Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on January 25, 2007 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:
Fred M. Jacobs, Commissioner of Health and Senior Services (Chairman); Gus Escher, Public Member; Moshe Cohen, Public Member (on the telephone); Thom Jackson, Public Member; Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Freida Phillips, Designee of the Commissioner of Human Services; and, Edward Tetelman, Designee of the Commissioner of Health and Senior Services.

The following **Authority staff members** were in attendance:
Mark Hopkins, Dennis Hancock, Jim Van Wart, Michael Ittleson, Suzanne Walton, Susan Tonry, Robin Piotrowski, Bob Day, Bill McLaughlin, Lou George, Carole Conover, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:
Kay Fern, Evergreen Financial; Greg Adams, Holy Name Hospital; John Draikiwicz, Gibbons, Del Deo, Dolan, Griffinger & Vecchione; Randy Schultz, Dan Davis, Catholic Health East; Howard Eichenbaum, GluckWalrath; Paul DelVecchio, Joseph Marion, Merrill Lynch; Ron Haase, Banc of America Public Corp.; Rich Nolan, McCarter & English; Michael Congedo, Wayne Ziemann, JH Cohn; Gary Walsh, Windels, Marx, Lane & Mittendorf; David Kostinas, David Kostinas & Associates; Jack Robinson, Marian Speid, St. Joseph's Regional Medical Center; John Lochner, Towers Perrin Tillinghast; Jack Swire, Kari Fazio, Brian Carter, Wachovia Bank; Robert Smith, Danielle Cheung, JPMorgan Chase; John Callendriello, Saint Peter's University Hospital; Stuart May, Frank Maddalena, Barnert Hospital; Brian Adams, Cornellis & Adams; Sharon Price-Cates, Governor's Authorities Unit; Thomas Papa, Treasury; and, Clifford T. Rones, Deputy Attorney General.

CALL TO ORDER

Dr. Jacobs called the meeting to order at 10:04 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 25, 2006 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 the *Courier Post*, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

APPROVAL OF MINUTES
December 15, 2006 Special Authority Meeting

The minutes for the Authority's December 15, 2006 Authority meeting were distributed for review and approval. Mr. Escher offered a motion to approve the minutes; Ms Kralik seconded. Dr. Jacobs abstained; Mr. Escher voted yes; Ms. Kralik voted yes, and Ms. Phillips voted yes. Dr. Cohen and Mr. Jackson were not present for the vote, therefore, with only three of the four votes needed, the motion does not carry. The four votes will be recorded and the minutes will be presented again at the February meeting to be voted upon by Dr. Cohen and Mr. Jackson.

EXECUTIVE SESSION

At this point, as permitted by the Open Public Meetings Act and the Authority's By-Laws, Dr. Jacobs asked the Members to meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General. Mr. Escher offered a motion to enter the session; Ms. Phillips seconded it. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-70

> **NOW, THEREFORE, BE IT RESOLVED,** that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General.
>
> **BE IT FURTHER RESOLVED,** that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. Dr. Jacobs noted that the Members will address the items from Executive Session under their respective agenda items.

BOND SALE REPORTS

Mr. Hancock reminded the Members that a private placement bond sale was approved on behalf of Somerset Medical Center at the December Authority meeting. The $15 million issue was sold to Peapack Gladstone Bank to replace a taxable loan that Peapack Gladstone had provided to complete the Medical Center's Cancer Center. The Governor approved the Authority minutes on an expedited basis and the issue closed on December 29th.

The initial interest rate covering the first ten years of the loan was set based on a formula using Treasury securities as the index. The rate was calculated at 4.42%. This rate will be reset every five years after the initial period. The first business day after the closing, Peapack Gladstone notified staff that it had not realized that the bonds would not be considered "Bank Eligible Bonds" and, as a result, Peapack Gladstone had to sell their holdings. Bonds deemed "Bank Eligible" permit banks to deduct a portion of the carrying costs of the investment for tax purposes, which is a significant advantage. Peapack Gladstone asked staff to help locate potential purchasers and staff has supplied some information, but, to Mr. Hancock's knowledge, no transfer had taken place as of yet. Bond sale reports are for informational purposes only, therefore, no Authority action was required.

TEFRA HEARING AND EQUIPMENT REVENUE NOTE PROGRAM
FitnessFirst Oradell Center, LLC

Dr. Jacobs announced that, as required by the Tax Reform Act of 1986, the following portion of the meeting will be considered a public hearing in connection with the Authority's proposed FitnessFirst Oradell Center transaction, as well as the St. Mary's Hospital at Passaic transaction.

