



HOUSE BILL 346: Reorganization & Economic Development Act.

2023-2024 General Assembly

Committee: Senate Rules and Operations of the Senate	Date: May 25, 2023
Introduced by: Reps. Bradford, Setzer, Reives, Bell	Prepared by: Jason Moran-Bates
Analysis of: Fourth Edition	Staff Attorney

OVERVIEW: *House Bill 346 would allow hospital service corporations to reorganize so that they are controlled by a non-profit holding corporation. The non-profit holding company would not be subject to the provisions of Article 65 (Hospital Service Corporations) and Article 66 (Hospital Service Corporation Readable Insurance Certificates Act) of Chapter 58 (Insurance), but most of those provisions would continue to apply to the underlying hospital service corporation.*

CURRENT LAW: Under current law, hospital service corporations are regulated under Article 65 (Hospital Service Corporations) and Article 66 (Hospital Service Corporation Readable Insurance Certificates Act) of Chapter 58 (Insurance).

BILL ANALYSIS: House Bill 346 would allow existing hospital service corporations to reorganize to have a nonprofit holding corporation as the ultimate controlling person. Any reorganization of a hospital service corporation that did not affect the control of the hospital service corporation would not be considered a change of control subject to G.S. 58-19-15. As part of the reorganization, the hospital service corporation may transfer property, assets, rights, liabilities, equity, or other ownership interests in the hospital service corporation to the nonprofit holding company, but that transfer cannot exceed 25% of the hospital service corporation's admitted assets. The conversion provisions of G.S. 58-65-131, 58-65-132, or 58-65-133 would not apply to a reorganization.

A hospital service corporation would have to provide the following information, which would be considered a trade secret and not a public record, to the Insurance Commissioner prior to reorganizing:

- A description of the transactions to effectuate the reorganization.
- Proposed amendments to the hospital service corporation's charter.
- The articles of incorporation of the nonprofit holding company.
- All information normally required of transactions within an insurance holding company.
- Information on the hospital service corporation's financial position.
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- A certification that all the hospital service corporation's subscriber contracts will remain in force.
- A certification that the nonprofit holding company's governing board will be made up only of individuals on the hospital service corporation's governing board.

The Commissioner may contract with outside parties to verify the information submitted, and any trade secrets or personal information submitted to the Commissioner would not be considered public records under Chapter 132.

Jeffrey Hudson
Director



Legislative Analysis
Division
919-733-2578

House Bill 346

Page 2

The new holding company must remain a nonprofit company with no members. Substantially all of the holding company's net worth must be invested in entities that (1) engage in business that is permitted of any insurance company affiliate, (2) contribute to the health needs of North Carolina residents, or (3) promote affordability, access, better health, or customer experience. The Commissioner may waive the final criteria on a showing of good cause. The nonprofit holding company and its affiliates that are not hospital service corporations would not be subject to the conversion statutes in Article 65 of Chapter 58. The nonprofit holding company and its subsidiaries would be subject to delinquency proceedings against the hospital service corporation, and its assets would be deemed to be those of the hospital service corporation.

The hospital service corporation's legal form and license to do business would not be affected by the reorganization. It would continue to be subject to most of the provisions of Article 65 and Article 66 of Chapter 58. Distributions and dividends payable from the hospital service corporation to the non-profit holding company would not be considered a conversion. If the underlying hospital service corporation undertakes a conversion after the reorganization, the "fair market value of the company" as defined in the conversion statutes would be that of the nonprofit holding company.

EFFECTIVE DATE: This bill would be effective when it becomes law.