

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
JANUARY 24, 2014
11:00 A.M.

Members of the Executive Committee Present:

Lucy Hancock Bode, Chairman
Joseph D. Crocker, Vice-Chairman
George H. V. Cecil
Albert F. Lockamy
Dr. Carl K. Rust

Members of the Executive Committee Absent:

Dr. George A. Binder
Mary L. Piepenbring

Members of Staff Present:

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

Others Present:

Deborah Pressley, Lower Cape Fear Hospice
Shari Reese, CaroMont Health
Allen K. Robertson, Robinson Bradshaw & Hinson, PA

1. Purpose of Meeting

To consider a refunding/conversion for CaroMont Health and to provide consent to the merger of Mercy Care into Lower Care Fear Hospice, Incorporated.

Executive Committee Action: A motion was made by Mr. Joe Crocker, seconded by Dr. Carl Rust and unanimously approved with Mr. George Cecil abstaining from the vote.

2. CaroMont Health, Gastonia, N.C. - Christopher B. Taylor & Shari Reese

Resolution: The Commission grants preliminary approval to a project for CaroMont Health to provide to provide funds, to be used together with other available funds, to effect a refunding/conversion of the \$120,000,000 North Carolina Medical Care Commission Hospital Revenue Bonds (CaroMont Health) Series 2003 (Subseries 2003A and 2003B, each in the original principal amount of \$60,000,000) from a Letter of Credit Backed Variable Rate Demand Bond Mode to a Direct Non-Bank Qualified Mode. The bonds, outstanding in the amount of \$119,000,000 will be purchased by Wells Fargo Bank and will be held for an initial put period of three years and will carry an interest rate of 67% of one month LIBOR plus 0.35% for the initial put period. The project is in accordance with an application received as follows:

ESTIMATED SOURCES OF FUNDS

Principal Amount of Bonds to be Refunded/Converted	\$119,000,000
Equity Contribution from CaroMont Health	<u>217,000</u>
Total Sources	\$119,217,000

ESTIMATED USES OF FUNDS

Refunding/Conversion of Series 2003 Bonds	\$119,000,000
Bond Counsel Fee	62,500
Corporation Counsel	40,000
Bank Counsel	35,000
Insurance Counsel (MBIA insures the Bonds)	27,500
Trustee Counsel	3,500
Insurer Fee (MBIA)	12,500
Accountants' Fee	35,000
Trustee Fee	<u>1,000</u>
Total	\$119,217,000

Tentative approval is given with the understanding that the governing board of CaroMont Health, 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 the 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 on 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 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:

(A) Information from audit for CaroMont Health, Inc. and Affiliates for FYE June 30, 2013.

Income from Operations	\$17,003,694
Increase in net position	\$66,872,503
Net cash provided by operating activities	\$36,752,357
Net increase in cash and cash equivalents	(\$4,980,000)

(B) Information for Obligated Group Only

Income from Operations	\$32,059,971
Increase in net position	\$71,717,722

(C) Long Term Debt Service Coverage Ratios –Obligated Group

Actual FYE 2013	<u>5.49</u>
Forecasted FYE 2014	<u>5.27</u>
Forecasted FYE 2015	<u>5.35</u>
Forecasted FYE 2016	<u>5.23</u>

(D) Bond Ratings Moody's – A1
 S & P - AA-

(E) Participants in Transaction

- Bank - Wells Fargo
- Trustee Bank - Bank of New York Mellon Trust Company
- Insurer – MBIA
- Bond Counsel – Womble Carlyle Sandridge & Rice, PLLC
- Corporation Counsel – Alston & Bird, LLP
- Bank Counsel – Robinson Bradshaw & Hinson, PA/Chapman & Cutler, LLP
- MBIA Counsel – Kutak Rock, LLP

(F) Community Benefits per NCHA ANDI Report

FYE 2013	\$62,337,712
Estimated Bad Debt	\$16,761,763

3. **Resolution Consenting to Merger of Mercy Care into Lower Cape Fear Hospice, Incorporated** –Remarks were made by Allen Robertson and Deborah Pressley.

Executive Committee Action: A motion was made by Dr. Carl Rust, seconded by Mr. George Cecil and unanimously approved.

WHEREAS, on November 15, 2007, the North Carolina Medical Care Commission (the “Commission”) issued \$4,000,000 aggregate principal amount of its Health Care Facilities Revenue Bonds (Lower Cape Fear Hospice, Incorporated), Series 2007 (the “2007 Bonds”), pursuant to the terms of a Trust Agreement dated as of November 1, 2007 between the Commission and Branch Banking and Trust Company, as bond trustee, and loaned the proceeds from the sale thereof to Lower Cape Fear Hospice, Incorporated (the “Corporation”) pursuant to a Loan Agreement dated as of November 1, 2007 (the “2007 Loan Agreement”) between the Commission and the Corporation; and

