

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
JUNE 27, 2013
11:00 A.M.**

Members of the Executive Committee Present:

Lucy Hancock Bode, Chairman
Dr. George Binder
George H.V. Cecil
Albert F. Lockamy

Members of the Executive Committee Absent:

Joseph D. Crocker, Vice Chairman
Mary Piepenbring
Dr. Carl K Rust

Members of Staff Present:

Christopher B. Taylor, CPA, Assistant Secretary
Alice S. Creech, Bond Program Assistant

Others Present:

John Franklin, BB&T Capital Markets
Vicki White, BB&T Capital Markets
David Hughes, Vidant Health
John Cheney, Ponder & Company
Don Trippel, Hugh Chatham Memorial Hospital
Allen Robertson, Robinson Bradshaw & Hinson, PA

1. Purpose of Meeting

To consider (1) a resolution that grants preliminary approval to a project for Galloway Ridge, (2) a resolution that grants preliminary approval to a project for Hugh Chatham Memorial Hospital, (3) a resolution that grants preliminary approval to a project for Vidant Health, and (4) a resolution authorizing the execution and delivery of a First Supplemental Trust Agreement for the 2007 Bonds issued for the benefit of Iredell Memorial Hospital.

2. Galloway Ridge, Inc. Pittsboro-Christopher B. Taylor & John Franklin

Executive Committee Action: A motion was made by Dr. George Binder, seconded by Mr. Al Lockamy and unanimously approved with Mrs. Lucy Bode abstaining from the vote.

Resolution: The Commission grants preliminary approval to a project for Galloway Ridge, Inc. to provide funds, to be used with other available funds, to refund the North Carolina Medical Care Commission \$15,000,000 Retirement Facilities First Mortgage Revenue Bonds (Galloway Ridge Project) Series 2010B outstanding in the amount of \$15,000,000. The fixed rate refunding will eliminate interest rate risks associated with adjustable rate bonds. The project is in accordance with an application received as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of bonds to be issued	\$15,790,000
Corporation equity contribution	169,525
Series 2010B interest account fund	<u>53,125</u>
Total	\$16,012,650

ESTIMATED USES OF FUNDS

Escrow to refund Series 2010B Bonds	15,363,750
Debt service reserve fund	162,031
Underwriter's discount and counsel (\$50,000)	276,325
Feasibility study	70,000
Accountants fee	10,000
Corporation counsel	20,000
Bond counsel	60,000
Trustee fee and counsel (\$4,000)	9,000
Printing costs	5,000
Local Government Commission fee	8,750
Miscellaneous	<u>27,794</u>
Total	\$16,012,650

Tentative approval is given with the understanding that the governing board of Galloway Ridge, 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 Cork's as adopted on November 9, 2007.

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:

A)	2012 Financial Information	<u>2012 Actual</u>	<u>Original Forecast</u>
	Operating loss	(\$2,395,609)	(\$3,998,000)
	Increase (Decrease) in Net Deficit	(\$2,257,982)	(\$3,998,000)
	Net cash provided by operating activities	\$14,008,449	(\$42,000)
	Net decrease in cash and cash equivalents	(\$6,736,654) (1)	\$895,000
	(1) Includes early retirement of Series 2010C Bonds Bank Debt.		

B) Community benefit note: Galloway Ridge pays property tax and is not subject to GS 105 Community Benefit Charity Care condition.

C) The Bonds will not be rated

D) Long Term Debt Service Coverage Ratios

Actual FYE	2012	<u>N/A</u>
Forecasted	2013	<u>1.90</u>
Forecasted	2014	<u>1.97</u>
Forecasted	2015	<u>1.75</u>

E) Financing Participants:

Underwriter- BB& T Capital Markets, Senior Manager

Bond Counsel – Robinson Bradshaw & Hinson, PA

Corporation counsel – Womble Carlyle Sandridge & Rice, PLLC

Underwriter’s counsel – McGuire Woods, LLP

F)	2013 Financial Information	<u>Original Forecast</u>	<u>Current Forecast</u>
	Operating Loss	(\$2,191,000)	(\$1,429,000)
	Increase in net deficit	(\$2,191,000)	(\$1,429,000)
	Net cash provided	\$8,748,000	\$5,518,000
	Net increase in cash	\$8,534,000	\$8,315,000
	Cash and Investments	\$30,470,000	\$22,297,000

3. **Hugh Chatham Memorial Hospital, Elkin - Christopher B. Taylor, Don Trippel & Allen Robertson**

Executive Committee Action: A motion was made by Mr. Al Lockamy, seconded by Dr. George Binder and unanimously approved with Mr. George Cecil abstaining from the vote.

