Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on February 23, 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); Bill Conroy, Designee of the Commissioner of Health and Senior Services; Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Bob Bollaro, Designee of the Commissioner of Human Services; Dr. Munr Kazmir, Public Member and Suzette Rodriguez, Public Member (via telephone).

*The following **Authority staff members** were in attendance:*
Mark Hopkins, Steve Fillebrown, Ron Marmelstein, Lou George, Suzanne Walton, Michael Ittleson, Carole Conover, Linda Hughes, Bill McLaughlin, Arvella King, Edwin Fuentes, Marji McAvoy, Ellen Lieber and Christopher Kulick.

*The following **representatives from the State and/or the public** were in attendance:*
Cliff Rones, Deputy Attorney General; Brandon Minde, Governor's Authorities Unit; Ryan Feeney, NJ Treasury Department; Tom Scott of Barnabas Health; Joseph McCarthy of AtlantiCare Health System; Irena Kaler of RWJ Health Network Insurance Services; Peter Bihuniak and Kevin Kramer of RWJ University Hospital Rahway; Scott Kobler of McCarter and English, LLP; John Draikiwicz of Gibbons P.C.; and Charles Lee of JP Morgan.

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
January 26, 2012 Authority Meeting

Minutes from the Authority's January 26, 2012 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Mr. Bollaro seconded. Mr. Escher, Mr. Bollaro, Ms. Kralik, Ms. Rodriguez and Dr. Kazmir voted yes, Mr. Conroy abstained, and the motion carried.

2. NEGOTIATED SALE REQUEST & INFORMATIONAL PRESENTATION
Barnabas Health

Mr. Mark Hopkins introduced Tom Scott from Barnabas Health. He then informed the Members that Saint Barnabas Corporation, doing business as Barnabas Health ("Barnabas"), has signed a Memorandum of Understanding with the Authority to undertake a tax-exempt public offering of approximately $215 million. His presentation would serve as both a request for a negotiated sale and as an informational presentation. The proposed transaction will refinance all or a portion of the Series 1996C bonds, issued on behalf of Barnabas by the New Jersey Economic Development Authority, as well as the Series 1998 A & B bonds and the Series 2006B capital appreciation bonds, issued by this Authority.

More specifically, bond proceeds will be used to currently refund the 2025 term bond of the Series 1996C bonds, currently refund the 2023 & 2028 term bonds of the Series 1998A bonds, currently refund the 2024 and 2028 term bonds of the Series 1998B bonds, fund a tender offer for the Series 2006B bonds, fund a Debt Service Reserve fund, and pay the related costs of issuance.

Barnabas is a New Jersey not-for-profit organization that operates six acute care hospitals, a free-standing psychiatric hospital, two children's hospitals, two Medicare-certified home health care and hospice programs, two ambulatory care facilities, three behavioral health centers and various supporting not-for-profit and for-profit entities. The six acute care hospitals consist of: Clara Maass in Belleville, Community in Toms River, Kimball in Lakewood, Monmouth in Long Branch, Newark Beth Israel in Newark, and Saint Barnabas in Livingston. Excluding nursing bassinets, the system has 3,142 licensed beds, generates revenues of over $2.4 billion annually and has approximately 18,300 employees.

In October and November of last year, the Authority issued $370 million of fixed rate and $37 million of variable rate tax-exempt bonds along with $42.9 million of variable rate taxable bonds on behalf of Barnabas. The majority of the proceeds from those bonds were used to refinance outstanding indebtedness. As of December 31, 2011 the Authority had issued a total of $837.6 million of debt on behalf of Barnabas. In addition to the bonds issued during 2011, the Authority issued bonds on behalf of Barnabas and/or its affiliates in 1998, 2001, and 2006 - all of which, or some portion of which, remain outstanding.

According to the consolidated audited financial statements provided with the Memorandum of Understanding, Barnabas generated an excess of revenues over expenses of approximately $106.6 million for 2010 and $47.1 million in 2009. As of November 30 of last year, Barnabas Health reflected an unaudited excess of revenues over expenses of $142.8 million from continuing operations. The proposed transaction will be issued on the credit of Barnabas which is rated BBB/Baa2/BBB by S&P, Moody's and Fitch respectively. As reflected in the Authority's Apollo data for the year ending December of 2010, Barnabas Health had 108 days of cash on hand, a cushion ratio of 6.75 and a debt service coverage ratio of 3.05.