WHEREAS, on April 13, 2011, the Commission issued \$3,400,000 aggregate principal amount of its Health Care Facilities Revenue Bonds (Lower Cape Fear Hospice, Incorporated Project), Series 2011 (the “2011 Bonds,” and collectively with the 2007 Bonds, the “Bonds”), pursuant to the terms of a Trust Agreement dated as of April 1, 2011 between the Commission and Branch Banking and Trust Company, as bond trustee, and loaned the proceeds from the sale thereof to the Corporation pursuant to a Loan Agreement dated as of April 1, 2011 (the “2011 Loan Agreement,” and collectively with the 2007 Loan Agreement, the “Loan Agreements”) between the Commission and the Corporation; and

WHEREAS, Section 5.14(a) of the Loan Agreements provides that the Corporation will not permit one or more Persons (as defined in the Loan Agreement) to consolidate with or merge into the Corporation without the prior written consent of the Commission; and

WHEREAS, the Corporation and Mercy Care, a South Carolina nonprofit corporation d/b/a Mercy Hospice of Horry County (“Mercy Care”), desire to combine their operations by merging Mercy Care into the Corporation (the “Merger”); and

WHEREAS, upon the effective date and time of the Merger, the separate corporate existence of Mercy Care will cease and the Corporation will be the surviving corporation with all of its purposes and powers continuing unaffected and unimpaired by the Merger, including its obligations to the Commission under the Loan Agreements; and

WHEREAS, the Corporation has requested that the Commission consent to the merger of Mercy Care into the Corporation; and

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

Section 1. The Commission hereby consents to the merger of Mercy Care into the Corporation.

Section 2. The Chairman, Vice Chairman, any member of the Commission designated in writing by the Chairman, Secretary and any Assistant Secretary of the Commission are 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 any of such persons, with the advice of counsel, may deem necessary or appropriate to effect the transactions consented to or approvals granted by this Resolution.

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

4. Lower Cape Fear Additional Information

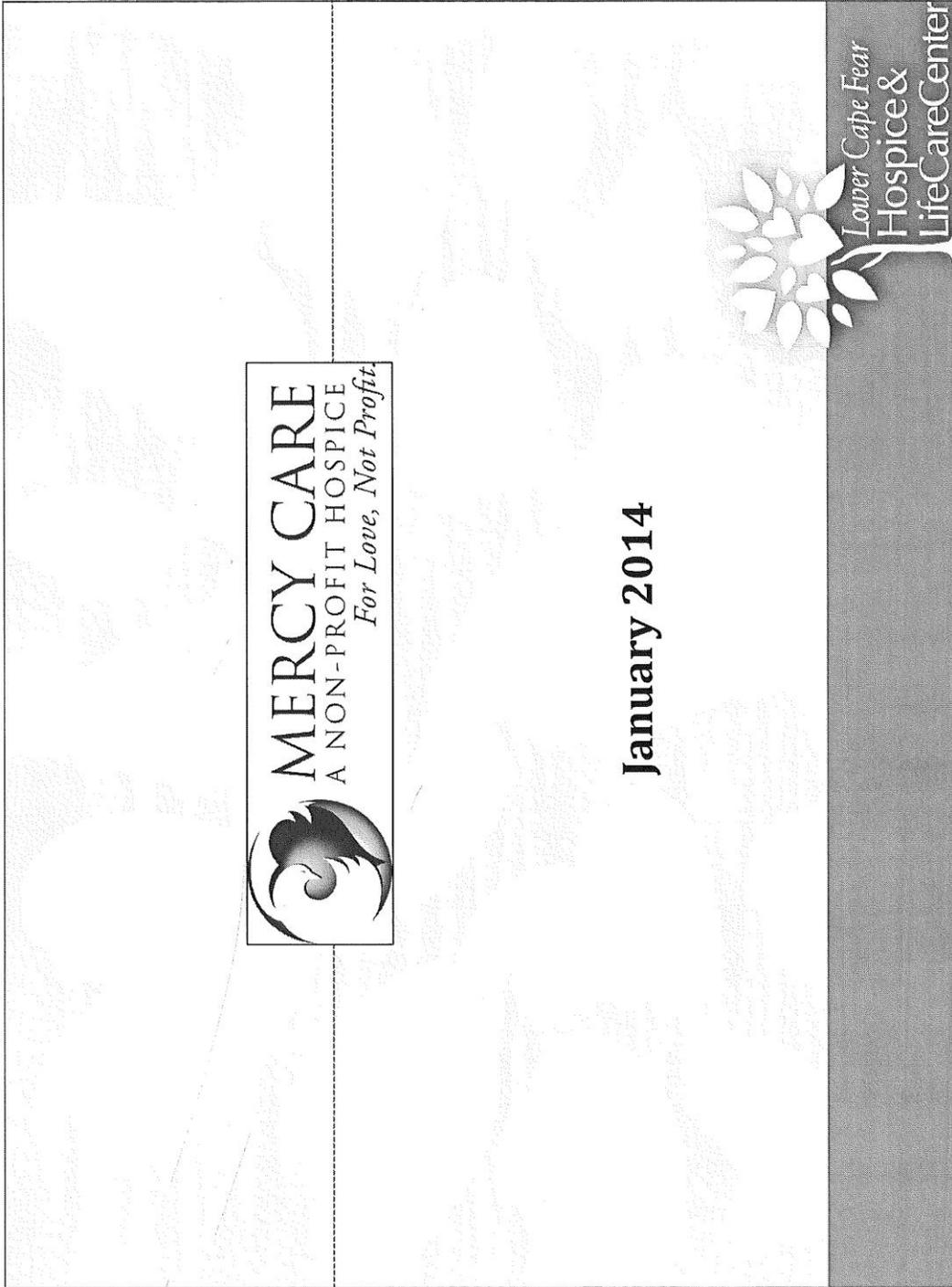
Lower Cape Fear Hospice, Incorporated
Forecasted Combined Financial Statements

