

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on April 26, 2012 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

*The following **Authority Members** were in attendance:*

Gus Escher, Public Member (Chairing); Joe Lario, Designee of the Commissioner of Health and Senior Services; Robert Bollaro, Designee of the Commissioner of Human Services; Dr. Munr Kazmir, Public Member; and via telephone: Maryann Kralik, Designee of the Commissioner of Banking and Insurance and Suzette Rodriguez, Public Member.

*The following **Authority staff members** were in attendance:*

Mark Hopkins, Steve Fillebrown, Ron Marmelstein, Suzanne Walton, Michael Ittleson, Carole Conover, Linda Hughes, Bill McLaughlin, Marji McAvoy, Jessica Lucas, Archie King, Bernie Miller, Ellen Lieber and Christopher Kulick.

*The following **representatives from the State and/or the public** were in attendance:*

Cliff Rones, Deputy Attorney General; Brett Tanzman, Governor's Authorities Unit; Ryan Feeney, NJ Treasury Department; Gary Terrinoni and Edward Sullivan of Kennedy Health System; Jennifer Credidio of McManimon & Scotland LLC; Danielle Cheung and Manuel Mar of JPMorgan Chase Bank; Jill Ann Murphy and Emily Stahlin of Mercadien; Holly Horsley and Howard Eichenbaum of Gluck Walrath; and Brian Kowalski of Saul Ewing.

CALL TO ORDER

Vice-Chairman Gus Escher called the meeting to order at 10:03 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 26, 2011 Authority meeting. Complying with the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to all newspapers with mailboxes at the Statehouse, including *The Star-Ledger* and *Courier Post*, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

1. APPROVAL OF MINUTES

March 22, 2012 Authority Meeting

Minutes from the Authority's March 22, 2012 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Mr. Lario seconded. The vote was unanimous and the motion carried.

2. INFORMATIONAL PRESENTATION

Kennedy Health System

Mr. Bill McLaughlin introduced Gary Terrinoni, Senior Vice President and Chief Financial Officer and Edward Sullivan, Senior Vice President and Legal Counsel from Kennedy Health System.

He informed the Members that this is an informational presentation concerning a proposed bond transaction for the Kennedy Health System Obligated Group (“Kennedy”). Kennedy has requested that the Authority consider the issuance of approximately \$80,000,000 of bonds, the proceeds of which are expected to be used to currently refund the Authority’s Series 2001 Revenue Bonds; to currently refund the Authority’s Series 1997A Revenue Bonds; to currently refund the Authority’s Series 1997B Revenue Bonds; to finance and/or reimburse the costs of new capital projects, as follows: expansion to the oncology facilities at the Washington Township Division, additions to the Emergency Department at the Cherry Hill Division, relocation and additional medical surgical beds at the Cherry Hill Division, expansion of the surgical facilities at the Washington Township Division and miscellaneous medical equipment at all divisions; to fund a debt service reserve, if necessary; to fund capitalized interest, if necessary; and to pay the related costs of issuance.

The transaction is expected to be structured as a publicly issued fixed-rate financing. The hospital is currently rated A3 by Moody’s. It is expected that this rating will not change as a result of this issuance.

A preliminary refunding analysis dated April 20, 2012 indicates approximately \$6,500,000 or 11.1% present value savings on the refunded bonds.

Kennedy is a New Jersey not-for-profit organization that operates a 607-bed, multi-campus hospital system with facilities in Stratford, Cherry Hill and Turnersville. Kennedy Memorial Hospital is the core component of the system and is a major teaching affiliate of University of Medicine and Dentistry of New Jersey, New Jersey School of Osteopathic Medicine.

The annual financial information for Kennedy that was presented to Members indicates that days cash on hand decreased slightly from 109.30 days in 2009 to 103.65 days in 2010; however it remains stronger than the 2010 statewide median of 71.27 days. Kennedy’s operating margin for the years 2009 and 2010 was positive at 3.00% and 2.66%, respectively. Debt service coverage ratio and the cushion ratio at year-end 2010 were very strong at 4.45 times and 11.96 times respectively. Days in accounts receivable are well managed at 33.90 days versus the statewide median of 42.68 days and full-time employees per adjusted occupied bed were 5.96 versus a statewide median of 5.32.

