NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$

Fall '08

FROM GOVERNOR JON S. CORZINE

The stability of the health care system should be a concern for all of us. Unfortunately, in recent years when hospitals across the nation were improving financially, New Jersey's continued to struggle. We responded by creating the *Commission on Rationalizing New Jersey's Health Care Resources* to evaluate when the State should provide aid to hospitals. The Commission developed dozens of recommendations to strengthen the health care system.

The Legislature and I worked closely with the Authority and the Department of Health and Senior Services to improve access to health care and keep New Jersey's hospitals financially sound. A key recommendation was the creation of a Health Care Stabilization Fund, which I signed into law on June 30th.

This new fund appropriates $44 million in grants to hospitals and other health facilities to ensure continued access to care when a hospital closes or reduces services.

On August 8, 2008, I signed four bills that will improve access to care, protect the uninsured and strengthen the accountability and transparency of the health care system.

These bills protect the uninsured from being overcharged for care; create an Early Warning System to more closely monitor hospital finances; require hospitals to conduct annual public meetings; and require hospital trustees to complete comprehensive training.

With these new laws, New Jersey is paving the way for other states and federal government to enact similar laws that will strengthen the health care delivery system nationally. §

NJHCFFA OFFERS NEW POLICY FOR UNDERWRITER DISCOUNT

In June, the Authority began a trial run for a new designation policy with respect to underwriter compensation on Authority bonds.

It had been the Authority's longstanding practice to require that the sales commission portion of the underwriter's discount (the "takedown") be paid to at least three managers, with no single firm getting more than 50%, when bonds are sold on a net-designated basis. Authority staff would often hear criticism of this practice, stating that a) it could encourage underwriters to negotiate for a larger overall underwriter discount in order for the senior manager to reach the level compensation they feel is due for a project of a given size, and b) it may allow for less than enthusiastic co-managers to be guaranteed a larger takedown than is earned. The end result could be a higher cost to the borrower.

After hearing about the matter at its June 2007 retreat, the Authority tasked a committee with developing an alternate designation policy. One year later, the new practice has been put into effect on a trial basis to see if it reduces underwriter discounts on bond transactions and encourages more involvement from co-managers.

The new designation standard still requires the designation of at least three managers, however, the only specification regarding takedown percentages is that each of these three firms receive at least 15%. This per-

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FINANCIAL CRISIS AFFECTS NJHCFFA

The financial crisis of 2008 continues to have an affect on the NJHCFFA and its borrowers. The variable rate market has taken a hit from higher interest rates. Holders of variable rate demand bonds are taking advantage of the put features and liquidating their positions. In many cases, remarketing agents unable to resell bonds must either take them into their own inventory or, when the remarketing agent itself is in trouble, turn them over to the liquidity provider. In either case, higher interest rates can significantly impact the borrower's capital cost, especially if the borrower has other derivative products in place. This situation has had a negative impact on the Authority's Capital Asset Program. Investment rates have not kept up with the interest rates paid on the bonds, which has caused, hopefully for the short term, a dramatic spike in the rates paid by borrowers in this program.

The long-term market is also suffering from a lack of liquidity and credit. Rates are rising, but more importantly, buyers are extremely selective and institutions are investing only in high quality securities, if they are investing at all. Authority staff and underwriters are unsure when many of the NJHCFFA's "in development" bond issues will be able to sell. The lack of bond insurance options and letter of credit availability limits what some of the Authority's borrowers can do to satisfy the quality needs of investors.

The NJHCFFA staff continues to monitor the situation and will respond in any way it can to help its borrowers and bondholders in this tumultuous time. §

MESSAGE FROM THE EXECUTIVE DIRECTOR

Two thousand eight has continued its course as a flagship year for Authority issuance, and similar to last year, there are few run of the mill transactions, as staff works to custom-fit each financing to the varying needs of our borrowers and the tumultuous market.