Resolution: The Commission grants preliminary approval to a project for Hugh Chatham Memorial Hospital, Inc. to provide funds, to be used together with other available funds, to effect a conversion of the \$45,455,000 North Carolina Medical Care Commission Variable Rate Demand Health Care Facilities Revenue Bonds (Hugh Chatham Memorial Hospital Project) Series 2008 from a Wells Fargo Letter of Credit Backed Variable Rate Bond Issue to a Non Bank Qualified Bond Issue to be purchased by Wells Fargo and held for an initial put period of three years. The bonds will bear interest at the rate of 70% of One Month LIBOR plus 165 basis points during the initial put period. The conversion is being done to negate interest rate risk and bank credit risk associated with a Letter of Credit Bond Issue. 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	\$42,930,000
Corporation equity	<u>183,750</u>
Total	\$43,113,750

ESTIMATED USES OF FUNDS

Amount to convert bonds	42,930,000
Corporation counsel	42,000
Bond counsel	53,000
Trustee fee	5,000
Financial advisor	45,000
Bank counsel	30,000
Local Government Commission fee	<u>8,750</u>
Total uses	\$43,113,750

Tentative approval is given with the understanding that the governing board of Hugh Chatham 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 or conversion of the bonds or notes.
3. Financial feasibility must be determined prior to the issuance or 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 or conversion of bonds for this project and may approve the issuance or 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 sold or 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. 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 Hugh Chatham's 2012 Audit.

Operating Income	\$516,803
Increase in net assets	\$13,167,442
Net cash provided by operating activities	\$6,879,235
Net increase in cash and cash equivalents	\$1,346,106

2) Community Benefits – FY 2012 as reported to NCHA	\$180,612
Estimated costs of treating bad debt patients	<u>\$7,838,649</u>
	\$8,019,261

3) Ratings

Hugh Chatham Memorial Hospital does not have a rating. The bonds are rated on the basis of the Letter of Credit at securing the 2008 Bonds.

4) Long Term Debt Service Coverage Ratios

Actual FYE 2012	3.83
Forecasted FYE 2013	2.63
Forecasted FYE 2014	3.25
Forecasted FYE 2015	3.63

5) Participants

Wells Fargo will be purchasing the Bonds

Bond counsel - Robinson Bradshaw & Hinson, PA

Corporation counsel – Womble Carlyle Sandridge & Rice, PLLC

Bank counsel – Kutak Rock, LLP

4. University Health Systems of Eastern Carolina, Inc. -d/b/a Vidant Health –Greenville-Christopher B. Taylor & David Hughes

Executive Committee Action: A motion was made by Mr. Al Lockamy, seconded by Mr. George Cecil and unanimously approved with Mrs. Lucy Bode abstaining from the vote.

Resolution: The Commission grants preliminary approval to a project for University Health Systems of Eastern Carolina, Inc. (Vidant Health) to provide funds, to be used together with other available funds, to refund the North Carolina Medical Care Commission (1) \$112,690,000 Health Care Facilities Revenue Refunding Bonds (University Health Systems of Eastern Carolina) Series 2008A outstanding in the amount of \$101,265,000, and (2) \$123,850,000 Health Care Facilities Revenue Refunding Bonds (University Health Systems of Eastern Carolina) Series 2008B outstanding in the amount of \$ 111,800,000. The refunding is being done to convert the Bonds to Non-Bank Qualified Bonds. The 2013A and 2013B Bonds are being purchased by TD Bank, NA and Bank of America, NA. The 2013A Bonds are being held by the bank (TD Bank, NA) for a period of 15 years, which is to final maturity (12/1/2028). The 2013B Bonds are being held by the bank (Bank of America, NA) for an initial period of 10 years. The 2013A Bonds will bear interest at 69% of (One Month LIBOR Plus 1.09%). The 2013B Bonds will bear interest at 67% of One Month LIBOR plus 0.75%. The project is in accordance with an application received as follows:

ESTIMATED SOURCES OF FUNDS

Principal amount of Bonds to be issued	\$213,545,000
2008A and 2008B interest account	62,000
Total Sources	\$213,607,000

ESTIMATED USES OF FUNDS

Refund Series 2008A and 2008B Bonds	\$213,065,000
Accountants fee	12,000
Corporation counsel	45,000
Bond counsel	113,000
Trustee fees	18,000
Financial advisor fee	142,200
Bank Origination fees (2 Banks)	102,000
Local Government Commission fee	8,750
Bank counsel fees (2 firms)	70,000
Miscellaneous	31,050
Total Expenditures	\$213,607,000

Tentative approval is given with the understanding that the governing board of University Health Systems of Eastern Carolina, Inc. (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 or conversion of the bonds or notes.
3. Financial feasibility must be determined prior to the issuance or 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 or conversion of bonds for this project and may approve the issuance or 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 sold or 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. 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) Financial information from audit FYE 09/30/2012

Income from Operations	\$112,243,000
Increase (decrease) in Net Assets	\$129,029,000
Net Cash provided by Operating Activities	\$150,089,000
Net increase (decrease) in Cash and Cash Equivalents	(\$6,559,000)

- 2) Ratings
- | | |
|---------|----|
| Fitch | A+ |
| Moody's | A1 |
| S & P | A+ |

- | | |
|--|----------------------------|
| 3) Community Benefits from ANDI Report FYE 09/30/2012 | \$153,913,002 |
| Estimated Costs of Bad Debt | <u>\$60,006,806</u> |
| Total | \$213,919,808 |