Kennedy’s annual inpatient utilization trends for the period 2009 to 2010 were positive, showing an increase in inpatient admissions and occupancy rate, while length of stay has remained fairly stable.

Responding to a question from Mr. Bollaro about the reason for the increase in admissions, Mr. Terrinoni responded that there has been additional activity in Washington Township which has caused the increase. In addition to it being a fast-growing geographic area, Kennedy has undertaken partnerships and affiliations including those with the Rothman Group and Jefferson Neurosurgery.

Mr. Hopkins asked Mr. Terrinoni to comment on the observation cases present at Kennedy. Mr. Terrinoni stated that Kennedy’s observation cases have been pretty consistent. Kennedy is

working to adapt as their two biggest commercial payors are denying payment for admissions. Kennedy feels that in many cases, there are patients who need to be in an observation status while they are evaluated. The issue has put some pressure on the organization financially, and it is rethinking the way it does business. Kennedy reacted when Medicare did this a few years ago by engaging a firm that helps evaluate whether a patient should be admitted based on specific criteria, and now the same pressure is coming from the commercial payors. He noted that Kennedy does not want to treat patients that don't belong in a hospital and thinks that at the end of the day there will be reflective, appropriate care.

Mr. Escher reminded Members that the presentation was for informational purposes only and no action was being requested at this time.

3. EXTENSION OF CREDIT ENHANCEMENT FOR CAPITAL ASSET PROGRAM, SERIES A-D BONDS

Ms. Jessica Lucas informed the Members that the Authority entered into a series of agreements with JPMorgan Chase Bank N.A. to provide the necessary credit and liquidity facilities for the Capital Asset Program, Series A-D. The original agreements provided for the facilities to remain in effect for a three-year period subject to one-year extensions from the initial termination date. The Authority has previously taken advantage of that arrangement to request extensions of the termination date through March 25, 2015.

During this time period, Authority Staff has found JPMorgan Chase to be attentive to the needs of the borrowers with timely responses and their willingness to address special issues. In addition, JPMorgan Chase has been willing to change their fee structure that in effect lowered the costs of maintaining the pool. This resulted in lower interest rates to the benefit of the pool's borrowers. JPMorgan Chase has agreed to another extension with the expiration day of March 25, 2017.

Jennifer Credidio of McManimon & Scotland LLC, bond counsel assigned to this transaction, has prepared the necessary documents as well as an opinion of bond counsel. In addition, the Attorney General's Office has reviewed this request and has no objection to the Members' consideration of this matter. Therefore, Ms. Lucas requested the Board's consideration of an extension of the termination date to March 25, 2017 in order to maintain the three-year term on the facilities.

Mr. Escher asked the Members' pleasure with respect to the resolution relating to the Capital Asset Program. Dr. Kazmir moved to adopt the resolution. Mr. Bollaro seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. LL-62

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts the resolution entitled "RESOLUTION RELATING TO HOSPITAL CAPITAL ASSET FINANCING PROGRAM, 1985 SERIES A-D TWENTY-SECOND SUPPLEMENTAL TRUST AGREEMENT LETTER OF CREDIT EXTENSION."

(attached)

4. AUDIT COMMITTEE REPORT

Mr. Joe Lario of the Audit Committee presented the Audit Committee report to the Members. He reported that Warren Broudy and Emily Stahlin from Mercadien presented the Authority's 2011 Single Audit of the Health Information Exchange Grant to the Audit Committee on April 4, after which the Committee voted to approve the Single Audit of the Health Information Exchange Grant. Mr. Lario told Members that today the Audit Committee would be seeking the Members' approval of the 2011 Single Audit.

