

LEADING AGE of  
NORTH CAROLINA  
60<sup>TH</sup> ANNUAL SPRING  
CONFERENCE

The North Carolina  
Medical Care Commission  
CCRCs An Update

May 11, 2016

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# Bond Activity Through the Years (1977 to 2015)

- As of December 31, 2015, the MCC had issued \$22.0 billion in debt (475 issues) and had \$7.2 billion outstanding (135 issues).
- As of December 31, 2015, the MCC had issued \$3.5 billion in debt for CCRCs (139 issues) and had \$1.3 billion outstanding (56 issues).
- The MCC has no Issues in Monetary Default.
- Of the CCRCs that have MCC outstanding debt as of May 1, 2016, two (2) are rated in the A category and six (6) are rated in the BBB category.

# Bond Activity in 2015

- During calendar year 2015, the MCC issued a total of \$1.1 billion in tax-exempt debt (17 issues) of which \$239 million (7 issues) were for 6 CCRCs.
  - 3 of the CCRC issues were refundings.
  - 2 of the CCRC issues were new money for construction and renovation.
  - 2 of the CCRC issues were combinations of both refunding and new money.
- Of the 7 CCRC Bond issues for 2015, 4 issues (\$181 million) were publicly offered issues and 3 issues (\$58 million) were bank bought.



# Your Road Map to the MCC Financing Process

- Based upon results of a survey completed by the MCC, the MCC is anticipating 5 bond deals between July to December 2016 that will include new money and refunding issues for an estimated total of \$200M.
- Of the 48 Licensed Not-For Profit CCRCS in NC, 80% currently have or have had debt through the NC Medical Care Commission.
- Initial Steps:
  - Contact one of us to discuss the potential bond issue (May be advised to meet with Dr. Fagg, Chairman of MCC and Mr. Crocker, Vice-Chairman)
  - Have you obtained the appropriate backing from the entity's Board?
    - Backing from the community and church, if applicable?
  - If new construction, have you started or completed all of the required reviews and obtained all of the appropriate licenses (CON, Construction Review, Department of Insurance, Local and State Licensure and Certification Issues)?
  - What is the corporate structure – 501(c)(3) in State of NC?



# Your Road Map to the MCC Financing Process

- The Application:
  - Complete the application found on the MCC website
  - Comply with the Standard Conditions (Exhibit B)
  - Comply with the new MCC policy on compliance and issuing debt (Exhibit C)
  - Provide Community Benefits information according to MCC requirements and GS105 (Exhibit G)
  - Need to provide Diversity of BOD and CCRC community – be able to explain lack of diversity and what CCRC is doing to improve diversity among the BOD and the CCRC community
  - Begin thinking of the debt structure (fixed rate, variable rate, LOC, Bank Bought, investment grade rated, non rated and denominations).
  - Will a feasibility study be required?
    - If investment grade rating of A, then AUP report?



# Your Road Map to the MCC Financing Process

- Approval:
  - MCC – Preliminary and Final
    - For Construction Project – preliminary approval must be obtained by attending a Commission meeting. Final approval may be obtained from an Executive Committee meeting.
      - Preliminary Approval does not give you 100% guarantee of Final Approval. You can start the project prior to receiving preliminary approval, but at your own risk.
    - For Refunding – approvals may be obtained from Executive Committee meetings
    - Review of bond documents and bond covenants
  - LGC
  - Construction related approvals i.e., Corp of Engineers, Construction, Department of Insurance, City/County plan review
- Final Step (Show Me the Money):
  - Bonds have been priced
  - Closing date has been agreed upon by all parties
  - Bond documents have been signed and the bond deal officially closes



# Life After Closing the Deal

- But Why!?!

- Maintain integrity of the program
- No succession plan
- Auditor's AUP Report
- New MCC Policy (Exhibit C)
- Compliance checklist (bound transcript)



- I Have to do What?

- Bond document review
  - Annual, Quarterly and Non-Routine document filings (Exhibit D)
- Annual compliance examination
- Requisitions for reimbursement of costs
  - Issuance Costs – file to Commission and Trustee before reimbursement.
  - Construction Costs – file to the Trustee – follow guidelines in Trust Agreement
- Community Benefits filed to the Commission at the time it is filed with the County Tax Assessor in accordance with GS 105 (Exhibit G)
- Construction Project – Is Steve Lewis and his crew happy?

# Life After Closing the Deal

- But Who Cares?
  - Commission Members
    - Quarterly Report
    - Annual written report of findings (Exhibit E and F)
  - SEC – Continuing Disclosure Filing Requirements (EMMA/MSRB)
  - IRS
- Bye, Bye, Bye!!!!
  - Not So Fast
    - Final Rebate Calculation?
    - Maintaining Records
      - How long?