Since our last edition, we've issued $589,385,000 in bonds, bringing the 2008 total through September 15th to $1,242,125,000. The Authority crossed the $1 billion issuance mark only once before, in 1998 with a total issuance of $1,390,732,857. With a quarter of 2008 remaining, and a packed calendar of projects in development, if the credit markets cooperate, the Authority should set a new record for itself by year's end.

In simpler times, the Authority primarily provided access to capital for the construction of new facilities or the purchase of new equipment. With the recent financial struggles of many New Jersey hospitals, the Authority has become a tool for borrowers to restructure debt for savings, and, in the most dire cases, consolidate hospitals through the Hospital Asset Transformation Program ("HATP") to close facilities that are no longer needed nor financially sustainable.

This year, the Authority helped hospitals: refund auction rate bonds with fixed or variable rate bonds in response to the auction rate crisis; and refund bonds that were negatively impacted by rating downgrades either to the borrower themselves or to the bond insurers.

The Authority also issued HATP bonds that helped consolidate three struggling Newark hospitals into one financially stronger facility, including financing the costs of improvements and upgrades made to the surviving hospital.

In addition, the Authority converted $271,975,000 in bonds from an auction rate structure to either variable or fixed rate bonds without the issuance of new bonds. Despite the fact that these conversions required an investment of staff time similar to that of a bond issue yet the Authority receives no fees for the conversion work, the Authority recognized the importance of helping its borrowers extricate from the auction rate market.

We are pleased to be able to help New Jersey's hospitals in these difficult times and hope that our assistance can help lead to brighter financial days ahead. §

HOLY NAME HOSPITAL PROJECT NEARS COMPLETION

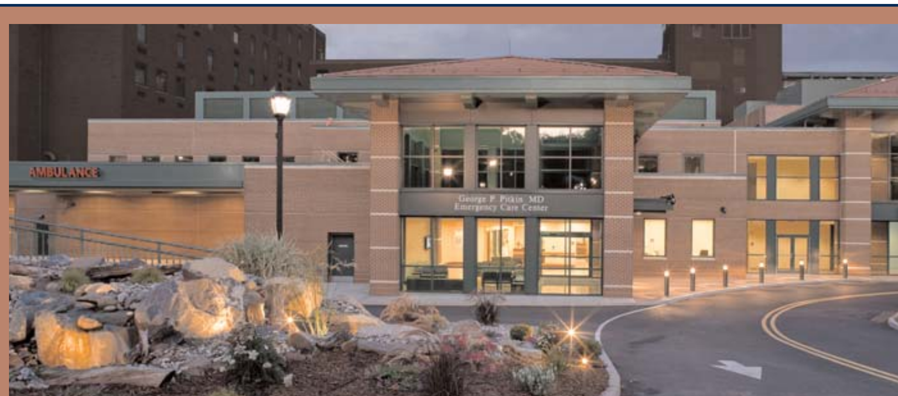
On June 15, 2006, the Authority closed a $60 million bond issue on behalf of Holy Name Hospital to renovate, expand and equip its emergency department. On August 20, 2008, the new emergency care center opened its doors.

"It's always a pleasure to see our projects bloom from ideas on paper to actual standing health care facilities," says Bill McLaughlin, Authority Project Manager for the transaction.

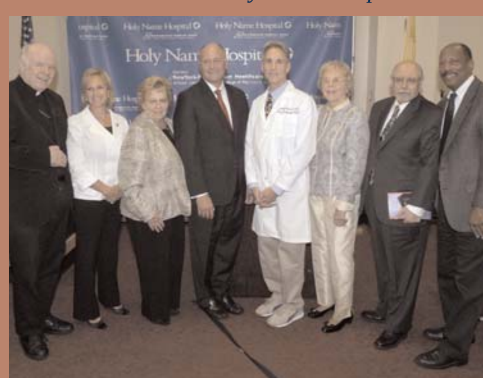
With 21,000 square feet, the new facility more than doubles the capacity of its predecessor. "After years of increasing patient volume in our emergency department, we are now poised to handle significant growth well into the future, while delivering the utmost in patient, family and care-provider satisfaction," said Michael Maron, President/CEO of Holy Name. Each of the 41 patient treatment areas is equipped with leading-edge technology including an integrated bedside information system.

