

NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

The North Carolina Medical Care Commission
809 Ruggles Drive
Raleigh, North Carolina

MINUTES

CALLED MEETING OF THE EXECUTIVE COMMITTEE
CONFERENCE TELEPHONE MEETING ORIGINATING
FROM THE COMMISSION'S OFFICE

AUGUST 6, 2015

2:00 P.M.

Members of the Executive Committee Present:

John A. Fagg, M.D., Chairman
Joseph D. Croker, Vice-Chairman
Charles T. Frock
Charles H. Hauser
Albert F. Lockamy, RPh

Members of the Executive Committee Absent:

Mary L. Piepenbring

Members of Staff Present:

Christopher B. Taylor, CPA, Assistant Secretary
Crystal Watson-Abbott, Auditor
Kathy C. Larrison, Auditor
Alice S. Creech, Executive Assistant to the Assistant Secretary

Others Present:

Tommy Brewer, Ziegler
Adam Garcia, Ziegler
Joseph Lydon, Salemtowne
Allen Robertson, Robinson Bradshaw & Hinson, PA
Carolyn Twisdale, Salemtowne

1. **Purpose of Meeting**

To authorize the sale of bonds, the proceeds of which are to be loaned to Moravian Home, Incorporated d/b/a Salemtowne and to authorize a conversion for Hugh Chatham Memorial Hospital Project, Series 2008 to as new "Index Interest Rate" mode.

2. **Resolution of the North Carolina Medical Care Commission Authorizing the Issuance of \$42,585,000 North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Bonds (Salemtowne Project) Series 2015 – Remarks were made by Tommy Brewer, Allen Robertson and Carolyn Twisdale.**

Executive Committee Action: Motion was made by Dr. Fagg, seconded by Mr. Frock and unanimously approved.

WHEREAS, the North Carolina Medical Care Commission (the "Commission") is a commission of the Department of Health and Human Services of the State of North Carolina and is authorized under Chapter 131A of the General Statutes of North Carolina, as amended (the "Act"), to borrow money and to issue in evidence thereof bonds and notes for the purpose of providing funds to pay all or any part of the cost of financing or refinancing health care facilities (including retirement facilities); and

WHEREAS, Moravian Home, Incorporated d/b/a Salemtowne (the "Corporation") is a nonprofit corporation duly incorporated and validly existing under and by virtue of the laws of the State of North Carolina and is a "nonprofit agency" within the meaning of the Act; and

WHEREAS, the Corporation has made application to the Commission for a loan for the purpose of providing funds, together with other available funds, to (a) pay or reimburse the Corporation for paying all or a portion of the cost of improving and expanding its continuing care retirement community, including constructing, furnishing and equipping a new nursing facility, which will initially contain 100 skilled nursing beds (40 of which will be used as rehabilitation beds) and 20 assisted living memory care beds (the "Project"); (b) pay interest accruing on the Bonds to August 1, 2016; (c) fund a debt service reserve fund and (d) pay certain expenses incurred in connection with the issuance of the Bonds by the Commission; and

WHEREAS, the Commission has determined that the public will best be served by the proposed financing and, by a resolution adopted on May 15, 2015, has approved the issuance of the Bonds, subject to compliance by the Corporation with the conditions set forth in such resolution, and the Corporation has complied with such conditions to the satisfaction of the Commission; and

WHEREAS, there have been presented at this meeting draft copies of the following documents relating to the issuance of the Bonds:

- (a) a Contract of Purchase, dated August 6, 2015 (the "Purchase Agreement"), between B.C. Ziegler & Company, as representative of the other underwriters named therein (collectively, the "Underwriters"), and the Local Government Commission of

North Carolina (the "LGC"), and approved by the Commission and the Corporation, pursuant to which the Underwriters have agreed to purchase the Bonds on the terms and conditions set forth therein and in the Trust Agreement (as defined below);

(b) a Trust Agreement, dated as of August 1, 2015 (the "Trust Agreement"), between the Commission and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"), the provisions of which relate to the issuance of and security for the Bonds and includes the form of the Bonds;

(c) a Loan Agreement, dated as of August 1, 2015 (the "Loan Agreement"), between the Commission and the Corporation, pursuant to which the Commission will lend the proceeds of the Bonds to the Corporation;