Suzanne Walton introduced Greg Adams, Senior Vice President and Chief Financial Officer of Holy Name Hospital and Ron Haase, Senior Vice President of Banc of America Public Capital Corp. She informed the Members that FitnessFirst Oradell Center, LLC, the sole member of which is Holy Name Hospital, was formed pursuant to the laws of the State of New Jersey. The LLC elected to be treated as a partnership for federal income tax purposes, and, therefore, will enjoy the same tax status as its 501(c)(3) sole member organization. Ms. Walton reminded the Members that FitnessFirst recently issued bonds through the Authority's COMP Program to finance the fit out of a building currently owned by a related 501(c)(2) organization for the development of a medically based health and fitness center.

Ms. Walton indicated that the Members' were now being asked to approve the sale of the first Note issued under the Authority's retooled Equipment Revenue Note Program, for which a predetermined bond counsel and other Authority procedures reduce transaction time and fees. In order to qualify for the Program, a financing must total less than $15 million, proceeds must only be used for equipment and minor installation costs, and the issue must be unrated. Financings under the program are pre-approved by the Authority to be completed as negotiated private placements and, therefore, no underwriters are needed for the transactions.

According to Ms. Walton, FitnessFirst would like to issue a $1,376,000 Equipment Revenue Note to provide funds for the purchase and installation of exercise equipment and other types of equipment used in its operation as a health and fitness center and to pay costs of issuance. Staff is pleased that the Note will be privately placed with Bank of America Public Capital Corp, which worked with staff to enhance the Program and generate new interest.

The Note will be secured by a first lien on the financed equipment and a guaranty from Holy Name Hospital. The term sheet offered by Banc of America establishes an interest rate of 3.92% and requires the Note to be repaid in consecutive monthly installments of principal and interest over a 60-month period. Banc of America will provide the Authority with a traveling investor letter which will provide indemnification to the Authority with respect to the issuance and sale of the Note.

NOTE RESOLUTION

(attached in full form)

John Draikiwicz, Esq. of Gibbons, Del Deo, Dolan, Griffinger & Vecchione, PC stated that the Note Resolution authorizes the issuance of an Equipment Revenue Note in the amount of $1,376,000 prior to or by the close of business on April 30, 2007. As stated by Ms. Walton, the Note will carry an interest rate of 3.92% per annum and shall mature on the date that is not later than sixty (60) months following the date of issuance. The Note shall be subject to prepayment as set forth in the form of Note appearing as an appendix to the Master Financing Agreement Terms.

The Note Resolution approves the form of the Note and the Master Financing Agreement Terms, including Schedule 1 which incorporates the terms of this loan. In addition, the Resolution states that the revenues derived by the Authority pursuant to the Master Financing Agreement shall be paid directly to the Noteholder and applied to the payment of principal and interest on the Note when due. Finally, the Note Resolution authorizes and directs the Authorized Officers to execute and deliver documents and to take action as may be necessary or appropriate in order to effectuate the execution and delivery of the Agreement and the issuance and sale of the Note.

Noting that the Internal Revenue Service ("IRS") has been in the news lately for pledging to become more stringent regarding tax-exempt activities, Dr. Cohen expressed concern that fitness centers, which would be competing with other for-profit entities, might come under IRS scrutiny. Mr. Draikiwicz noted that, due to FitnessFirst's relationship with Holy Name Hospital and because of the health care focus of the facility, the tax specialist at Gibbons, Del Deo, Dolan, Griffinger & Vecchione opines that this transaction qualifies as tax-exempt.

Mr. Jackson noted that the IRS announcement of this intention was very recent and, as such, the IRS itself has yet to develop its approach to that aim. He recommended that staff monitor the IRS' progress regarding stricter evaluations of taxable projects and alert the Members when further details are released. This way, the Members will be informed for future similar transactions. In the time being, the Members, including Dr. Cohen, expressed satisfaction with the FitnessFirst transaction and bond counsel's opinion, as presented.

Dr. Jacobs asked the Members' pleasure with respect to the adoption of the Note Resolution. Mr. Escher moved that the document be approved. Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-71

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Note Resolution entitled, "A RESOLUTION PROVIDING FOR THE ISSUANCE OF A NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY EQUIPMENT REVENUE NOTE, FITNESSFIRST ORADELL CENTER, L.L.C., SERIES 2007 IN AN AMOUNT EQUAL TO $1,376,000."

Dr. Jacobs congratulated FitnessFirst on the sale approval. Mr. Adams noted that the facility opened in January and has been well-received by the community. He thanked the Authority for helping to make it possible.

TEFRA HEARING AND INFORMATIONAL UPDATE

St. Mary's Hospital - Passaic

Mr. Hancock reported that St. Mary's Hospital in Passaic ("St. Mary's") is in the process of acquiring the assets of Passaic Beth Israel Regional Medical Center through bankruptcy proceedings. St. Mary's is planning to fund the acquisition price and transition costs through a number of sources, including the issuance of Authority bonds. The working group, which has been meeting to structure the financing and documents, expects to request sale approvals in early February, if arrangements can be made for a special Authority meeting.

