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NORTH CAROLINA
59TH ANNUAL SPRING
CONFERENCE

The North Carolina
Medical Care Commission
CCRCs An Update
May 12, 2015

Continuing Care Retirement Communities

- Financing Projects with Tax-Exempt Debt Issues --- What Works:
 1. Quality Project
 2. Quality Process
 3. Compliance Program

Brief History

- The Medical Care Commission (“MCC”) has been in existence since 1945.
- First issuance of tax-exempt debt was in 1977 for Presbyterian Hospital in Charlotte.
- First issuance of tax-exempt debt for Continuing Care Retirement Communities (“CCRCs”) was in 1984 for Penick Village.

Factual Information

- As of September 30, 2014 the MCC had issued \$20.9 billion in debt (455 issues) and had \$7.1 billion outstanding (137 issues).
- As of September 30, 2014 the MCC had issued \$3.3 billion in debt for CCRCs (147 issues) and had \$1.1 billion outstanding (57 issues).
- The MCC has no Issues in Monetary Default.
- Two of the CCRCs for which MCC has outstanding debt are rated in the A category and four are rated in the BBB category.

Essential Benefit

- The bond program saves all borrowers approximately \$140 million in interest expense each year.
- The bond program saves CCRCs approximately \$23 million in interest expense each year.
- The bond program provides access to cost efficient funding for quality projects.
- The bond program produces projects that last, are efficient and provide a good return on investment.

Medical Care Commission Functions

- Rule making
- Issuance of tax-exempt debt to finance qualifying projects
- Compliance

The MCC Financing Process

- The Application
- The Guidelines
- Certificate of Need, Construction, Licensure and Certification Issues
- Financial Viability --- Feasibility Study and Investment Grade Rating
- Corporate Structure ---The legal entity and the boards
- Backing --- Churches and Community Groups

The MCC Financing Process (Continued)

- Community Benefits (MCC Requirements and GS105)
- Diversity and lack thereof (Board and Residents)
- The Debt Legal Structure and Covenants
- Types of debt structure --- Fixed rate, variable rate, LOC, Bank bought deals, investment grade rated, non rated and denominations.
- NC Department of Insurance Involvement (Construction and License)
- Approvals --- MCC (Preliminary and Final), Local Government Commission

Post Issuance

- Reporting Requirements --- What and to Whom
- Compliance Examination ---The Findings for CCRCs
- Annual Reports to MCC
- Community Benefits

Annual Reporting Requirements (What and to Whom)

Document Filed	To Whom
Audited Financial Statements, Officer's Certificate and Auditor's Certificate of Compliance	Commission, Master Trustee, Bond Trustee, LGC, MSRB, and any Holder if Requested
Disclosure Statement Filed with the NC Department of Insurance	Commission
Operating & Capital Budget	Commission, Bond Trustee, LGC, Underwriter
Completed Compliance Checklist	Commission
Comparison of Audit to Forecast or Comparison of Audit to Budget	Commission
Opinion of Counsel Letter – UCC Financing Statements	Commission and Master Trustee
Financial Covenant Calculations (LTDSCR, DCOH, Marketing, Occupancy, Available Reserve Ratio)	Commission, Master Trustee
Secondary Market Disclosure	MSRB (EMMA)

Quarterly Reporting Requirements (What and to Whom)

Document Filed	To Whom
<p>Quarterly Financial Report (30 or 45 days after quarter end)</p> <ul style="list-style-type: none"> • Management Discussion & Analysis • Officer's Certificate • Marketing & Occupancy Statistics • Operating Statistics • Schedule of Rates & Charges or Statement to the effect of no change in rate • Financial Covenant Ratios (LTDSCR, DCOH, Available Reserve) 	<p>Commission, MSRB, Bond Trustee, Underwriter, LGC (if requested)</p>

Miscellaneous Reporting Requirements (What and to Whom)