(d) an Amended and Restated Master Trust Indenture, dated as of August 1, 2015 (the "Master Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee");

(e) a Supplemental Indenture for Obligation No. 4, dated as of August 1, 2015 ("Supplement No. 4"), between the Corporation and the Master Trustee;

(f) Obligation No. 4, dated the date of delivery of the Bonds ("Obligation No. 4"), to be issued by the Corporation to the Commission;

(g) an Amended and Restated Deed of Trust, dated as of August 1, 2015 (the "Corporation Deed of Trust"), from the Corporation to the trustee named therein for the benefit of the Master Trustee;

(h) an Assignment of Contracts, dated as of August 1, 2015, from the Corporation to the Master Trustee; and

(i) a Preliminary Official Statement dated July 15, 2015 relating to the Bonds, as supplemented by a Supplement thereto dated July 21, 2015 (as supplemented, the "Preliminary Official Statement"); and

WHEREAS, the Commission has determined that the Corporation is financially responsible and capable of fulfilling its obligations under the Loan Agreement, the Master Indenture, Supplement No. 4 and Obligation No. 4; and

WHEREAS, the Commission has determined that adequate provision has been made for the payment of the principal of, redemption premium, if any, and interest on the Bonds;

NOW, THEREFORE, THE NORTH CAROLINA MEDICAL CARE COMMISSION DOES HEREBY RESOLVE, as follows:

Section 1. Capitalized words and terms used in this Series Resolution and not defined herein shall have the same meanings in this Series Resolution as such words and terms are given in the Master Indenture, the Trust Agreement and the Loan Agreement.

Section 2. Pursuant to the authority granted to it by the Act, the Commission hereby authorizes the issuance of North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Bonds (Salem Towne Project) Series 2015 (the "Bonds"), in the aggregate principal amount of \$42,585,000. The Bonds shall mature in such amounts and at such times and shall bear interest at such rates as are set forth in Schedule 1 attached hereto. The Bonds designated as Term Bonds shall be subject to the Sinking Fund Requirements set forth in Schedule 1 hereto.

The Bonds shall be issued as fully registered bonds in the denominations of \$5,000 or any whole multiple thereof. The Bonds shall be issued in book-entry form as provided in the Trust Agreement. Interest on the Bonds shall be paid on each April 1 and October 1, beginning October 1, 2015. Payments of principal of and interest on the Bonds shall be made to the registered owners of the Bonds in such manner as is set forth in the Trust Agreement.

Section 3. The Bonds shall be subject to optional, extraordinary and mandatory sinking fund redemption, all at the times, upon the terms and conditions, and at the prices set forth in the Trust Agreement.

Section 4. The proceeds of the Bonds shall be applied as provided in Section 2.08 of the Trust Agreement. The Commission hereby finds that the use of the proceeds of the Bonds for a loan to fund a portion of the cost of the Project, fund a debt service reserve fund, fund a portion of the interest on the Bonds and pay costs of issuing the Bonds will accomplish the public purposes set forth in the Act.

Section 5. The forms, terms and provisions of the Trust Agreement and the Loan Agreement are hereby approved in all respects, and the Chairman or Vice Chairman (or any member of the Commission designated by the Chairman) and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute and deliver the Trust Agreement and the Loan Agreement in substantially the forms presented at this meeting, together with such changes, modifications and deletions as they, with the advice of counsel, may deem necessary and appropriate, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 6. The form, terms and provisions of the Purchase Agreement are hereby approved in all respects, and the Chairman, Vice Chairman, Secretary or any Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) is hereby authorized and directed to execute and deliver the Purchase Agreement in substantially the form presented at this meeting, together with such changes, modifications, insertions and deletions as they, with the advice of counsel, may deem necessary and appropriate, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 7. The forms of the Bonds set forth in the Trust Agreement are hereby approved in all respects, and the Chairman or Vice Chairman (or any member of the Commission designated by the Chairman) and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute, by manual or facsimile signature as provided in such forms of the Bonds, and to deliver to the Bond Trustee for authentication on behalf of the Commission, the