Mr. Lario reported that Mercadien found no material weaknesses with the Authority's internal controls. There were, however, two deficiencies found in regards to noncompliance with grant requirements. The first had to do with not reporting recipient expenditures on the Federal Financial Report for the period ending September 30, 2011. The second finding was that while the Authority provided the federal award CFDA title and number through informal communications, it had not done so formally as required by the grant.

Staff has already developed corrective plans and these plans will be revisited during the 2012 audit. Because this is the first year of the audit for the grant, it will be considered high-risk.

Overall, the auditors noted many of the same positives to the Authority's internal controls and staff assistance that was present during the main audit.

In response to a question from Mr. Escher about the high-risk designation, Ms. Jill Ann Murphy from Mercadien noted when an entity is in its first year of a single audit for a new grant, it is automatically considered high-risk, which puts more responsibility on the auditors to test more transactions. After the first two years of being a part of the program, an audit can be considered low-risk and then it would be the auditors' judgement if they chose to test more.

As there were no further questions, Mr. Lario made a motion for the Members to approve the 2011 Single Audit of the Health Information Exchange Grant, and submit it appropriately. Mr. Bollaro seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. LL-63

NOW, THEREFORE, BE IT RESOLVED, that Authority Members hereby approve the 2011 Single Audit of the Health Information Exchange Grant, and the appropriate submission thereof.

5. APPROVAL OF EXPENSES

Mr. Escher referenced a summary of Authority expenses and invoices. Mr. Lario offered a motion to approve the bills and to authorize their payment; Dr. Kazmir seconded. The vote was unanimous and the motion was approved.

AB RESOLUTION NO. LL-64

WHEREAS, the members of the Authority have reviewed the memoranda dated April 19, 2012, summarizing expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of \$544,468.86, \$17,914.13 and \$4,437.13 respectively, and have found such expenses to be appropriate;

NOW, THEREFORE, BE IT RESOLVED, that the members of the Authority hereby approve all expenses as submitted, and authorize the execution of checks representing the payment thereof.

6. STAFF REPORTS

Mr. Escher thanked staff for the Project Development Summary, Cash Flow Statement, First Quarter Budget Report and Legislative Advisory reports.

Mr. Hopkins then presented his Executive Director's report noting the following items to Members:

1. Mr. Hopkins introduced Brett Tanzman, the Authority's new representative from the Governor's Authorities Unit. Mr. Tanzman was previously in the Governor's Counsel's Office and graduated from Rutgers Camden Law School.

2. Authority Members and Senior Staff are required to file Financial Disclosure Statements with the State Ethics Commission by no later than May 15, 2012. Filings must be made electronically through the State Ethics Commission website. Late filers will be subject to a fine of up to \$50 per day. Authority Members are required to file the somewhat less onerous disclosure for Public Officers (not Public Employees). If Members have any questions about the process they should call Mr. Hopkins or Ms. Robin Piotrowski, the Authority's Ethics Liaison Officer.

3. Next month's meeting is the Authority's annual meeting. At the annual meeting Authority Members are expected to elect officers and schedule the meetings for the next year. Members received a blank slate of officers and a proposed schedule for meetings for the next year. He asked Members to review the information and be ready to make those decisions at the next meeting.

4. On April 20, the Department of Health and Senior Services announced the distribution of \$30 million in Stabilization Grants to hospitals. The Stabilization Grants are meant to stabilize hospitals going through financial difficulties and allow them time and resources to return to financial stability. The recipients for this year are: Christ Hospital will receive \$7 million, East Orange General Hospital will receive \$1 million, Jersey City Medical Center will receive \$6

million, Kimball Medical Center will receive \$1 million, Raritan Bay Medical Center will receive \$1 million, St. Clare's Health System will receive \$3.5 million, St. Mary's will receive \$9.5 million and University Hospital will receive \$1 million.