# What Keeps You Up At Night?

- Federal and State Regulation:
  - SEC’s Municipalities Continuing Disclosure Cooperation (MCDCC)
    - Potential for Legal Action?
    - Material Events Under Rule 15C2-12 <http://www.msrb.org/msrb1/pdfs/SECRule15c2-12.pdf>
  - Changes in State law – What effect will it have on your revenue and the services you provide?
    - Repeal of CON law?
      - Need determination under GS 131A if CON is repealed.
    - Tax Exempt Status of CCRC’s being challenged by State and Federal Government
    - Sales Tax Exemption
    - Property tax exemption associated with community benefits and charity care.
  - Medicare, Medicaid & Social Security
  - Limitation on Charitable Deductions
  - Affordable Care Act
    - Will it stay or will it go?
    - What would replace it?



# What Keeps You Up at Night?

- Looking to the Future:
  - What can you do now that will allow your CCRC to stay viable, provide the services that meet the demands of the market and preserve your ability to meet the CCRC's core mission?
  - Will you have to merge with another CCRC in order to stay competitive, expand and survive?
  - Where will the capital come from in the future to finance the needs of CCRCs?
  - Do you know where your competition is coming from?
  - Will there be another recession?
  - How will the national elections affect CCRC's?
  - Current and potential residents of your CCRC
    - Will their income remain stable?
    - Will they be able to sale their home?
    - Will they be able to pay for rising healthcare costs?
    - Medical Deduction (State Tax Return)



# Contacts

- Christopher B. Taylor, CPA, Assistant Secretary  
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- Crystal Watson-Abbott, Auditor  
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- Kathy Larrison, Auditor  
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- Alice S. Creech, Executive Assistant to the Assistant Secretary  
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- Steve Lewis, Chief Construction Section, DHSR  
919-855-3907, [steven.lewis@dhhs.nc.gov](mailto:steven.lewis@dhhs.nc.gov)
- Nadine Pfeiffer, Division Rule Making Coordinator, DHSR  
919-855-3750, [nadine.pheiffer@dhhs.nc.gov](mailto:nadine.pheiffer@dhhs.nc.gov)

# Contact Information

- Website: <http://www.ncdhhs.gov/dhsr/ncmcc>
- Address:
  - (Overnight Delivery)  
809 Ruggles Drive  
Raleigh, NC 27603
  - (US Mail)  
2701 Mail Service Center  
Raleigh, NC 27699-2701

# Exhibits

- Exhibit A
  - Medical Care Commission Website Information
- Exhibit B
  - Medical Care Commission Standard Conditions
- Exhibit C
  - Medical Care Commission Policy on Compliance and Issuing Debt
- Exhibit D
  - Annual Reporting Requirements
  - Quarterly Reporting Requirements
  - Miscellaneous Reporting Requirements
  - Project Reporting Requirements
- Exhibit E
  - Findings for FYE 2013
- Exhibit F
  - Annual Reports for FYE 2014 and FYE 2015
- Exhibit G
  - Community Benefits
- Exhibit H
  - Map Showing Location of CCRCs with MCC Debt

# Exhibit A

## Medical Care Commission

### Website Information

- General Information
  - Quarterly Meetings
  - Policy on Compliance by Borrowers
  - Maps showing Healthcare Facilities with MCC debt.
- Contact Information
- Members of the NC Medical Care Commission
- Executive Committee
- Reports
  - Leading Age Presentations
  - Community Benefit Reports for CCRCs
  - Health Care Facilities Finance Act Annual Report
  - Underwriter and Bond Counsel Fees

# Exhibit A

## Medical Care Commission

### Website Information

- Forms

- CCRC Forms:

- Applications (Construction, Refunding, and Equipment)
    - Request for Disbursement of Funds (Construction and Issuance)
    - Project Fund Status Report – Form 3039
    - Standard Preliminary CCRC MCC Conditions
    - Community Benefit Form

- Other Forms:

- Post Issuance Compliance Procedures
    - Sample Swap Information Forms
    - Auditor's and Officer's Certificate of Compliance – Samples
    - Compliance Checklist – Sample

- Links

- NC Office of State Fire Marshal – Engineering and Codes

- [http://www.ncdoi.com/OSFM/Engineering\\_and\\_Codes.aspx](http://www.ncdoi.com/OSFM/Engineering_and_Codes.aspx)
    - IRS Tax Exempt Bond Audit Form 4564

# Exhibit B

## Medical Care Commission Standard Conditions

- 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%).

# Exhibit B

## Medical Care Commission Standard Conditions

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

# Exhibit C

## MCC Policy On Compliance and Issuing Debt

- **Whereas**, the North Carolina Medical Care Commission (the “Commission”), in order to facilitate the delivery of quality healthcare services to the citizens of the State of North Carolina, issues tax-exempt debt to finance qualifying projects in accordance with the “Health Care Facilities Finance Act”, General Statute 131A; and
- **Whereas**, it is the policy of the Commission to make reviews as in its judgment are necessary and desirable to determine the feasibility and desirability of health care entities; and
- **Whereas**, it is the policy of the Commission to provide guidance to the health care entities as to what the Commission considers feasible and desirable; and
- **Whereas**, the Commission has issued in excess of \$21 Billion in tax-exempt debt, and whereas, the Commission’s bonds command a premium in the market; and
- **Whereas**, the Commission believes that the healthcare entities that enjoy the benefits of borrowing through the Commission’s tax-exempt debt program have a responsibility to comply with the requirements set forth within the various agreements governing their respective debt; and
- **Whereas**, the Commission believes that failure by the borrowing entities to comply with the various agreements can have a detrimental effect on the reputation of the Commission’s tax-exempt bond program and result in higher borrowing cost for entities financing projects through the program; and
- **Whereas**, it is the desire of the Commission to take such steps as are available to it to ensure compliance by the borrowing entities with its program.