A portion of the acquisition funding can be achieved through one or more series of bonds secured by a contract with the Treasurer, as permitted under the Hospital Asset Transformation Program ("HATP"). HATP is available to St. Mary's as a result of its plan to terminate operations at its current facilities, leaving a single hospital in Passaic. As required by the HATP, the bond proceeds will be used to refund the outstanding bonded indebtedness of PBI and St. Mary's, which amounts to approximately $30 million. Bondholders will be paid if, and only if, the legislature includes the payment in the State's annual appropriations. Under a loan agreement with the Authority, St. Mary's has a responsibility to repay the State to the extent that funds are available.

Additionally, St. Mary's will issue bonds, secured by a mortgage on the PBI facilities and a gross revenues pledge, that will be used to pay the remaining acquisition costs and transition costs needed to move to the PBI facility. These costs include renovations and working capital needed during the consolidation period. The proceeds from this financing may also be used to repay a loan secured by St. Mary's accounts receivable, which may be necessary to generate cash flow for St. Mary's to continue its operations until the PBI acquisition closes. The amount of the Authority bonds issued on St. Mary's credit could amount to between $20-35 million.

A third, non-Authority, financing will be undertaken to provide additional working capital. This financing will be secured by the current St. Mary's facilities and will be repaid by the sale of those facilities after the move.

Mr. Hancock stated that, as Senior Manager on both the State Contract bonds and the St. Mary's bonds, Merrill Lynch continues to provide significant input in the financing's structure. Merrill Lynch believes that the State Contract bonds will achieve a high "A" category rating based on the State's general obligation "AA" rating. It is further expected that St Mary's bonds will be unrated due, in part, to the start-up nature of the new operation at the PBI campus.

St. Mary's bonds will be issued through a Limited Public Offering to sophisticated investors. It is hoped that the compiled financial projections to be included in the offering document will generate sufficient investor interest.

Also impacting the bond issuance, the Certificate of Need ("CN") and Charitable Asset Protection Act ("CHAPA") reviews are still in process with final decisions not expected before February 1st.

Mr. Hopkins noted that the Members have agreed to meet on February 8, 2007 for a special meeting to consider the bond sale on behalf of St. Mary's.

This particular St. Mary's update was presented for informational purposes only, therefore, no Authority action was required. Dr. Jacobs then closed the public hearing required by the Tax Reform Act of 1986 regarding the FitnessFirst Oradell Center and the St. Mary's Hospital in Passaic transactions.

NEGOTIATED SALE REQUESTS

A. Atlantic Health System

Mark Hopkins reported that Atlantic Health System ("AHS") signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing of approximately $90 million. Approximately $60 million of the proceeds will be used to refund the callable portion of AHS' 1997A Authority bonds, and the remainder will be used to fund hospital equipment. Additionally, AHS intends to use approximately $45 million of its cash on hand to defease the non-callable portion of the 1997A bonds. Two series of bonds may be issued, one at a fixed rate and one at a variable rate.

Atlantic Health System is a not-for-profit organization with several subsidiary and affiliated organizations. Among its subsidiaries is AHS Hospital Corporation, which operates three hospitals: Morristown Memorial Hospital in Morristown, Overlook Hospital in Summit and Mountainside Hospital in Montclair. AHS is in the process of selling Mountainside Hospital to Merit Health System, pending finalization of the terms and legal and regulatory approvals.

AHS has approximately $332,525,000 worth of Authority bonds outstanding from four separate series issued in 1997, 2003, 2004 and 2006. While the 1997A bonds will be defeased, the three other series will remain outstanding for a total of $238,575,000. AHS has already defeased series 1997B bonds totaling $65,400,000.

According to consolidated audited financial statements provided with the Memorandum of Understanding, AHS generated excess revenues over expenses of approximately $29 million for 2005 and $43 million for 2004. Unaudited information for the first three quarters of 2006 shows excess revenues over expenses of approximately $22 million, continuing its recent profitability.

AHS asks that the Authority permit the use of a negotiated sale based on large issue size and the expected use of variable rate debt. Since these are considered under the Authority's policy to be justification for the use of a negotiated sale, staff recommended the consideration of the resolution approving the use of a negotiated sale and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Hopkins noted that, after performing a competitive process, AHS selected Goldman Sachs & Co. as Senior Managing Underwriter for the bonds. AHS has also received the Attorney General's approval to have Windels, Marx, Lane & Mittendorf serve as bond counsel on the financing.

Mr. Jackson moved to approve the pursuit of a negotiated sale on behalf of AHS; Mr. Escher seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-72

(attached)

AHS Swap Identification

Mr. Hopkins then noted that AHS requests that the Authority adopt a resolution to identify an interest rate hedge (the "Hedge") related to these bonds on the books and records of the Authority. The Hedge will be on a forward basis and may be in the form of an interest rate swap, an interest rate cap or a similar type of agreement.