- 4) Long Term Debt Service Ratios
- | | | |
|-------------------|----------------------|-------------|
| Actual | FYE 9/30/2012 | 5.34 |
| Forecasted | FYE 9/30/2013 | 5.19 |
| Forecasted | FYE 9/30/2014 | 5.29 |
| Forecasted | FYE 9/30/2015 | 5.29 |

5) **Financing Participants**

Bank of America, N.A. and the TD Bank, N.A. will be purchasing the Bonds

Bond counsel - Womble Carlyle Sandridge & Rice, PLLC

Bank counsel – Bank of America - Parker Poe Adams & Bernstein, LLP

Bank counsel – TD Bank - McGuire Woods, LLP

5. **Resolution of the North Carolina Medical Care Commission Approving and Authorizing Execution and Delivery of a First Supplemental Trust Agreement Relating to the North Carolina Medical Care Commission Variable Rate Demand Hospital Revenue Bonds (Iredell Memorial Hospital), Series 2007 (the “Bonds”) – Remarks were made by Allen Robertson**

Executive Committee Action: A motion was made by Dr. George Binder, seconded by Mr. Al Lockamy and unanimously approved with Mr. George Cecil abstaining from the vote.

WHEREAS, the North Carolina Medical Care Commission (the “Commission”), a commission of the Department of Health and Human Services of the State of North Carolina, has issued \$39,465,000 aggregate principal amount of its Variable Rate Demand Hospital Revenue Bonds (Iredell Memorial Hospital), Series 2007 (the “Bonds”), of which \$31,730,000 aggregate principal amount is outstanding, pursuant to the terms of a Trust Agreement dated as of March 1, 2007 (the “Original Trust Agreement”) between the Commission and First-Citizens Bank & Trust Company, succeeded by U.S. Bank National Association; and

WHEREAS, on June 30, 2011 (the “Conversion Date”) the Commission and Wells Fargo Bank, National Association, as bond trustee (the “Bond Trustee”) entered into an Amended and Restated Trust Agreement dated as of June 30, 2011 (the “Trust Agreement”) for the purpose of amending and restating the Original Trust Agreement to add an “Index Interest Rate” mode and convert to that mode; and

WHEREAS, the Commission has loaned the proceeds from the sale of the Bonds to Iredell Memorial Hospital, Incorporated (the “Corporation”) pursuant to an Amended and Restated Loan Agreement, dated as of June 30, 2011 (the “Loan Agreement”), between the Commission and the Corporation; and

WHEREAS, the Bonds were purchased on the Conversion Date, and continue to be held, by Wells Fargo Bank, National Association (the “Bank Holder”); and

WHEREAS, since the Conversion Date, the Bonds have been bearing interest at an Index Interest Rate (as defined in the Trust Agreement) equal to 70% (the “Applicable Factor” as defined in the Trust Agreement”) of one-month LIBOR plus 0.80% per annum (the “Applicable Spread” as defined in the Trust Agreement); and

WHEREAS, the Bonds are subject to mandatory tender on the Initial Index Interest Rate Purchase Date (as defined in the Trust Agreement), which was initially specified to be June 30, 2013; and

WHEREAS, the Bank Holder has proposed to reduce the Applicable Spread to 0.65%, with corresponding reductions in the possible increases in the Applicable Spread based on the Corporation's Days' Cash on Hand level, and extend the Initial Period (as defined in the Trust Agreement) by changing the Initial Index Interest Rate Purchase Date to June 30, 2014; and

WHEREAS, Sections 1102 and 1107 of the Trust Agreement permit the Commission and the Bond Trustee, with the consent of the Bank Holder as the Holder (as defined in the Trust Agreement) of 100% of the Bonds, to enter into agreements supplemental to the Trust Agreement to make any change to the Trust Agreement; and

WHEREAS, there has been presented at this meeting a draft copy of a First Supplemental Trust Agreement, to be dated the date of delivery thereof (the "Supplement") between the Commission and the Bond Trustee, that would amend the Trust Agreement to make the changes proposed by the Bank Holder; and

WHEREAS, the Corporation has requested that the Commission approve the Supplement and authorize its execution and delivery;

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

Section 1. The form, terms and provisions of the Supplement are hereby approved in all respects, and the Chairman, Vice Chairman, Secretary or Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) are hereby authorized and directed to execute and deliver the Supplement in substantially the form presented at this meeting, together with such changes, modifications and deletions as they, with the advice of bond 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 2. The Chairman, Vice Chairman, Secretary or Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) or any duly authorized Commission Representative under the Trust Agreement are authorized and directed to execute and deliver a replacement Bond reflecting the terms of the Supplement to the Bank Holder and to take such other action and to execute and deliver any such other documents, certificates, undertakings, agreements or other instruments as they, with the advice of bond counsel, may deem necessary or appropriate to effect the changes made in the Supplement.

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

6. Adjournment

There being no further business, the meeting was adjourned at 11:30 a.m.

Respectfully Submitted,

Christopher B. Taylor, C.P.A.
Assistant Secretary