Bonds in definitive form, which shall be in substantially the forms presented at this meeting, together with such changes, modifications and deletions as they, with the advice of counsel, may deem necessary, appropriate and consistent with the Trust Agreement, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 8. The forms, terms and provisions of the Master Indenture, Supplement No. 4, Obligation No. 4, the Corporation Deed of Trust and the Assignment of Contracts are hereby approved in substantially the forms presented to this meeting, together with such changes, modifications and deletions as the Chairman or Vice Chairman (or any member of the Commission designated by the Chairman) and the Secretary or any Assistant Secretary of the Commission, with the advice of counsel may deem necessary and appropriate; and the execution and delivery of the Trust Agreement as provided in Section 5 of this Series Resolution shall be conclusive evidence of the approval of the documents listed in this Section by the Commission.

Section 9. The Commission hereby approves the action of the Local Government Commission in awarding the Bonds to the Underwriters at the purchase price of \$41,647,688.15 (representing the principal amount of the Bonds less original issue discount of \$404,999.35 and less underwriters' discount of \$532,312.50).

Section 10. Upon their execution in the form and manner set forth in the Trust Agreement, the Bonds shall be deposited with the Bond Trustee for authentication, and the Bond Trustee is hereby authorized and directed to authenticate the Bonds and, upon the satisfaction of the conditions set forth in Section 2.08 of the Trust Agreement, the Bond Trustee shall deliver the Bonds to the Underwriters against payment therefor.

Section 11. The Commission hereby approves and ratifies the use and distribution of the Preliminary Official Statement and approves the use and distribution of a final Official Statement (the "Official Statement"), both in connection with the sale of the Bonds. The Chairman, Vice Chairman, Secretary or any Assistant Secretary (or any member of the Commission designated by the Chairman) is hereby authorized to execute, on behalf of the Commission, the Official Statement in substantially the form of the Preliminary Official Statement, together with such changes, modifications and deletions as they, with the advice of counsel, may deem appropriate. Such execution shall be conclusive evidence of the approval thereof by the Commission. The Commission hereby approves and authorizes the distribution and use of copies of the Official Statement, the Trust Agreement, the Loan Agreement, the Master Indenture, Supplement No. 4, Obligation No. 4, the Corporation Deed of Trust and the Assignment of Contracts by the Underwriters in connection with such sale.

Section 12. The Bank of New York Mellon Trust Company, N.A. is hereby appointed as the initial Bond Trustee for the Bonds.

Section 13. The Depository Trust Company, New York, New York is hereby appointed as the initial Securities Depository for the Bonds, with Cede & Co., a nominee thereof, being the initial Securities Depository Nominee and initial registered owner of the Bonds.

Section 14. Drexdal R. Pratt, Secretary of the Commission, Christopher B. Taylor, C.P.A., Assistant Secretary of the Commission, Steven Lewis, Chief of the Construction Section of the Division of Health Service Regulation, and Kathy C. Larrison and Crystal Watson-Abbott, Auditors for the Commission, are each hereby appointed a Commission Representative as that term is defined in the Loan Agreement, with full power to carry out the duties set forth therein.

Section 15. The Chairman, Vice Chairman, Secretary, and any Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) are each hereby authorized and directed (without limitation except as may be expressly set forth herein) to take such action and to execute and deliver any such documents, certificates, undertakings, agreements or other instruments as they, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by the Trust Agreement, the Loan Agreement, the Purchase Agreement and the Official Statement.

Section 16. This Series Resolution shall take effect immediately upon its passage.

Schedule 1

\$4,000,000 5.25% Term Bonds due October 1, 2035

<u>Due October 1</u>	<u>Sinking Fund Requirement</u>
2031	\$740,000
2032	770,000
2033	800,000
2034	830,000
2035*	860,000

* Maturity

\$11,840,000 5.25% Term Bonds due October 1, 2037

<u>Due October 1</u>	<u>Sinking Fund Requirement</u>
2031	\$1,190,000
2032	1,260,000
2033	1,340,000
2034	1,420,000
2035	1,510,000
2036	2,495,000
2037*	2,625,000

* Maturity

\$26,745,000 5.375% Term Bonds due October 1, 2045

<u>Due October 1</u>	<u>Sinking Fund Requirement</u>
2038	\$2,765,000
2039	2,910,000
2040	3,070,000
2041	3,235,000
2042	3,405,000
2043	3,590,000
2044	3,785,000
2045*	3,985,000