AHS believes that entering into the Hedge will reduce the risk of an interest rate change. The identification of the Hedge by the Authority, as issuer, will permit the arbitrage calculation to account for the Hedge's effect on the overall interest rate of the bonds.

Treasury regulations require that the Authority's identification of the Hedge be made within three days of the execution of the Hedge Agreement. The resolution would authorize the Chairman, Vice Chairman, Secretary, Treasurer, Assistant Treasurer, Executive Director or Deputy Executive Director of the Authority to identify, on the books and records of the Authority, the Hedge Agreement as being applicable to the AHS Bonds. Notwithstanding the foregoing, neither the adoption of this Resolution nor the Authority's identification of the Hedge will obligate the Authority to issue the AHS Bonds or to approve the issuance of the AHS Bonds.

Mr. Jackson moved to approve the resolution identifying the AHS swap; Mr. Escher seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-73
(attached)

B. AtlantiCare Regional Medical Center

Mark Hopkins reported that AtlantiCare Regional Medical Center ("AtlantiCare") signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing of approximately $69.4 million. Approximately $36 million of the proceeds will refund a portion of the Authority's 2002 AtlantiCare bonds, and approximately $33.4 million will fund a 7-story, 204,000 square foot addition and a 23,000 square foot renovation to the existing City Campus facility.

AtlantiCare is a not for profit organization with 590 beds between its two divisions: City Campus located in Atlantic City, and Mainland Campus located in Galloway Township. It is also the sole member of AtlantiCare Behavioral Health. AtlantiCare Regional Medical Center, AtlantiCare Foundation, AtlantiCare Health Plans, AtlantiCare Health Services and InfoShare all combine to form AtlantiCare Health System.

Mr. Hopkins noted that AtlantiCare has approximately $129,595,000 worth of Authority bonds outstanding from two separate series in 2002 and 2005. Approximately $35 million of the 2002 bonds will be defeased by these bonds, with roughly $70 million to remain outstanding. The 2005 bonds totaling $25 million will also remain outstanding. Four earlier series of bonds issued on AtlantiCare's behalf have all been since defeased.

According to the consolidated audited financial statements provided with the Memorandum of Understanding, AtlantiCare generated excess revenues over expenses of approximately $52 million for 2005 and $60 million for 2004. Unaudited information for the first three quarters of 2006 shows excess revenues over expenses of approximately $24 million, continuing its recent history of positive results of operations.

AtlantiCare asks that the Authority permit the use of a negotiated sale based on large issue size; and volatile market conditions. Since the Authority's policy considers these to be justifications for the use of a negotiated sale, staff recommended the consideration of the resolution, included in the meeting materials, approving the use of a negotiated sale and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Hopkins noted that AtlantiCare has yet to select a Senior Managing Underwriter or request consideration of bond counsel for the bonds.

Mr. Escher moved to approve the pursuit of a negotiated sale on behalf of AtlantiCare; Mr. Jackson seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-74
(attached)

C. Catholic Health East

Mark Hopkins began by introducing Catholic Health East's Randy Schultz, Vice President of Capital Strategy & Management, and Dan Davis, Director of Capital Management. Catholic Health East ("CHE") signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing of approximately $150 million. The proceeds will be used to refund all or a portion of: (i) the 1998B Bonds issued by the Camden County Improvement Authority for Our Lady of Lourdes Medical Center in Camden; (ii) the Authority's 1998E Bonds issued to finance the acquisition of what is now known as Lourdes Medical Center of Burlington

County; and (iii) the Authority's 2003A Bonds issued to fund capital projects at Our Lady of Lourdes Medical Center in Camden. CHE also expects to be refunding up to approximately $350 million of bonds previously issued by issuers in other states.

Catholic Health East is a Pennsylvania nonprofit corporation which controls, directly or indirectly, various affiliates that constitute the CHE Health System. The affiliates own, operate or manage health care facilities in eleven states, including general acute care hospitals, long-term care facilities, skilled nursing facilities and behavioral health facilities, with an aggregate of approximately 12,100 beds and 1,900 living units for the elderly. In New Jersey, CHE owns Lourdes Medical Center of Burlington County located in Willingboro, Our Lady of Lourdes Medical Center located in Camden, and St. Francis Medical Center located in Trenton.

Mr. Hopkins explained that the Authority issued a total of $114,335,000 worth of bonds on behalf of CHE in two separate series in 1999 and 2003. Approximately $60,690,000 and $46,705,000 respectively, (totaling $107,395,000) remain outstanding as of September 30, 2006. The 1998E bonds (issued in 1999) and the 2003A bonds are expected to be defeased by these bonds. The Authority issued $3.1 million in bonds for St. Francis Medical Center under the 2003 COMP program, of which $2.5 million remains outstanding. The Authority has issued numerous series of bonds for predecessor entities of CHE, all of which are no longer outstanding or have been defeased.