	2014	2015	2016
Revenues			
Patient Revenue	36,804,782	40,350,415	42,086,812
Public Support	1,452,157	2,205,355	1,646,829
Fund Raising Events	100,344	130,344	135,344
Grants	79,539	92,456	92,456
Other Operating Revenue	647,427	679,999	682,345
Total Revenues	39,084,249	43,458,569	44,643,785
Expenses			
Wages and PDO	19,870,298	21,152,883	21,770,565
Benefits & Payroll Taxes	5,642,516	5,711,278	5,878,052
Medical Expenses	5,516,957	6,159,201	6,552,106
Professional Fees	239,383	184,512	188,280
Contract Employees	160,864	214,081	172,363
Office Supplies and Equipment	217,604	221,956	226,395
Utilities and Communications	629,047	641,628	654,460
Purchased Services	567,165	578,509	590,079
Insurance	147,160	150,103	153,105
Rent	43,800	45,114	46,467
Bad Debt	987,018	1,077,356	1,123,718
Taxes-Licenses/Dues/Subscriptions/Fees	125,317	133,692	136,366
Non-Clinical Travel	67,497	78,372	79,939
Education	68,102	74,725	78,394
Human Resources	135,400	149,707	156,720
Community Outreach and Marketing	371,506	437,466	446,216
Fund Development	162,712	184,181	187,864
Interest Expense	273,683	409,061	391,444
Other Expenses	114,634	128,383	130,951
Depreciation and Amortization	944,033	1,111,831	1,111,831
Total Expenses	36,284,697	38,844,039	40,075,315
*Transfer to (from) Other Funds	170,532	(3,100,000)	-
Total Transfer to Other Funds	170,532	(3,100,000)	-
NET SURPLUS/(DEFICIT)	<u>2,629,021</u>	<u>7,714,530</u>	<u>4,568,470</u>

**Transfer to other funds - capital campaign expenses for the Wilmington Care Center bed addition - 2014 and Transfer (from) other funds - capital campaign income released from restriction at completion and occupancy of the Wilmington Care Center addition - 2015*

Debt Service Ratio Calculation

Net Income	2,629,021	7,714,530	4,568,470
Depreciation and Amortization	944,033	1,111,831	1,111,831
Interest Expense	273,683	409,061	391,444
Total	3,846,737	9,235,422	6,071,745
Agency Maximum Annual Debt Service	838,677	1,006,514	1,006,201
Debt Service Coverage Ratio	4.59	9.18	6.03





Who is Mercy Care?

- Non-profit hospice established in 1981
- Primarily serves Horry County, SC (Myrtle Beach)
- Estimated current hospice census = 85 patients per day
- Estimated current palliative care census = 55 patients per day
- **Mission** - *To comfort the body and heal the heart through competent care which focuses on supporting and nurturing the human spirit and preventing and relieving suffering – one person, one family, and one community at a time.*

Why merge with Mercy Care?



- LCFH & LCC's strategic plan calls for geographic expansion and growth to serve more patients and families.
- Horry County is adjacent to the existing LCFH & LCC service area and has been identified to have high growth potential for the hospice industry because of it's growing population (including those over 65) and because it is currently being underserved by hospices.
- A merger opportunity in Horry County is a stronger alternative than an organic growth plan into the county.
- Both hospices are non-profit.
- Both hospices have similar organizational structure, missions and services.



Merger Benefits

LCFH & LCC

- Directly aligns with non-profit mission and strategic goals of expansion to serve more patients and families
- Census growth offers financial efficiencies in overhead expenses so more funds can be allocated for patient care and unreimbursed community outreach programs.

Mercy Care

- Directly aligns with non-profit mission and strategic goals of expansion to serve more patients and families
- Financial support will enable growth opportunities
- Strong LCFH & LCC infrastructure offers financial efficiencies and reduces overhead expenses so more funds can be allocated for patient care and unreimbursed community outreach programs.

5. Adjournment

There being no further business, the meeting was adjourned at 11:25 a.m.

Respectfully submitted,

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