* Maturity

Professional Fees Comparison for
Salem towne

<u>Professional</u>	<u>Fees Estimated In Preliminary Approval Resolution</u>	<u>Actual Fees</u>
Underwriter's discount	\$531,750	\$532,313
Underwriter's Counsel	N/A ¹	50,000
Feasibility Consultant	125,000	134,700
Accountants	20,000	40,000
Corporation Counsel	25,000	25,000
Bond Counsel	60,000	60,000
Financial advisor	40,000	40,000

¹ The fee estimate for Underwriter's Counsel was inadvertently omitted from the NCMCC application and, therefore, the preliminary approval. A fee estimate of \$50,000 for Underwriter's Counsel was included in the Request for Information filed with the Local Government Commission.

3. Resolution of the North Carolina Medical Care Commission Approving the Conversion of the North Carolina Medical Care Commission Variable Rate Demand Health Care Facilities Revenue Bonds (Hugh Chatham Memorial Hospital Project) Series 2008 to a new "Index Interest Rate" Mode – Remarks were made by Kathy Larrison, Allen Robertson and Don Trippel.

Executive Committee Action: Motion was made by Mr. Lockamy, seconded by Mr. Frock and unanimously approved with Dr. Fagg abstaining from the vote.

WHEREAS, the North Carolina Medical Care Commission (the "Commission") is a commission of the Department of Health and Human Services of the State of North Carolina and is authorized under Chapter 131A of the General Statutes of North Carolina, as amended (the "Act"), to borrow money and to issue in evidence thereof bonds and notes for the purpose of providing funds to pay all or any part of the cost of financing or refinancing health care facilities and to refund bonds previously issued by the Commission; and

WHEREAS, Hugh Chatham Memorial Hospital, Inc. d/b/a Hugh Chatham Memorial Hospital (the "Corporation") is a nonprofit corporation duly incorporated and validly existing under and by virtue of the laws of the State of North Carolina and is a "non-profit agency" within the meaning of the Act; and

WHEREAS, on September 24, 2008, the Commission issued its Variable Rate Demand Health Care Facilities Revenue Bonds (Hugh Chatham Memorial Hospital Project) Series 2008 in the aggregate principal amount of \$45,455,000, of which \$42,235,000 principal amount are outstanding (the "Bonds"), pursuant to a Trust Agreement, dated as of September 1, 2008 (the "Original Trust Agreement"), between the Commission and U.S. Bank National Association, as bond trustee (the "Bond Trustee"), and loaned the proceeds from the sale of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of September 1, 2008 (the "Original Agreement"), between the Commission and the Corporation; and

WHEREAS, upon their original issuance, the Bonds bore interest at the Weekly Rate (as defined in the Original Trust Agreement) and were secured by an irrevocable letter of credit (the "Letter of Credit") issued by Wachovia Bank, National Association, succeeded by Wells Fargo Bank, National Association (the "Bank"); and

WHEREAS, on July 25, 2013, the Original Trust Agreement was amended and restated to add an "Index Interest Rate" mode and the Bonds were converted to that mode; and

WHEREAS, as an alternative to renewing the Letter of Credit, Wells Fargo Municipal Capital Strategies, LLC, an affiliate of the Bank (the "Purchaser"), purchased the Bonds and agreed to hold them for three years at a variable interest rate equal to 70% of the one-month LIBOR Index plus 1.65% per annum, subject to adjustment under certain circumstances set forth in the Amended and Restated Trust Agreement, dated as of July 25, 2013 (the "Trust Agreement"), between the Commission and the Bond Trustee and the Continuing Covenant Agreement, dated as of July 25, 2013 (the "Continuing Covenant Agreement"), between the Corporation and the Purchaser; and

WHEREAS, the Corporation has requested that the Purchaser extend its holding period for the Bonds by two years (i.e., until July 25, 2018) and the Purchaser is willing to do so using the same interest rate formula (70% of the one-month LIBOR Index plus 1.65% per annum), but subject to modification of certain covenants contained in the Continuing Covenant Agreement; and