According to the consolidated audited financial statements provided with the Memorandum of Understanding, CHE generated excess revenues over expenses of approximately $230.6 million for 2005 and $218.2 million for 2004. Unaudited information for the first three quarters of 2006 shows excess revenues over expenses of approximately $141.9 million, continuing its recent history of positive results of operations.

CHE asks that the Authority permit the use of a negotiated sale based on: the large issue size; the complex financing structure, including the simultaneous sale of more than one series of bonds with each series structured differently; and the expected use of variable rate debt. Since these reasons are listed under the Authority's policy as justifications for the use of a negotiated sale, staff recommended the consideration of the resolution approving the use of a negotiated sale and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Hopkins added that after performing a competitive process, CHE selected Merrill Lynch & Co. to serve as Senior Managing Underwriter for the bonds. CHE received the Attorney General's approval to have McManimon & Scotland serve as bond counsel for the financing.

Mr. Hopkins noted that, in Executive Session, the Members discussed a request from CHE to waive the Authority's mortgage requirement due to the unique circumstances that CHE is a multi-state system, and it has an Obligated Group structure including the Parent company, which provides strong security for the bonds yielding strong ratings. Mr. Escher moved to waive the Authority's mortgage requirement with respect to the proposed 2007 CHE bond transaction; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-75

WHEREAS Catholic Health East is a unique Authority borrower in the respect that it is a multi-state system with an Obligated Group structure with two ratings in the "A1/A+" category,

NOW, THEREFORE, BE IT RESOLVED, that the Authority waives its mortgage requirement in connection with the proposed 2007 bonds to be issued on behalf of Catholic Health East.

Mr. Jackson moved to approve the pursuit of a negotiated sale on behalf of CHE; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-76

(attached)

CHE Swap Identification

Mr. Hopkins then noted that CHE requests that the Authority adopt a resolution to identify on the books and records of the Authority an interest rate swap agreement related to these bonds. CHE believes that by entering into the Swap in the near future it will reduce the risk of an interest rate change. The identification of the Swap by the Authority, as issuer, will permit the arbitrage calculation to account for the effect the Swap has on the overall interest rate of the bonds. Treasury regulations require that the Authority's identification of the Swap be made within three days of the execution of the Swap Agreement.

The resolution would authorize the Chairman, Vice Chairman, Secretary, Treasurer, Assistant Treasurer, Executive Director or Deputy Executive Director of the Authority to identify, on the books and records of the Authority, the Swap as being applicable to the CHE Bonds. Neither the adoption of this Resolution nor the identification of the Swap on the books and records of the Authority obligates the Authority to issue the CHE Bonds or to approve the issuance of the CHE Bonds.

Mr. Escher moved to approve the resolution identifying the CHE swap; Mr. Jackson seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-77

(attached)

D. Saint Barnabas Health Care System – Clara Maass Medical Center

Mark Hopkins reported that Clara Maass Medical Center ("Clara Maass") signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing, the proceeds of which will be used to construct a new ambulatory surgery center and pay a portion of the costs of issuance. With costs of issuance and other costs, Clara Maass seeks to finance a total of approximately $2,000,000 through the Authority.

Mr. Hopkins described Clara Maass as a New Jersey not-for-profit corporation wholly owned by Saint Barnabas Corporation, a not-for-profit holding company doing business under the name of Saint Barnabas Health Care System. Clara Maass operates acute care hospitals on two campuses, Belleville and Kearny. It also owns and operates two continuing care centers in Kearny and one in Belleville, as well as Jersey Home Health Care, a licensed home health care agency. Saint Barnabas Health Care System is the sole corporate member or sole shareholder of numerous affiliated organizations and subsidiaries including six other acute care hospitals, nine long-term nursing facilities, two assisted living facilities, several ambulatory care centers, four home care agencies, the SBHCS Foundation and affiliated foundations, as well as entities that provide pharmacies, biomedical engineering services, security and protection services, pharmaceutical purchasing services and corporate functions.

According to the consolidated audited financial statements provided with the Memorandum of Understanding, Saint Barnabas Health Care System generated a deficiency of revenues over expenses of approximately $204.7 million for 2005 and excess revenues over expenses of $30.9 million for 2004. The deficiency in 2005 includes a $204.5 million Medicare settlement write down and $20.5 in closure costs for affiliated hospitals. Clara Maass' individual unaudited information for the first nine months of 2006 shows a deficiency in revenues over expenses of approximately $480,000.

Clara Maass intends to place the bonds with a New Jersey limited liability company that is owned primarily by physicians on the Clara Maass Medical Center Staff, and to a limited extent by two affiliates of Clara Maass. This type of private placement of bonds primarily with an entity consisting of physicians on staff is commonly referred to as a Participating Bonds Transaction. This sale structure will save Clara Maass underwriting and/or placement agent fees, but more importantly, it will align the interests of Clara Maass with its physicians who bring in their patients.

