert Chandler, Bob Wernet of Deerfield and Tommy Brewer of BB&T.

Commission Action: Motion was made by Dr. Unger, seconded by Mr. Frock and unanimously approved with Mr. Cecil abstaining from the vote.

Resolved: The Commission grants preliminary approval to a financing for Deerfield Episcopal Retirement Community, Inc. to provide funds, to be used together with other available funds, to advance refund of the North Carolina Medical Care Commission \$47,945,000 Health Care Retirement Facilities First Mortgage Revenue Refunding Bonds (Deerfield Episcopal Retirement Community) Series 2008A, outstanding in the amount of \$46,945,000. The advance refunding is estimated to generate \$2.4 million or 5% of the refunded bonds in savings. The project is in accordance with an application received as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$54,745,000
Debt service reserve fund from Series 2008A Bonds	5,477,613

Principal and Interest accounts from 2008 A Bonds	<u>707,447</u>
Total Sources	\$60,930,060

ESTIMATED USES OF FUNDS

Escrow to advance refund Series 2008A Bonds (principal and interest to call date)	\$54,781,941
Debt service reserve fund	5,068,925
Underwriter's discount	739,058
Bond counsel	75,000
Corporation counsel	25,000
Underwriter's counsel	50,000
Local Government Commission	8,750
Rating agency	50,000
Title recording	30,000
Survey	35,000
Environmental	5,000
Auditors	30,000
Bond trustee	6,000
Trustee counsel	6,500
Printing official statement	8,500
Miscellaneous	<u>10,386</u>
Total Uses	\$60,930,060

Tentative approval is given with the understanding that the governing board of Deerfield Episcopal 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 | <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 2014 Audit

Operating income	\$5,531,313
Change in unrestricted net assets	\$4,579,212
Change in net assets	\$4,404,617
Net cash provided by operating activities	\$10,345,889
Net change in cash	\$10,769,974

(2) Rating: BBB+ from Fitch

(3) Long Term Service Coverage Ratios

Actual FYE 2014	<u>2.26</u>
Projected FYE 2015	<u>1.98</u>
Projected FYE 2016	<u>2.00</u>
Projected FYE 2017	<u>2.00</u>

(4) Community Benefit Percentage G.S. 105- for FYE 2014

G.S. 105 Percentage -	5.30%
Property tax exemption -	100%

(5) Transaction Participants

Underwriter - Ziegler Securities
 Borrowers counsel - McGuire Woods & Bissette
 Bond counsel - Womble Carlyle Sandridge & Rice, LLP
 Bond trustee - US Bank
 Underwriter's counsel - Robinson Bradshaw & Hinson, PA

B. Iredell Memorial Hospital, Incorporated – Statesville, NC

Statements were given by: Christopher Taylor and Skip Smith of Iredell Memorial Hospital.

Commission Action: Motion was made by Dr. Binder, seconded by Mr. Lockamy and unanimously approved with Mr. Cecil, Dr. Fagg, Mr. Hauser, Dr. McGill and Mr. Wiles abstaining from the vote.

Resolved: The Commission grants preliminary approval to a conversion/reissuance of the North Carolina Medical Care Commission \$39,465,000 Variable Rate Demand Hospital Revenue Bonds (Iredell Memorial Hospital) Series 2007. The Bonds are currently held by Wells Fargo as Bank Bought Bonds and carry an interest rate of 70% of One Month LIBOR Plus .75% with a holding period ending June 30, 2015. After the conversion/reissuance the Bonds will be held as Bank Bought Bonds by Branch Banking & Trust Company and bear interest at a rate of 68% of one month LIBOR plus .79% for a three year holding period ending June 30, 2018. The project is in accordance with an application received as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of Bonds to be refunded/converted	\$29,215,000
Equity contribution from Iredell Memorial Hospital	80,000
Total Sources	\$29,295,000

ESTIMATED USES OF FUNDS

Amounts to reissue Series 2007 Bonds	\$29,215,000
Corporation counsel	30,000
Bond counsel	20,000
Bank counsel	30,000
Total Uses	\$29,295,000

Tentative approval is given with the understanding that the governing board of The Iredell Memorial Hospital, 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/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 for this project and may approve the issuance/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 converted/reissued 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 | <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 2014 Audit**