Touted by the hospital as bigger, faster and better than the previous facility, the new care center is named in memory of George P. Pitkin M.D., renowned New Jersey physician, surgical innovator, medical author, researcher, and 1925 founder of Holy Name Hospital.

The facility cost $22 million to complete; the remainder of the 2006 issue was used to currently refund two of the Authority's outstanding COMP Series (1998 and 2001), and to refinance capitalized leases. The official ribbon-cutting ceremony for the facility was held on September 18, 2008. §



Holy Name Hospital's new emergency care center



From left: Reverend John Flesey, Assemblywoman Valerie Vainieri Huddle, Assemblywoman Loretta Weinberg, Michael Maron, Richard Schwab, MD, Dr. Frances Hoffman, Rabbi Jack Bemporad, and Assemblyman Gordon Johnson at the dedication of Holy Name's George P. Pitkin MD Emergency Care Center.

New center's interior main hallway

Underwood-Memorial Hospital expansion project funded by auction rate bonds issued in 2004, refunded in 2008

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In May, the Authority completed two more transactions intended to remove outstanding bonds from the auction rate market.

On May 22, 2008, the Authority closed on $62,000,000 in bonds on behalf of **Underwood-Memorial Hospital** ("Underwood") in order to refund its auction rate debt.

In January of 2004, Underwood issued approximately $65 million of variable auction rate certificates. The proceeds were used to fund a major capital expansion and redevelopment initiative, including: a large-scale redevelopment of the Department of Emergency Medicine; a significant transformation of the Department of Physical Medicine and Rehabilitation; an enhancement of the ambulatory surgery unit; increased imaging services through renovations; the reopening of 17 medical surgical beds in a renovated patient care unit; and the enhancement of patient and staff parking facilities. The bonds were also used to pay the redemption price of outstanding Series B Bonds.

When the auction rate market collapsed, however, Underwood returned to the Authority to refund these 2004 bonds through variable rate demand bonds issued in 2008 backed by a direct pay letter of credit from UBS AG. Reflecting the short-term credit ratings of UBS AG, the bonds were rated "VMIG1" by Moody's Investors Services, Inc. and "A-1+" from Standard & Poor's Ratings Services, with a final maturity of July 1, 2033. The initial weekly variable interest rate was 1.50%.

Wilentz, Goldman & Spitzer, PA served as bond counsel for the transaction and The Bank of New York is the Bond Trustee.

On May 28th, the Authority completed a conversion of approximately $30 million worth of taxable auction rate bonds, issued on behalf of **CentraState Healthcare System** ("CentraState"), into variable rate demand bonds.

In December 2006, the Authority closed a $71,425,000 transaction on behalf of CentraState. The proceeds were used to construct a three-story outpatient ambulatory care center attached to the Medical Center and to finance routine capital expenditures for 2006 through 2009.

Within that transaction, Series 2006B bonds in the amount of $29,850,000 were issued as taxable auction rate bonds, insured by Assured Guaranty. The transaction's bond documents included language that allowed for a conversion, and following the collapse of the auction rate market, CentraState decided to convert all of the Series 2006B bonds.

Banc of America Securities LLC served as the remarketing agent for the conversion, and Bank of America, N.A. provided the Liquidity Facility for the bonds. The initial weekly interest rate for the bonds was set at 2.50%.

Saint Barnabas Health Care System is the Authority's one remaining borrower with outstanding bonds in the auction rate mode.

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On July 31st, the Authority closed on $252,545,000 in bonds on behalf of **St. Michael's Medical Center** ("St. Michael's") through the Hospital Asset Transformation Program ("HATP"). The transaction is intended to consolidate the struggling operations of three affiliated hospitals into a single facility.