Clara Maass asks that the Authority permit the use of a negotiated private placement based on the sale of a complex or poor credit and the use of programs or financial techniques that are new to investors. Since these are justifications for the use of a negotiated private placement, staff recommended the consideration of the resolution approving the use of a negotiated private placement and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Hopkins added that the limited liability company with whom Clara Maass expects to place the bonds has yet to be named, however, Saint Barnabas researched several law firms from the Authority's qualified list and received the Attorney General's approval to have the firm of Windels, Marx, Lane & Mittendorf serve as bond counsel.

Mr. Jackson asked if the Authority has any experience with Participating Bonds Transactions, to which Gary Walsh, bond counsel for the proposed transaction, stated that while the Authority has never closed on this type of transaction, this structure was considered and worked with by Authority staff for an earlier transaction on behalf of Monmouth Medical Center. Also, several transactions of this nature have already occurred in other states. Mr. Walsh explained that the physicians who formed the LLC would each have equity in the project. Interest is paid out in proportion to that equity and the physicians are able to claim tax exempt status on that interest. Cliff Rones noted that, in terms of security, the Authority would treat this transaction as a private placement, however, going one step beyond by obtaining a traveling investors letter, not just from the LLC, but also from each of the participating physicians.

Dr. Cohen asked about the rates for the transaction, to which Mr. Walsh replied that the rates would be set by an independent financial advisor who would also provide a market opinion. The financial advisor will likely be selected through a Request for Proposals issued by the borrower. Mr. Hancock added that the Authority will be able to better predict the rates by the time at which the Members will be asked to approve the contingent bond sale. He did note, however, that a transaction such as this would likely carry a higher interest rate than most of the Authority's transactions since the bonds will provide investors with security subordinate to the security provided to other investors. Mr. Walsh added that debt service payments on the bonds would be conditional upon certain circumstances and, therefore, there is a chance that the bonds may not be repaid on time.

Mr. Escher moved to approve the pursuit of a negotiated sale on behalf of Clara Maass Medical Center; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-78
(attached)

AUTHORIZATION FOR THE IDENTIFICATION OF A SWAP AGREEMENT

A. Saint Peter's University Hospital

Ms. Walton reminded the Members that, at the November Authority Meeting, Saint Peter's University Hospital received approval to pursue a negotiated sale of bonds during 2007 to fund a proposed $43 million construction and renovation project. The financing team is currently structuring this issue and anticipates coming back to the Members within two months for contingent sale approval.

Similar to the AHS request presented earlier by Mr. Hopkins, Saint Peter's University Hospital requests that the Authority identify, for tax purposes, an interest rate agreement (which may be an interest rate swap, an interest rate cap or such similar type arrangement) on a forward basis to hedge against any variability in interest rates that may occur prior to the authorization of a contingent bond sale. Tax regulations require that this Hedge Agreement be identified within three days of its execution, not the effective date.

Staff recommended the Members approve a resolution authorizing an "Authorized Officer" to execute the documents needed to identify the hedge agreement as being applicable to the 2007 bond issue so that the three-day window requirement can be met. The adoption of this Resolution does not obligate the Authority to approve Saint Peter's University Hospital's contingent sale of bonds at this time.

Mr. Jackson offered this motion to authorize the execution of documents needed to identify Saint Peter's University Hospital's hedge agreement; Mr. Escher seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-79
(attached)

B. Society of the Valley Hospital

Bob Day introduced Joseph Marion, Society of the Valley Hospital's Chairman of the Finance Committee. Society of the Valley Hospital ("Society of the Valley") also requests the Authority's identification of a hedging agreement or agreements as being applicable to anticipated 2010 bonds to be issued on behalf of Society of the Valley. The risks of the forward swap or swaps are entirely borne by Society of the Valley. The Attorney General's office reviewed this action and has no objection to the Authority's consideration of this matter. Staff, therefore, recommended that the Members approve the resolution identifying the swap as requested.

Mr. Escher offered this motion to permit the identification of one or more hedging agreements for The Society of the Valley Hospital; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-80
(attached)

SELF-INSURANCE REQUEST
St. Joseph's Regional Medical Center

Susan Tonry began by introducing Jack Robinson (Chief Financial Officer of St. Joseph's Regional Medical Center), Marian Speid (Risk Management of Saint Joseph's), and John Lochner (from Towers Perrin Tillinghast).

St. Joseph's Regional Medical Center ("St. Joseph's") currently purchases first dollar insurance from Princeton Insurance Company ("Princeton") for: general liability in the amount of $1 million per occurrence with a $1 million aggregate; hospital professional liability in the amount of $1 million per occurrence with a $3 million aggregate; and master physician policies with limits of $5 million per occurrence with a $7 million aggregate covering employed physicians. In addition to these policies, St. Joseph's purchases a separate policy for St. Vincent's Nursing Home, an operating division of St. Joseph's, in the amount of $1 million per occurrence with a $3 million aggregate. This separate policy need was driven by Princeton many years ago when they insisted that this exposure be addressed separately. In addition to this primary coverage, the hospital has maintained a self-insured trust since 2004 for the first layer of excess insurance with retentions of $4 million per occurrence and a $7 million aggregate. Lexington Insurance Company provides an additional $15 million in excess coverage.