Operating Income (Less)	(\$4,415,738)
Increase (decrease) in unrestricted Net Assets	(\$2,689,003)
Increase (decrease) in Net Assets	(\$2,689,003)
Net Cash Provided by Operating Activities	\$9,146,175
Net Increase (Decrease) in Cash and Cash Equivalents	\$151,275
- (2) **Rating:** The Bonds are currently held as Bank Bought Bonds and are not rated.
- (3) **Community Benefits Per NCHA ANDI Report**

Community Benefits	\$34,793,901
Bad Debts	<u>\$13,183,061</u>
Total	\$47,976,962

(4) Long Term Debt Service Coverage Ratios

Actual	FYE 2014	<u>2.3</u>
Forecasted	FYE 2015	<u>5.94</u>
Forecasted	FYE 2016	<u>6.24</u>
Forecasted	FYE 2017	<u>7.04</u>

(5) Transaction Participants

Bank Purchaser of Bonds	Branch Banking & Trust Company
Bond Counsel	Robinson Bradshaw & Hinson, PA
Corporation Counsel	Womble Carlyle Sandridge & Rice, LLP
Bank Counsel	Moore & Van Allen, PLLC
Trustee	Wells Fargo

C. Moravian Home, Inc. (d/b/a Salemtowne), Winston Salem

Statements were given by: Christopher Taylor, Steven Lewis, Joe Lydon and Carolyn Twisdale of Salemtowne and Tommy Brewer of BB&T.

Commission Action: Motion was made by Ms. Kugler, seconded by Mr. Cecil and unanimously approved.

Resolved: The Commission grants preliminary approval to an **amended** 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	\$41,850,000
Corporation Equity	680,000
Total Sources	\$42,530,000

ESTIMATED USES OF FUNDS

Site Cost	\$3,715,759
Site utility development and accessibility costs	1,249,638
Construction contracts	27,963,243
Construction contingency (5% of construction contract)	282,457
Architect/engineer fees and reimbursables	1,524,637
Surveys, tests, insurance	679,005

Consultants' fees related to construction Owner Representation	400,374
Consultants' fees related to construction Project Management	563,750
Marketing costs	115,000
Interior Design	111,713
Capitalized interest	2,524,566
Debt service reserve fund	2,459,433
Underwriters' discount/placement fee	523,125
Feasibility fees	125,000
Accountants fees	20,000
Legal fees for corporation counsel	25,000
Bond counsel	60,000
Miscellaneous	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	20,000
Total Uses	\$42,530,000

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	Ziegler
Bond Counsel	Robinson Bradshaw & Hinson, PA
Underwriter Counsel	Parker Poe Adams & Bernstein, LLP
Corporation Counsel	Womble Carlyle Sandridge & Rice, LLP
Financial Advisor	PFM
Trustee	Bank of New York Mellon Trust Company

VI. OLD BUSINESS

None to report

VIII. NEW BUSINESS

Nadine Pfeiffer gave a report on the following rules:

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

10A NCAC 13P, Emergency Medical Services and Trauma Rules (**attached as Exhibits D – D/1**).

Commission Action: Motion was made by Mr. Wiles, seconded by Dr. Unger and unanimously approved.

IX. MCC MEETING DATE CHANGE – In order to accommodate the rule-making process, we have moved the August meeting to July 9-10, 2015.

X. REFUNDING OF COMMISSION BOND ISSUES

Resolved:

Commission Action: Motion was made by Mr. Crocker, seconded by Dr. McGill and unanimously approved.

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 July 10, 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 July 10, 2015.

XI. MEMBER REPORT

It was unanimously agreed that at our next meeting we will be discussing two bond issues that have already been approved. The bond issues that we plan to discuss will be Vidant Health and Pennybyrn at Maryfield. There will be a discussion on four of the Commission's Guideline Policies, which are the following:

- (1) Health Care Facilities Finance Act Implementation Guidelines;
- (2) Bond Rating Policy;
- (3) Bond Counsel Policy;
- (4) Swap Policy.

We will also be discussing and considering a potential guideline regarding compliance and what facilities and hospitals are calling themselves.

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

XIII. ADJOURNMENT

There being no further business, the meeting was adjourned at 10:50 A.M.

Respectfully Submitted,



Drexdal R. Pratt, Secretary

June 5, 2015