Newark was previously served by Cathedral Healthcare's three hospitals: St. Michael's, St. James and Columbus. All three of these facilities were in financial trouble, collectively losing roughly $6 million each month. Catholic Health East, a multi-state non-profit parent parent corporation of health care facilities up and down the east coast, agreed to buy all three of the hospitals as long as it was allowed to consolidate the services into one of the facilities (St. Michael's) closing the other two, and contingent upon the receipt of low cost financing.

Under the HATP, the Authority can issue bonds, secured by a contract with the State Treasurer, on behalf of a hospital meeting certain criteria. When acute care services are terminated at a location where they are no longer useful, these bonds can be issued to: refund outstanding bonds; pay closure and transition costs; and, pay costs of facility improvements needed to handle the inflow of services and patients to the surviving hospital.

CentraState Ambulatory Care Center, completed with the proceeds of auction rate bonds issued in 2006, converted in 2008

According to the contract, the Treasurer agrees to pay the principal and interest on the bonds when due, subject to an annual appropriation by the Legislature. At the same time, the borrower (St. Michael's) enters into a loan agreement with the Authority to make payments equal to the principal and interest on the bonds plus other related costs and fees. The NJHCFFA, under contract with the Treasurer, will pay those funds directly back to the

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NJHCFFA STAFF NOTES

Diane Johnson has been working with the Authority for 15 years.

Congratulations to **Diane Johnson** who celebrated 15 years of employment with the Authority in May 2008. In her role as Assistant Account Administrator, Ms. Johnson is responsible for helping the Division of Operations and Finance to maintain Authority bond issue accounts. A true team player, Ms. Johnson is well loved for her willingness to step in and help her co-workers at the slightest suggestion. She is also known for her pleasant disposition and the soft-spoken warm smile she brings to the office.

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The Authority's staff experienced significant rearranging in the summer of 2008, in the Division of Operations and Finance. **Marji McAvoy** was promoted from the Authority's Accountant to serve as an Account Administrator following the retirement of **Bob Day**. Ms. McAvoy joined the Authority as a temporary employee in 1993 and from there worked her way through various ranks of the Department of Operations and Finance. She received her BSBA with a specialization in Insurance from Thomas Edison State College in 1991 and completed her MBA from AIU in 2002.

Marji McAvoy

Taryn Jauss was then promoted to fill Ms. McAvoy's previous position as Authority Accountant. Ms. Jauss has a Bachelor's Degree from Rider University and is studying for a Masters at Thomas Edison State College.

Taryn Jauss

Assistant Account Administrator, **Neetu Thukral**, left the Authority in August to pursue her studies in cosmetology, with the goal of opening her own salon in 2010. The Authority hired **Edwin Fuentes** to fill her position in September. Mr. Fuentes graduated from Ocean County College with an Associates Degree in General Studies and an emphasis on Computer Science and Business Studies. He is continuing his education part-time in pursuit of a Bachelors Degree in Accounting and plans to pass the CPA exam in about 2 years.

Edwin Fuentes

Staff also hired **Kerry Cook** to join the Division of Operations and Finance as the Authority's newest Administrative Assistant in July of 2008. Ms. Cook was previously employed for seven years in various clerical positions at the Motor Vehicle Commission. She is currently pursuing a bachelor's degree at Thomas Edison State College.

Kerry Cook

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On July 2, 2008, Communications Specialist **Stephanie Bilovsky** gave birth to a healthy baby girl named Zoya Rozina Bilovsky. She weighed 6 pounds 12 ounces and measured 19.5 inches long. Ms. Bilovsky is on maternity leave intermittently through January so that she can spend some time at home teaching Zoya to write for the Authority's publications and handle press calls.