Ms. Tonry stated that, due to the complexity and high cost of the current insurance structure, St. Joseph's would like to simplify and consolidate their many policies. Given that Princeton Insurance Company lost their AM Best Rating, coupled with the fact that there are no other markets writing this coverage for a hospital of St. Joseph's size, St. Joseph's would like to assume the primary layer of general and professional liability for both St. Joseph's and St. Vincent's Nursing Home within SJHS Insurance Limited, a wholly-owned captive insurance company domiciled in Bermuda. The captive would insure the general and professional liability retaining $1 million per occurrence with a $3 million aggregate, and will be fully funded at the 95% confidence level. ($3,000,000)

The proposed funding level satisfies both the Authority's and Bermuda's funding requirements. The self insurance trust would remain intact as a first layer of excess insurance. It is the intention of St. Joseph's to secure a commercial excess policy (or policies) for amounts not less than the existing $15 million policy and as high as $25 million. St. Joseph's has estimated the savings on insurance premiums to be approximately $2.6 million annually with this new structure.

Ms. Tonry stated that St. Joseph's agrees to comply with the Authority's requirement regarding self-insurance programs, including the continued annual rating of their captive beginning with the captive's first fiscal year end.

Dr. Cohen asked about St. Joseph's' claims history, to which Ms. Speid replied that the largest claim made to date was in 1991 for $9 million. Aside from that year, the claims have never totaled more than $4 million for a given year.

Mr. Escher offered a motion to approve St. Joseph's Regional Medical Center's use of the proposed self-insurance structure; Mr. Jackson seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-81

NOW, THEREFORE, BE IT RESOLVED, that, the Authority approves the use of the proposed self-insurance program on behalf of St. Joseph's Regional Medical Center; and,

BE IT FURTHER RESOLVED, that, such approval is conditioned upon compliance with the Authority's reporting requirements for captive and/or self-insurance programs, as the requirements are presently incorporated in the Authority's loan agreements, including the obligation to maintain a required rating, as stated in the attached "AMENDMENT TO ALL RESOLUTIONS IN WHICH THE AUTHORITY APPROVES A BORROWER'S REQUEST TO USE A SELF-INSURANCE/CAPTIVE PROGRAM, THUS MANDATING COMPLIANCE WITH NJHCFFA REPORTING REQUIREMENTS".

STATE LONG TERM CARE INSURANCE PLAN

Robin Piotrowski reported to the Members that The State of New Jersey expanded the eligibility of its Public Employee Long Term Care Insurance Plan to include local employers. The State has offered this plan, underwritten by The Prudential Insurance Company of America, to its employees since 2002. Most New Jersey local public sector employers now have the opportunity to offer this same Public Employee Long Term Care Insurance Plan to their active and retired employees at the State's group rate. The Authority has the option to offer it as well.

Enrollment in the Plan would be voluntary for the Authority's active full-time, part-time, and retired employees, as well as their qualified family members. The full cost of the plan would be paid for by the employees and their family members, with no cost to the Authority.

Since the plan could benefit Authority employees with no cost to the Authority, Ms. Piotrowski recommended, on behalf of staff, that the Members approve a resolution authorizing the State's Long Term Care Insurance Plan for Authority employees.

Mr. Escher offered a motion to permit the Authority's participation in the State's Public Employee Long Term Care Insurance Plan; Ms. Phillips seconded. Upon confirmation that Prudential would be underwriting the Plan, Mr. Jackson recused himself; he did not participate in the discussion nor did he vote. Dr. Jacobs voted yes; Mr. Escher voted yes; Dr. Cohen voted yes; Ms. Kralik voted yes; and Ms. Phillips voted yes. The motion carried.

AB RESOLUTION NO. GG-82

(attached)

AUTHORITY EXPENSES

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

AB RESOLUTION NO. GG-83

> **WHEREAS,** the Authority has reviewed memoranda dated January 25, 2007, summarizing all 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 $683,553.97, $111,102.36 and $27,340.47 respectively, and has found such expenses to be appropriate;
>
> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

STAFF REPORTS

Dr. Jacobs thanked staff for their preparation of reports that were distributed for review, including the Project Development Summary, Cash Flow Statement, Year-Ed Budget Report, and a Legislative Advisory.

Steve Fillebrown presented the Authority's Third Quarter APOLLO Report, noting his observations based on the recently compiled data for the third quarter of 2006. Falling for the second quarter in a row, the state median operating margin is now below breakeven at -.05%. One year earlier, the operating margin was .47%. While the median profit margin for third quarter of 2006 increased from the second quarter to 1.12%, this likely reflects improved investment earnings and is still slightly below that of the third quarter of 2005.