Barnabas has asked that the Authority permit the use of a negotiated sale based on the sale of a complex or poor credit; volatile market conditions, and large issue size. These reasons are considered under the Authority's policy regarding Executive Order #26 to be a justification for the use of a negotiated sale. Therefore, Mr. Hopkins recommended the consideration of the resolution approving the use of a negotiated public offering and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Barnabas has indicated that it has performed a competitive process to name an underwriter and wishes to utilize the services of JP Morgan Securities LLC as the senior manager for the bonds. Barnabas is in the process of conducting an RFP with respect to recommending a bond counsel assignment.

Mr. Escher asked the Members' pleasure with respect to the adoption of the Resolution supporting the issuance of revenue bonds by negotiated transaction pursuant to Executive Order #26 on behalf of Barnabas Health. Dr. Kazmir moved to adopt the resolution. Mr. Conroy seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. LL-50

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby adopts the resolution entitled "RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY NEGOTIATED TRANSACTION PURSUANT TO EXECUTIVE ORDER NO. 26."

(attached)

3. INFORMATIONAL PRESENTATION
<u>AtlantiCare Health System</u>

Ms. Suzanne Walton introduced Joseph McCarthy, Corporate Director of Finance from AtlantiCare Health System.

Ms. Walton reminded the Members that at the January Board Meeting, AtlantiCare Health System requested and received approval to move forward with a tax-exempt, negotiated private placement in order to pursue a current refunding of their remaining Series 2002 bonds.

The Series 2002 bonds were originally issued in the amount of $115.8 million; however, in 2007, $36.7 million of bonds were advance refunded. The proposed bond issue, totaling approximately $47 million, will refund the balance of the bonds, fund a debt service reserve fund, if necessary and pay related costs of issuance.

Ms. Walton stated this would serve as an informational presentation in advance of the contingent bond sale request expected to occur in March.

She informed Members that AtlantiCare Health System ("AtlantiCare") is the sole member of AtlantiCare Regional Medical Center ("Medical Center") which operates two hospitals – one located in Atlantic City (the City Campus) and the other in Pomona (Mainland campus). The Medical Center offers health care services to the residents of Atlantic, Cape May, Cumberland and southern Ocean Counties in southeastern New Jersey. The Atlantic City campus provides the region's only Level II Trauma Center; a regional psychiatric crisis center; a comprehensive center for surgical weight loss; and a complete array of inpatient and ambulatory healthcare services, including obstetrics and gynecology. The Mainland Campus offers specialized services in cardiac care, including cardiac bypass and cardiac catheterization; orthopedics, neonatal intensive care, as well as a new birthing center and a state of the art emergency department.

Ms. Walton referenced the Apollo financial summary information Members received, and noted that the Medical Center has consistently demonstrated its ability to manage operations, programs and cost structures resulting in positive operating results. In 2010, the Medical Center reported income from operations of $26.4 million and has cash and board designated funds totaling approximately $350 million. While audited numbers for 2011 are not yet available, its unaudited numbers for 2011 continue to demonstrate strong financial performance.

The Medical Center is also well utilized. Inpatient admissions have increased annually and the occupancy rate has grown from 66.4% in 2008 to 68.9% year to date. Outpatient admissions have also continued to grow throughout this time period.

Financial ratios for 2010 reflect 238 days cash on hand, a profit margin of 4.3% and a Debt Service Coverage ratio of 3.98.

AtlantiCare currently maintains an A rating from both S&P and Fitch and an A2 rating from Moody's. The refunding of the remaining 2002 bonds will result in significant cash flow savings which will further enhance the Medical Center's cash position. A recent bond sizing, utilizing interest rates for an A-rated credit indicates that the refunding on a direct placement basis will generate approximately $9.7 million of present value savings.

Mr. Conroy asked for an update on how the Hammonton location was doing. Mr. McCarthy informed Members that when Kessler closed as an inpatient hospital three years ago, AtlantiCare immediately came in and reopened the Emergency Room. Over the summer, they opened a brand new facility that is doing well and hitting their projections. He added that they are serving the community and also bonding with the local population.