WHEREAS, to accomplish this extension, the Corporation will exercise its right under the Trust Agreement to convert the Bonds to a new Index Interest Rate mode on September 1, 2015; and

WHEREAS, on the conversion date, the Purchaser will tender its existing Bond R-2 and purchase a new Bond R-3 in the new Index Interest Mode; and

WHEREAS, the conversion of the Bonds to the new Index Interest Rate mode (the "Conversion") will be treated as a "reissuance" (i.e., a deemed current refunding) of the Bonds for federal income tax purposes; and

WHEREAS, there have been presented at this meeting draft copies of the following documents relating to the Conversion:

(a) the conversion notice to be given by the Corporation;

(b) Bond R-3; and

(c) a First Amendment to Continuing Covenant Agreement to be effective on September 1, 2015, between the Corporation and the Purchaser;

NOW, THEREFORE, THE NORTH CAROLINA MEDICAL CARE COMMISSION DOES HEREBY RESOLVE, as follows:

Section 1. Pursuant to the authority granted to it by the Act, the Commission hereby authorizes and approves the Conversion.

Section 2. The Chairman, Vice Chairman, Secretary, and any Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) are each hereby authorized and directed (without limitation except as may be expressly set forth herein) to take such action and to execute and deliver any such documents, certificates, undertakings, agreements or other instruments as they, with the advice of counsel, may deem necessary or appropriate to effect the Conversion.

Section 3. This resolution shall take effect immediately upon its passage.

Notes:

(1) Information from 2014 Audit

Operating Income (Loss)	(\$2,973,014)
Increase (decrease) in unrestricted Net Assets	\$9,712,000
Increase (decrease) in Net Assets	\$10,009,975
Net Cash Provided by Operating Activities	\$7,653,003
Net Increase (Decrease) in Cash and Cash Equivalents	\$1,375,827

(2) Rating: The Bonds are currently held as Bank Bought Bonds and are not rated.

(3) Community Benefits Per NCHA ANDI Report – FYE 2014

Community Benefits	\$4,632,481
Bad Debts	<u>\$7,927,530</u>
Total	\$12,560,011

(4) Long Term Debt Service Coverage Ratios

Actual	FYE 2014	<u>4.07</u>
Forecasted	FYE 2015	<u>3.14</u>
Forecasted	FYE 2016	<u>3.60</u>
Forecasted	FYE 2017	<u>3.77</u>

(5) Transaction Participants

Bank Purchaser of Bonds	Wells Fargo Municipal Capital Strategies, LLC
Bond Counsel	Robinson Bradshaw & Hinson, PA
Corporation Counsel	Womble Carlyle Sandridge & Rice, LLP
Bank Counsel	Kutak Rock, LLP
Financial Advisor	Efficient Capital Corp
Trustee	US Bank

<u>Professional</u>	<u>Fees</u>
Bank counsel	\$10,000
Financial advisor	2,500
Bond counsel	20,000
Corporation counsel	10,000
Trustee fees	5,000

(6) Board Diversity – 16 Members

Caucasian	16	Male	13
		Female	3

(7) **Compliance Update**

The last report on bond compliance for Hugh Chatham Memorial Hospital, Inc. was for the fiscal year ending September 30, 2013 at the May 15, 2015 Medical Care Commission (MCC) meeting held in Asheville, NC.

As of July 31, 2015, the following routine/typical documents have been filed late to the MCC:

1. Annual Officer Certificate of Compliance for FYE 2014
2. Operating and Capital Budgets for FYE 2015
3. Completed Compliance Checklist for FYE 2014

The hospital is in compliance with the Days Cash on Hand, Cash to Indebtedness Ratio and Long-Term Debt Service Coverage Ratio requirements as of FYE 2014.

The routine/typical annual document filings for FYE 2015 are not yet due. The quarterly financial statements and statistics for FYE 2015 have been timely filed to the MCC.

Secondary Market Disclosure filing requirements are current and timely filed.

An in depth bond compliance examination of FYE 2014 and 2015 will be completed at a later date. At that time, other findings may be identified that are not routine and typical.

4. **Adjournment**

There being no further business, the meeting was adjourned at 3:00 p.m.

Respectfully submitted,



Christopher B. Taylor, C P A
Assistant Secretary