Liquidity measures weakened as a whole. Median days cash plunged 10 days down to 66. Both median days in accounts payables and days in accounts receivable increased by three to 62 days and 52 days, respectively.

Leverage ratios showed mixed results. While the third quarter of 2006 shows a higher debt to capitalization than the second quarter of 2006, it is still slightly better than the debt to capitalization of the third quarter of 2005. Though the median debt service coverage of 2.47 was slightly higher than in the second quarter of 2006, it decreased overall from one year prior. Also, debt to net fixed assets improved slightly from the second quarter 2006, but remained stable when compared to the third quarter of 2005. Cash to debt was lower in this most recent APOLLO than both second quarter 2006 and third quarter 2005 levels.

Mr. Fillebrown noted that, looking beyond the medians, 29 hospitals incurred bottom line losses in the third quarter of 2006 compared to 23 in 2005. Further, 33 hospitals, which make up 51%, lost money from operations in this period, compared to 28 in the year prior. Of these 33 hospitals, 19 had fewer inpatient admissions than one year earlier. Though these volume declines continue to trouble hospitals, they are not the only distressing factor; revenue cycle management and wage issues are also affecting operating performance.

Mr. Fillebrown added that the pronounced differences in financial performance between various peer groups continued in the third quarter of 2006. Financial performance seems closely correlated with location (hospitals in the southern half of New Jersey are financially stronger) and income status (the higher the per capita income of the patient base, the better the financial results). While differences based on bed size are not as consistent as before, medians for large hospitals are still clearly stronger than for mid-sized and small hospitals.

Mr. Hopkins then announced the following items in his Executive Director's Report:

1. In hospital news, Fitch Ratings upgraded Children's Specialized Hospital from "BBB-" to "BBB". Its outlook remains stable. Also, Daniel A. Kane was named as the interim President and CEO of Bridge Regional Health System, which is the recently formed parent of Bayonne Medical Center. He will start on February 5th. Mr. Kane was previously President and CEO at Nassau Health Care Corporation and Englewood Hospital & Medical Center. On January 1st, Bridge Regional Health System completed the acquisition of St. Vincent's Staten Island and changed the facility's name to Richmond University Medical Center. In his capacity, Mr. Kane will also be overseeing Richmond University Medical Center.
2. In Authority staff news, Jim Van Wart celebrated his 15th anniversary with the Authority this month. Also, the Authority issued approximately $814 million in bonds during 2006 on behalf of 15 borrowers (five of which were COMP borrowers).
3. St. Ives/Burrups, the Authority's current financial printer for official statements was acquired by Bowne. The Authority's professional contacts there are expected to remain the same.
4. St. Peter's University Hospital selected Goldman Sachs to replace Ryan Beck as Senior Managing Underwriter, since Ryan Beck recently closed its municipal underwriting division.
5. The Consumer Price Index for all Urban Consumers in both the New York and Philadelphia areas increased by 3.3% from December 2005 to December 2006. During the adoption of the 2007 budget, Members agreed that the Authority would raise the cap upon which it collects its annual fee based on the increase in the average Consumer Price Index of New York and Philadelphia, rounded down to the nearest million. Therefore, the maximum principal amount of bonds upon which the Authority will collect its annual fee increased from $80,000,000 to $82,000,000.
6. An Authority Member retreat is in order to discuss the general operations of the Authority and reexamine several specific policies. Senior Staff believes a retreat can be prepared by the first week in June of this year. Staff would like to know the availability of all Authority Members that week in order to set a date. The retreat is expected to take at least one full day.
7. Dennis Hancock, Steve Fillebrown, Jim Van Wart, Sue Tonry and Mark Hopkins met with Betsy Ryan and other representatives of the New Jersey Hospital Association to discuss the Authority's requirement for an A.M. Best rating on captive insurance companies and self insurance trusts. NJHA presented an alternative that will be discussed at the Authority retreat.

Mr. Hopkins also noted that, during Executive Session, Members discussed having senior staff's first floor parking spaces in the garage paid for by the Authority, ongoing for 2007 and beyond. A motion was made by Mr. Jackson to permit the Authority to pay for these spaces; Mr. Escher seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-83

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby authorizes the execution of an Authority check, and the payment thereof, to pay for first floor parking spaces in the parking garage on behalf of senior staff, for 2007 and ongoing thereafter.

As there was no further business to be addressed, Mr. Jackson moved to adjourn the meeting, Mr. Escher seconded. The vote was unanimous, and the motion carried at 12:05 p.m.

I HEREBY CERTIFY THAT THE FOREGOING IS A TRUE COPY OF MINUTES OF THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY MEETING HELD ON JANUARY 25, 2007.

Dennis Hancock
Assistant Secretary