Stephanie Bilovsky

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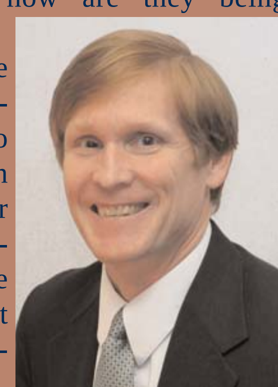
Authority staff members are often asked to share their insight through presentations at various conferences and seminars throughout the year. Director of Research, Investor Relations and Compliance, **Steve Fillebrown**, presented at the SMITH's 2008 Not-For-Profit Healthcare Finance Conference on September 18th at the Park Hyatt in Philadelphia. His presentation was part of an "Around the States" segment, which discussed the types of projects that are being funded today and the challenges and opportunities facing hospitals and how are they being addressed.

If you would like an Authority representative to present at an event of your own, please contact the Authority staff at Info@NJHCFFA.com.



Steve Fillebrown

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State.

It should be noted that, in this case, the Loan Agreement provides that if St. Michael's does not reach certain benchmarks, it will be eligible for partial or full forgiveness on its loan payments for up to five years.

Consistent with the HATP, the proceeds of the St. Michael's issues were used to pay off outstanding debt and

St. Michael's Medical Center

renovate and expand the facilities to meet the increased demands of the service area population.

Based on the State's backing pursuant to the HATP contract, the bonds received an "A+" rating from Fitch, "A1" from Moody's and "AA-" from S&P. These ratings helped to sell the bonds at a low true interest cost of approximately 5.32%.

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On August 7th, the Authority closed on $25,930,000 in bonds on behalf of **Somerset Medical Center** ("Somerset"). The proceeds were used to acquire various pieces of equipment and to currently refund all of the Authority's Series A bonds issued in 1994, the proceeds of which were used to construct three floors and renovate nearly one-third of the existing space within the main hospital facility.

Somerset concluded that the most economical way to refinance the bonds was to use variable rate demand bonds enhanced by a letter of credit provided by Commerce Bank. Commerce Bank was purchased by TD Bank, N.A. before the bonds were refunded. Therefore, the transaction is backed by a TD Bank letter of credit, and the bonds were rated "Aa2/VMIG1" based on that letter of credit. The interest rate for the initial period was set at 1.85%.

Windels Marx Lane & Mittendorf LLP served as bond counsel for the transaction; U.S. Bank National Association serves as bond trustee.

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On August 13th, the Authority closed on $248,910,000 in bonds on behalf of **St. Joseph's Healthcare System** ("St. Joseph's").

The proceeds of the bonds will be used at St. Joseph's Patterson facility to:

⇨ construct and equip a 4-story building, including an emergency department, twelve operating rooms, a sterile services facility, two critical care units and a helicopter landing pad;

⇨ create a new lobby and other ground floor improvements;

⇨ renovate a portion of the facility to be used for pediatric and adult clinical services; and,

⇨ various other renovations and equipment acquisitions.

Proceeds will be used at St. Joseph's Wayne facility to:

⇨ renovate, expand and equip two of its operating rooms; and,

⇨ renovate and equip the intensive care, critical care, and various other units at the hospital.

Proceeds were also used to refund outstanding Authority bonds (Series 1996 A and Composite Program Series 2003 A-6 bonds), as well as a loan from Valley National Bank issued in connection with the acquisition of the Wayne facility.

Even though the financial position of St. Joseph's has improved over the last few years, the rating agencies remained cautious, with Moody's and Standard & Poor's rating the bonds "Ba1" and "BBB-", respectively. The working group, therefore, had to overcome two large hurdles in order to achieve a low cost financing for St. Joseph's: (1) low

St. Joseph's Regional Medical Center

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UNDERWRITERS

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mits the senior manager to vie for 70% of the sales commissions rather than 50%. If a bond purchaser designates to more than three managers, the additional designations do not have a minimum requirement. Therefore, any fourth or fifth firm designated can be given less than 15%.