# Exhibit C

## MCC Policy On Compliance and Issuing Debt

- **Therefore**, the Commission does hereby resolve:
- The Commission will not issue tax exempt debt for a health care entity which has exhibited a multiyear history of noncompliance.
- The Commission will not issue tax-exempt debt for a health care entity which has not been in compliance for at least twelve months prior to the filing of an application with the Commission for consideration of a tax-exempt debt issue.
- A healthcare entity which is denied approval under A or B above may petition the Commission for consideration of an exemption to the policy, if (1) the health care entity provides documentation to the Commission that it has been in compliance for a period of at least six months prior to the filing of an application for financing and (2) the health care entity provides documentation of mitigating circumstances warranting consideration by the Commission.
- The Commission, may at its discretion, grant an exemption to the policy.
- **Adopted and effective this 13<sup>th</sup> day of November, 2015**
- **Note: This resolution does not attempt to define noncompliance as either material or immaterial, but leaves it to the judgement of the Commission as to whether or not an event of noncompliance is considered to be material or immaterial when viewed in the context of the circumstances within which it occurred.**

# Exhibit D

## 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 used to obtain Bond Financing 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 (AFS, Financial Covenant Calculations, Material Event Notices)	MSRB (EMMA)

The above list is not all-inclusive. Refer to the bond documents for a completing list of document filings.

# Exhibit D

## 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"> <li>• Management Discussion &amp; Analysis</li> <li>• Officer's Certificate</li> <li>• Marketing &amp; Occupancy Statistics</li> <li>• Operating Statistics</li> <li>• Schedule of Rates &amp; Charges or Statement to the effect of no change in rate</li> <li>• Financial Covenant Ratios (LTDSCR, DCOH, Available Reserve)</li> </ul>	<p>Commission, MSRB, Bond Trustee, Underwriter, LGC (if requested)</p>

The above list is not all-inclusive. Refer to the bond documents for a completing list of document filings.

# Exhibit D

## 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 & IRS (if applicable)
Final Rebate Calculation	Commission & IRS (if applicable)
Management Consultant Report (not meeting financial covenants)	Commission, Master Trustee, MSRB, and Underwriter

The above list is not all-inclusive. Refer to the bond documents for a completing list of document filings.

# Exhibit D

## Project Reporting Requirements (What and to Whom)

<b>Document Filed</b>	<b>To Whom</b>
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

The above list is not all-inclusive. Refer to the bond documents for a completing list of document filings.

# Exhibit E

## Findings for FYE 2013

- 26 CCRC compliance examinations completed for FYE 2013.
- 4 CCRC's did not have any findings for FYE 2013.
- 3 CCRC's did not meet 1 or more financial covenant calculations for FYE 2013.
- 8 CCRC's did not file 1 or more required documents to EMMA as part of their required Secondary Market Disclosure.
- 9 CCRC's did not file 1 or more required documents to the Commission.
- 20 CCRC's did not file 1 or more documents with the Commission until requested by the Commission's auditor.
- 8 CCRC's filed 1 or more documents late to the Commission but the Commission's auditor did not have to request the document be filed.

# Exhibit F

## Annual Reports – Update 2015

- Per the FYE 2014 audited financial statements of the 26 CCRCs with outstanding MCC debt, the following information was reported:
  - 9 had an operating loss
  - 5 had a decrease in unrestricted net assets
  - 7 had a decrease in net assets
  - 0 had a decrease in net cash provided by operations
  - 14 had a decrease in cash and cash equivalents
  - 26 had long term debt coverage ratio of 1.2x or better
- Per the FYE 2015 audited financial statements, 15 of the 24 CCRCs which information was available for with outstanding MCC debt as of 4/14/2016, the following information was reported:
  - 4 had an operating loss
  - 7 had a decrease in unrestricted net assets
  - 7 had a decrease in net assets
  - 0 had a decrease in net cash provided by operations
  - 5 had a decrease in cash and cash equivalents
  - 15 had long term debt coverage ratio of 1.2x or better

# Exhibit G

## Community Benefits

- 28 CCRCs reported their community benefit percentages for years 2010 – 2013, 22 for 2014 & 17 for 2015.
- The results as calculated in accordance with G.S. 105 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.
  - For 2015, 16 were at or above the 5% level. (at 3/31/2016)
  - What's at stake? Property tax exemption, 501(c)(3) status and availability of future financing.

# Exhibit H

## NC Medical Care Commission

### Map Showing Location of CCRCs with MCC Debt