Document Filed	To Whom
Schedule K of Form 990	Commission
UCC Financing Statements (every five years)	Master Trustee
Insurance Consultant Report (every two years)	Master Trustee & Commission
Outstanding Principal Balance as of June 30	Commission and LGC
Rebate Calculation (every five years)	Commission
Final Rebate Calculation	Commission
Management Consultant Report (not meeting financial covenants)	Commission, Master Trustee, MSRB, and Underwriter

Project Reporting Requirements (What and to Whom)

Document Filed	To Whom
Monthly Project Fund Status Reports	Commission
Project Completion Letter	Commission and Bond Trustee
Opinion of Counsel Letter	Commission and Bond Trustee
Certificate of Occupancy	Commission
Officer's Certificate – Accounting of Funds for Project (monthly or annual)	Commission
Requisitions – proper filing	Commission and Bond Trustee
Officer's Certificate – Distribution of Final Funds to close Issuance & Construction Accounts	Bond Trustee

Compliance

Why it is Important

- To Protect the integrity of the program.
 - Preservation of the integrity & reputation of the program benefits everybody who borrows through the tax-exempt bond program operated under GS131A.
- To prepare CCRCs for an IRS Audit.
- To facilitate financial and operational integrity.
- To preserve the tax-exemption of the bonds.
- To facilitate awareness of the other issues including SEC disclosure.
- To address concerns of the Commission.

Compliance

- The Tools we use:
 - Communication during the year to facilitate understanding of requirements of existing and new debt issues and of issues arising that affect CCRCs and tax-exempt debt.
 - Complete annual compliance examinations that are specifically tailored to each issue.
 - Compare the actual results to the requirements of the various agreements & regulations.

Compliance Examination Findings

- Consultants and Other Reports – completion, implementation, and filing of information as required.
- New Bond Deals – new covenants.
- Documentation not on hand or filed, such as secondary market disclosure and Rebate Calculations
- Audit Firm – quality of compliance work.
 - The Findings --- Exhibit A

Compliance Examinations

The Purpose

- Realization and proactive response by CCRCs that:
 - Compliance is a collaborative undertaking.
 - Compliance is essential to maintaining the tax-exempt status of the bonds.
 - Compliance is an ongoing process.
 - Compliance helps to insure the ability to cover debt payments, operate your facility and to access favorable terms on future financings.
 - Awareness that the consultants, auditors and counsel that are employed should possess in depth knowledge & understanding of the bond process and of the CCRC industry.
 - Ultimately the responsibility for compliance rests with the CCRC.

Annual Reports

- Per the FYE 2013 audited financial statements of the 26 CCRCs with outstanding MCC debt, the following information was reported:
 - 6 had an operating loss
 - 4 had a decrease in unrestricted net assets
 - 3 had a decrease in net assets
 - 0 had a decrease in net cash provided by operations
 - 10 had a decrease in cash and cash equivalents
 - 24 had long term debt coverage ratio of 1.2x or better
- Per the FYE 2014 audited financial statements, 16 of the 26 CCRCs which information was available for with outstanding MCC debt, the following information was reported:
 - 6 had an operating loss
 - 1 had a decrease in unrestricted net assets
 - 4 had a decrease in net assets
 - 0 had a decrease in net cash provided by operations
 - 9 had a decrease in cash and cash equivalents
 - 16 had long term debt coverage ratio of 1.2x or better

Community Benefits

- 28 CCRCs reported to us their community benefit numbers for fiscal years ending 2010 – 2013 as calculated in accordance with GS105. (22 in 2014).
- The results are as follows:
 - For 2010, 22 were at or above the 5% level.
 - For 2011, 22 were at or above the 5% level.
 - For 2012, 22 were at or above the 5% level.
 - For 2013, 22 were at or above the 5% level.
 - For 2014, 20 were at or above the 5% level.
 - What's at stake? Property tax exemption, 501(c)(3) status and availability of future financing.