In putting the policy into effect, borrowers who had already negotiated an underwriter discount were asked to suggest reopening the negotiation with this new information. Staff asked these borrowers to report back to the Authority on how the new guideline affected the amount of the proposed fee, noting that, if the reopened negotiations did not reduce the underwriter discount, the Authority's Executive Director would revert to the original 50% maximum guideline. Borrowers yet to negotiate fees with their senior manager were asked to request fee quotes under each set of guidelines and then share the responses with the Authority. The borrower could then select the most attractive proposed fee.

In order to ensure that co-managers provide service to the transactions and do not receive sales commissions without effort, Authority staff will review orders from co-managers and request that co-managers provide detailed information on their sales efforts when there is concern.

"We hope that this interim measure responds to the requests from our borrowers," says Dennis Hancock, Director of Project Management and Deputy Executive Director, "However, we need input from our borrowers to determine whether we are moving in the right direction before we permanently establish a new Authority practice." Therefore, during this trial period, staff will be monitoring the effect on underwriter discounts and improved co-manager efforts.

The designation guideline changes are too new to evaluate at this point, as staff has yet to receive any responses from the borrowers regarding a difference in proposed discounts. At the time of this writing, two borrowers were in the process of renegotiations. §

NJHCFFA 2008 BOND ISSUES

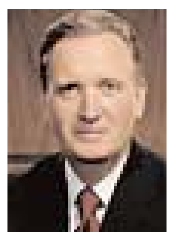
NJHCFFA 2008 Issues		
Completed Bond Issues	**Issue Structure**	**Par Amount**
Christian Health Care Center	Equip. Rev. Note Program Private Placement	$3,500,000
Hackensack University Medical Center	Fixed rate; Public	$249,180,000
Warren Hospital	Fixed rate; Private Placement	$45,840,000
Atlantic Health System	Fixed rate; Public	$354,220,000
Underwood-Memorial Hospital	Weekly Variable Rate; Public	$62,000,000
St. Michael's Medical Center	Hospital Asset Transformation Program	$252,545,000
Somerset Medical Center	Weekly Variable Rate; Public	$25,930,000
St. Joseph's Healthcare System	Fixed rate; Public	$248,910,000
	Bonds Issued as of Sept. 15, 2008:	$1,242,125,000
Bond Conversions		
Meridian Health System	From Auction Rate to Variable Rate	$97,000,000
Meridian Health System	From Auction Rate to Fixed Rate	$145,125,000
CentraState Medical Center	From Auction Rate to Variable Rate	$29,850,000
	Conversions Completed as of Sept. 15, 2008:	$271,975,000

INVESTMENT NEWS

On July 30, 2008, the Authority's Operations and Finance Division conducted bids through the Grant Street Group's electronic bidding platform. The bids were for Guaranteed Investment Contracts on behalf St. Joseph's Healthcare System Obligated Group Issue, Series 2008.

The bids were done for Repurchase Agreements or Collateralized Investment Agreements for the Construction Fund ($170.9 million) and the Debt Service Reserve Fund ($14.1 million). Bids were received from three bidders. Bayerische Landesbank won the auction with rates of 3.06% for the Construction Fund and 3.662% for the Debt Service Reserve Fund.§

CONGRATS TO HUMC's JOHN FERGUSON


John P. Ferguson

The Authority would like to congratulate John P. Ferguson, President and Chief Executive Officer of Hackensack University Medical Center, for being named one of Modern Healthcare magazine's "100 Most Powerful People in Healthcare" (August, 2008). Mr. Ferguson was ranked number 12 in a list that includes technology leaders, prominent lawmakers and presidential nominees.§

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ratings including one non-investment grade, and (2) a healthcare interest rate market that was extremely volatile and saturated with refinancings from the auction rate crisis.

Management was given the opportunity to tell their turnaround story at face-to-face presentations in Boston and New York, as well as during an investor conference call. While these were helpful, investors remained hesitant, with some indicating that the bonds did not meet their internal credit standards.

The bonds were structured with fixed interest rates with a final maturity of July 1, 2038. The final all-in true interest cost is 7.21%. §