5. Hospital News

a. Hudson Hospital Opco & Hudson Hospital Propco, LLCs formed by the owners of Bayonne Medical Center and Hoboken University Medical Center, were chosen as the winning bidder for Christ Hospital by the bankruptcy court on March 28. The transaction is still subject to Certificate of Need review by the Department of Health and Senior Services, as well as CHAPA review by the Attorney General's office, both of which are underway.

b. St. Luke's Warren Hospital has announced that its new CEO is Scott Wolfe. Mr. Wolfe is a CPA who has 30 years of hospital management experience, including most recently as CEO of The Reading Hospital in Reading, Pennsylvania. Mr. Wolfe replaces Thomas Litz, who announced his retirement last month.

c. The University Medical Center of Princeton is preparing for its May 22 move from downtown Princeton to its newly constructed hospital on Route 1 in Plainsboro. The Authority provided financing for the new hospital.

d. Fitch has affirmed the BBB rating for the Authority's bonds issued on behalf of Children's Specialized Hospital.

e. Robert Wood Johnson University Hospital Hamilton announced that it has joined the Jefferson Neuroscience Network. This will allow RWJ-Hamilton patients to access Jefferson's stroke center, including cutting edge clinical trials as well as other neuroscience specialties.

f. Becker's Hospital Review has taken note of the recent for-profit interest in New Jersey hospitals.

g. Moody's has issued a warning that it may downgrade Assured Guaranty, which insures several of the Authority's bonds. Assured Guaranty currently carries a Moody's rating of Aa3 with a negative outlook. Standard & Poor's currently rates Assured Guaranty AA- with a stable outlook. Assured Guaranty is the only bond insurer that is still offering new bond insurance.

h. The MSRB is urging municipal bond issuers to voluntarily post information about bank loan financings on its website, EMMA. With only one bond insurer left in the market and fewer letters of credit being issued, many issuers, including the Authority, are turning to direct loans from banks or direct sale of bonds to banks. Under MSRB rules, these transactions are often not required to submit information to EMMA.

i. Thomson Reuters has announced its top 100 hospitals in the nation. New Jersey had three in the top 100: Hackensack University Medical Center was recognized as a top

teaching hospital and Clara Maass Medical Center and Community Medical Center were recognized as top large community hospitals.

j. Bill Cusick has taken a medical leave as CFO of St. Mary's Hospital. John Shea is the Interim CFO at St. Mary's. Mr. Shea has served as CFO of several Catholic hospitals and most recently has been a consultant.

k. Last month Mr. Hopkins reported that Shane Fleming was interim CFO at Capital Health System. He is in fact Capital's permanent CFO.

6. Authority News

a. Suzanne Walton has been promoted to the position of Director of the Division of Project Management effective April 1.

b. Hillary Freed has been hired for the position of Database Administrator. She will start on June 4 after she graduates from Bucknell University with a bachelor's degree in economics. She has been a summer undergraduate Research Analyst at Bucknell Institute for Public Policy and a summer Research Assistant at Rutgers Center for State Health Policy.

Mr. Escher asked for clarification on the stabilization grants and whether it was an annual program. Mr. Hopkins stated that they were distributed annually based on the discretion of the Legislature and the Governor. The Governor has included \$30 million in stabilization grants in his budget for next year, and the funds being distributed now were passed in last year's budget. This program came out of a recommendation of the Reinhardt Report and is in its fourth year. Mr. Hopkins added that he believed that the program was meant to be annual until all hospitals were stabilized. The initial purpose was to give a one-shot boost to a hospital to get it back on course. Unfortunately many hospitals have needed grants over several years, but there are certain hospitals, such as Jersey City Medical Center, that are weaning themselves off of the grants and getting less each year.

This concluded the Executive Director's report.

As there was no further business to be addressed, following a motion by Dr. Kazmir and a second by Mr. Bollaro, the Members voted unanimously to adjourn the meeting at 10:28 a.m.

I HEREBY CERTIFY THAT THE FOREGOING
IS A TRUE COPY OF MINUTES OF THE NEW
JERSEY HEALTH CARE FACILITIES
FINANCING AUTHORITY MEETING HELD
APRIL 26, 2012.

Carole A. Conover, Assistant Secretary