Mr. Escher asked for the actual percentage of savings that AtlantiCare would be realizing and Ms. Walton informed him the transaction would generate a savings of 19% of the refunded bonds. In response to a question from Mr. Escher, Mr. McCarthy stated that the savings would be used as AtlantiCare has historically done business, by putting the savings back into their operations and providing quality health care.

Mr. Escher reminded the Members that the presentation was for informational purposes only and no action needed to be taken.

4. AMENDMENT TO INSURANCE COVENANT
<u>RWJ Rahway</u>

Ms. Arvella King introduced Irena Kaler from RWJ Health Network Insurance Services, Peter Bihuniak and Kevin Kramer from RWJ University Hospital Rahway, Scott Kobler from McCarter and English, LLP and John Draikiwicz from Gibbons P.C.

Ms. King then informed the Members that Robert Wood Johnson University Hospital Rahway ("RWJ University Hospital Rahway") currently maintains its primary general and professional hospital coverage with Princeton Insurance Company. The Board of Governors of the hospital has determined, upon recommendation of the Board's Finance Committee, that it is in the best interest of the hospital to replace its current commercial coverage with a captive insurance company, System and Affiliate Members Ltd. effective April 1, 2012 or such later date as may be determined by an authorized officer of the Authority. The captive has been providing general and hospital professional liability insurance for other members of the RWJ Health Network Insurance Services since 2003. Currently there are four member hospitals in the network and each owns a segregated cell within the captive insurance company. Rahway will make the fifth member hospital.

In anticipation of replacing its current commercial coverage with a captive insurance company, the hospital is requesting the Authority's approval to amend their Series 1998 Bonds Insurance Covenant. Beginning in 2008, the Authority approved an insurance covenant to be included in all new bond issues that identified certain requirements borrowers must meet prior to creating and maintaining a captive insurance company. By allowing the hospital to amend its insurance covenant, any captive insurance company created would need to meet the same insurance requirements as the Authority's current policy.

In addition, bond counsel, Gibbons P.C., will be providing an opinion that holders of the bonds will not be adversely affected by the Amendment.

Ms. King asked Members to approve the hospital's resolution and amendment to amend its existing Insurance Covenant so that it reflects the Authority's current insurance requirements.

Mr. Conroy asked how much RWJ Rahway expected to save by switching to the captive. Mr. Bihuniak responded that he believed that based on its current expense, it may be a wash or a slight increase, but over time he hopes to garner a couple hundred thousand dollars built up in the captive.

Mr. Escher asked the Members' pleasure with respect to the adoption of the Resolution authorizing an amendment to the loan agreement of RWJ University Hospital Rahway. Dr. Kazmir moved to adopt the resolution. Mr. Bollaro seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. LL-51

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby adopts the resolution entitled "RESOLUTION AUTHORIZING AN AMENDMENT TO THE LOAN AGREEMENT RELATING TO THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, RAHWAY HOSPITAL OBLIGATED GROUP ISSUE, SERIES 1998."

(attached)

Mr. Escher asked guests present on behalf of Robert Wood Johnson if they believed this would be a trend in hospitals. Ms. Kaler responded that she felt many hospitals in the state have captive insurance programs because they are very effective vehicles to provide for their insurance needs. Within the captive that is part of RWJ Health Network Insurance Services, there is a small possibility of adding another member hospital, but there are no further plans at this time.

5. APPROVAL OF EXPENSES

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

AB RESOLUTION NO. LL-52

> **WHEREAS,** the members of the Authority have reviewed the memoranda dated February 16, 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, $60,531.13 and $560.18 respectively, and have found such expenses to be appropriate;
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> **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 and Legislative Advisory reports.

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

1. Mr. Hopkins welcomed back Mr. Bollaro who had been on leave and noted that Mr. Bollaro would be retiring at the end of August.

2. The Audit Committee Members (Joe Lario, Maryann Kralik and Ryan Feeney) were reminded that there is an Audit Committee meeting scheduled for Tuesday, March 6 at 10:00 a.m. to discuss the Authority's draft audit with the auditors. There will also be a subsequent meeting with the auditors to discuss the single audit for the federal HIT grant at a date to be determined.

3. As authorized by Section 503 of the Bond Resolution, Mr. Hopkins has granted a six month extension to Saint Michael's Medical Center, allowing it until July 31, 2012 to expend the approximately $73,500,000 remaining monies in the Project Fund for the State-backed 2008 Hospital Asset Transformation Bonds issued by the Authority on behalf of Saint Michael's. Saint Michael's has expended approximately $56,500,000 of the Project Fund to date. A copy of the letter granting the extension was provided to Members.