Topics for CCRCs

- Medical Care Commission Standard Conditions - Exhibit B --- The new condition.
- The SEC Disclosure Initiative.
- Changes in State law and effect on revenue and services including repeal of CON and tax changes.
- Challenges to property tax exemption associated with community benefits and charity care.
- Residents income.
- The real estate market.
- The continued rising cost of healthcare & decreasing ability of people to pay for it.

Topics for CCRCs (Continued)

- Like Hospitals, CCRCs will need to merge in order to stay competitive, merge in order to expand and for some, merge to survive.
- Will Affordable Care Act be repealed and if so replaced with what? How will that affect your residents?
- Will there be State and /or Federal legislative or court challenges to tax-exempt status of CCRCs?
- What can CCRCs do to stay viable & provide services that meet the demands of the market & preserve their ability to meet their core mission?
- Where will the capital come from in the future to finance the needs of CCRCs?

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This Presentation is available on our website under “Reports”
Map with location of CCRCs with outstanding MCC Debt --- Exhibit C

Most Common Documents Not Prepared
and/or Not Filed with MCC and Other Parties Not
Resulting in a Tax Issue or Employment of a Consultant
Exhibit A (Page 1 of 3)

- Quarterly Financial Report(s)
- Monthly Project Fund Status Report
- Comparison of Audit to Forecast
- Officer's Certificate – Quarterly Report(s)
- Auditor's Certificate of Compliance

Most Common Documents Not Prepared and/or Filed Late with the MCC and Other Parties

Exhibit A (Page 2 of 3)

- Disclosure Statement
- Quarterly Financial Report(s)
- Comparison of Audit to Forecast
- Schedule K of Tax Form 990
- Operating & Capital Budget
- Insurance Consultant Report
- Officer's & Auditor's Certificate of Compliance
- Audited Financial Statements
- Project Completion Letter
- Continuation Statement – Opinion of Counsel Letter
- Rebate Calculation(s)

Significant Potential Financial, Regulatory and/or Tax Ramifications Exhibit A (Page 3 of 3)

- Include, but are not limited to:
 - Failure to Meet Financial Tests, such as Long Term Debt Service Ratio.
 - Failure to properly account for tax-exempt financed property.
 - Failure to post on EMMA the required information, i.e.
 - Statistical and Financial Information set out in Official Statement.
 - One of fourteen events required to be posted on EMMA under Secondary Market Disclosure.

Medical Care Commission

Standard Conditions

Exhibit B (Page 1 of 2)

- The ten standard conditions accompanying a preliminary approval of a Commission project are as follows: (PLEASE NOTE NUMBER 9.)
 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%).

Medical Care Commission

Standard Conditions

Exhibit B (Page 2 of 2)

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
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

Material Events Under Rule 15c2-12

Exhibit C Page 1 of 2

- Notice of such event must be filed in a timely manner not in excess of ten business days after the occurrence of the event.
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults, if material;
 - (3) unscheduled draws on any debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the securities or other material events affecting the tax status of the securities;

Material Events Under Rule 15c2-12

Exhibit C Page 2 of 2

- Notice of such event must be filed in a timely manner not in excess of ten business days after the occurrence of the event.
 - (7) modifications to the rights of the beneficial owners of the securities, if material;
 - (8) bond calls, other than pursuant to mandatory sinking fund redemption, if material, and tender offers;
 - (9) defeasances;
 - (10) release, substitution or sale of any property securing repayment of the securities, if material;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar event of any obligated person; **[Note: The Rule includes guidance on when an event described in this heading actually occurs.]**
 - (13) the consummation of a merger, consolidation, or acquisition involving the any obligated person or the sale of all or substantially all of the assets of any obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (14) appointment of a successor or additional bond trustee or the change of name of the bond trustee, if material.

North Carolina Medical Care Commission Map Showing Location of CCRCs with MCC Debt Exhibit D