4. As part of his State Fiscal Year 2013 budget, the Governor has proposed plans to reorganize the Department of Health and Senior Services, the Department of Human Services and the Department of Children and Families. Senior Services will be centralized at the Department of Human Services. The Department of Health and Senior Services will be renamed the Department of Health. Hospital funding programs will be centralized at the Department of Health including the Hospital Relief Subsidy Fund and Graduate Medical Education Fund that were formerly handled by the Department of Human Services. The Office of the Health Information Technology Coordinator will be transferred from the Governor's office to the Department of Health. Children and youth programs now under DHS would move to the Department of Children and Families.

5. Tom Considine, the Commissioner of the Department of Banking and Insurance, resigned effective February 10, 2012. Governor Christie has nominated Ken Kobylowski to replace Commissioner Considine. Mr. Kobylowski has been the Chief of Staff at the Department of Banking and Insurance for the last two years. He has also been the Acting Director of Banking since October. Mr. Kobylowski practiced law for twenty years prior to joining the Department.

6. Hospital News

a. On February 6, Christ Hospital in Jersey City filed for bankruptcy after Prime Healthcare withdrew its offer to purchase Christ amid public criticism of the transaction. Several other parties have publicly expressed interest in acquiring Christ through the bankruptcy process, including Hudson Hospital Holdco, an LLC formed by the owners of Bayonne and Hoboken, and Liberty Health System, which operates Jersey City Medical Center, in coordination with Community Healthcare Associates, a for-profit entity that purchased Barnert Hospital and transformed it into a medical mall.

b. LHP Hospital Group, an affiliate of Legacy Health Partners, has formed a for-profit joint venture with Hackensack University Medical Center to acquire Mountainside Hospital from Merit Health Systems for $190 million. A Certificate of Need application for the transaction has been filed with the Department of Health and Senior Services. He reminded Members that Hackensack and LHP also formed another for-profit joint venture to acquire Pascack Valley Hospital. Currently, the Certificate of Need application to reopen Pascack is under consideration.

c. Ascension Health Care Network, a for-profit joint venture between the large Catholic not-for-profit Ascension Health, and the capital investment group of Oak Hill Capital Partners is in discussions to acquire St. Joseph's Medical Center and St. Mary's Medical Center.

d. It has recently been reported that St. Clare's Health System, which is currently owned by Catholic Health Initiatives, is in partnership discussions with several entities, including Atlantic Health System, Ascension Health Care Network, Barnabas Health and Hackensack University Medical Center.

e. Englewood Hospital and Medical Center is considering transferring the services of its clinic for low-income and uninsured residents to the North Hudson Community Action Corporation, an organization that already has nine community health centers in Bergen, Passaic and Hudson counties. Mr. Hopkins noted that the Authority originally had consideration of consent for this plan on the agenda for today's meeting, but there were requirements Englewood and the FQHC needed to meet with the Department of Health and Senior Services first. As the Authority did not want to get ahead of the Department, the item was removed and will probably be considered at the next meeting.

7. Authority News

a. Lou George, who will be retiring at the end of next month, is celebrating his 30th anniversary with the Authority this month. A retirement luncheon is being planned and is tentatively scheduled for after our next Authority meeting on March 22. Details will follow.

b. Taryn Jauss, most recently the Authority's Database Administrator, has been promoted to fill the long vacant position of Compliance Manager II.

c. Tammy Trovato, the Administrative Assistant for the Divisions of Project Management and Research, Investor Relations and Compliance, has gone out on medical leave related to her pregnancy. She is expected to be out through at least August. Therefore, the Authority has posted for a temporary replacement on the Authority's website and on Craigslist. Resumes have already started coming in.

d. The Authority is in the process of filling the positions of Director of Project Management, to fill Lou's rather large shoes, Health Information Technology Project and Grant Manager, to replace the late Lori Jefferson, and Database Administrator, to replace the promoted Taryn Jauss. Resumes have been pouring in and interviews will begin in March.

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. Conroy, the Members voted unanimously to adjourn the meeting at 10:31 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 FEBRUARY 23, 2012.

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Stephen Fillebrown, Assistant Secretary