NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$

2019 Series C

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MESSAGE FROM THE EXECUTIVE DIRECTOR

As we close out the second decade of the 21st century, we are also bringing to an end one of the most dynamic decades in New Jersey health care history.

When President Obama signed the Affordable Care Act (ACA) on March 23, 2010, we all knew that major changes were coming, but few predicted the monumental impact the law would have on all aspects of the health care industry.

The ACA had three major objectives:

• Make affordable health insurance available to more people by providing consumers with subsidies that lower costs for households with incomes between 138% and 400% of the federal poverty level.

• Expand the Medicaid program to cover all adults with income below 138% of the federal poverty level.

(continued on page 2)

Building (*and Bonding*) New Jersey's Health Care Infrastructure

Infrastructure: *the basic physical and organizational structures and facilities needed for the operation of a society or enterprise.*

The term "infrastructure" generally brings to mind highways, bridges and utilities. However, the advancements made in health care since the beginning of the 21st Century have necessitated building its own parallel infrastructure.

Health care delivery has changed dramatically over the years. In the not too distant past, your health care consisted mainly of your family doctor. For a serious condition, your doctor would send you to a hospital or emergency room. The system was further simplified because physicians tried to keep their patients out of the hospital. Despite that fact, New Jersey once had nearly 100 acute care hospitals, whereas today, there are only 71.

Fast forward to the present day and a completely different and almost unrecognizable health care system has evolved. The diagnostic testing and equipment we have today has dramatically increased the ability to detect diseases in early stages and identify conditions which were previously unknown or deemed untreatable. Minimally invasive surgery has drastically reduced or, in some cases, eliminated hospital stays.

Modern medicine is more precise and becoming very specialized. As such, specialized medical practices, diagnostic testing services and imaging centers have proliferated.

The ACA provided federally funding to increase the number of FQHCs and expand their services. The purpose of this initiative was three-fold: to make basic health care locally available to people; to ease the congestion in hospital emergency rooms; and provide low-cost health care to underserved populations. People are most likely to seek primary health care when it is easily accessible, not requiring them to use public transportation. People are also more likely to seek treatment when they know they will not wait for hours in an emergency room and get hit with a big medical bill. Also, in states like New Jersey with expanded Medicaid programs, more lower-income individuals, many of whom did not have a primary physician, received care.

The upsurge in specialty medicine, the advancements in medical technology and the enlarged patient base required a more expansive and modern infrastructure. Despite hav-

(continued on page 5)

(continued from page 1)

• Support innovative medical care delivery methods designed to lower the costs of health care generally.

While various details of the ACA can be debated, the fact is that more Americans had health coverage than ever before. Insurance companies offered lower premium plans that more people could afford. Many states, like New Jersey, expanded Medicaid which increased to pool of individuals eligible for coverage under the federal program. As a result, more individuals were receiving medical attention and hospitals had fewer charity cases.

Perhaps the single most impressive aspect of the ACA was the encouragement of innovation and creativity to lower the cost of health care and to increase the public's access to treatment. And, New Jersey's health care executives took the challenge to heart. By examining the economic, demographic and geographic location of the state's population, hospitals saw the financial benefits of mergers and acquisitions as well as cooperative agreements and clinical partnerships. To that end, the Authority helped New Jersey health systems accomplish their goals by facilitating acquisitions, renovations, construction, equipment purchases and refinancing through to issuance of tax-exempt bonds at favorable rates to free up capital to implement the mergers. In 2010, New Jersey had 27 stand-alone hospitals. Today there are only 12.

While the larger health system footprints have increased the public's access to high quality health care, New Jersey also improved access to primary health care. The concept of having Federally Qualified Health Centers (FQHCs) provide care locally began in the 1990s. The ACA, however, provided additional funding to increase their number. The Authority also provided funding for new FQHC start-ups and now offers a loan program so the FQHCs can upgrade or expand. New Jersey now has 23 FQHCs, with 117 sites providing local care and easing the patient burden of the hospital emergency rooms.

The Authority is also keeping pace with the latest heath trends. New Jersey is currently dealing with an opioid addiction crisis. Soon a new in-patient detox center will open that was paid for, in part, by an Authority Capital Asset Program Loan. In addition, the Authority issued bonds last year on behalf of an assisted living facility that will serve low-income senior citizens.

The past decade, with the rapidly changing laws and regulations, dramatically changed the healthcare landscape. Healthcare executives were forced to reassess their priorities and adjust their goals. We worked closely with our borrowers and analysts to amend our policies so that we could effectively address the shifting healthcare paradigm.

The signing of the ACA kicked off a decade that began fraught with uncertainty and some apprehension. Through cooperation, communication and collaboration, the health care industry - and the Authority, have become more streamlined, responsive and effective.

I believe that we are well-positioned to face the challenges of the next decade.

- Mark E. Hopkins

Authority Project Updates

John Brooks Recovery Center

In August 2019, ground was broken for the new John Brooks Recovery Center in-patient facility in Mays Landing, NJ, funded in part by an $11 million Capital Asset Program Loan. This new $18 million, two-story facility will offer 120 inpatient beds which includes short-term, long-term and detox beds. The 59,000 square foot facility is located on a five-acre, partly-wooded site in the Hamilton Business Park. It will include a fitness/exercise area, dining areas, medical exam rooms, administrative offices, counseling offices as well as lecture and group therapy rooms and an outdoor courtyard space. Completion is anticipated in April 2020.

Inspira Medical Center, Mullica Hill

Inspira Medical Center, Mullica Hill, which received $325 million in bond funding from the Authority in 2017, is on schedule to be completed by the end of the year.

The hospital will contain:

• 210 all private patient rooms;

• the latest in medical and communication technology;

• home-like birthing suites;

• a pediatric emergency department with adjacent inpatient unit;

• a comprehensive cancer program;

• emergency angioplasty for heart attack patients; and

• Smart Room technology designed to enhance patient safety and the patient experience. §

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ing fewer acute care hospitals, New Jersey's health care infrastructure has exploded. New Jersey now has 23 FQHCs with 117 locations, 220 hospital-based acute care centers and 750 various ambulatory care facilities for services like MRI imagery, radiation, dialysis, same-day surgery, etc.

Modern health care also requires updated information technology. Just as roads and bridges are essential to the public's mobility, health care relies on the information highway. There is a nation-wide push for Electronic Health Records, creating a digital record of a patient's medical history that can be securely transmitted to any health care facility or provider. Similarly, doctors want to be able to share data among colleagues as well as access the most current medical information. Additionally, robotic surgery is becoming more prevalent and the interoperability between computer and diagnostic equipment is now a necessity. Finally, physicians are delving into the use of artificial intelligence and metrics for diagnosis and treatment. The hardware, software and peripherals needed by hospitals are extremely expensive.

The Authority has played an important role in building New Jersey's new health care infrastructure. Over the past 10 years it has had 65 bond issues totaling over $8.1 billion dollars. Some of these funds were used to construct new facilities, upgrade and renovate buildings as well as purchase equipment and information technology, including electronic health records. Health care organizations also refunded older bonds to take advantage of the lower interest rates and to free up cash for essential building projects, purchase modern equipment and to upgrade their technological capabilities.

Keeping pace with the rapidly changing needs of New Jersey's health care in 2015, the Authority issued bonds for building a hospice. More recently bonds were issued on behalf of an assisted living residence for low-income seniors and a Capital Asset Program loan was granted for a residential addiction and detox facility. Of equal importance, the Authority refunded bonds to enable merging hospitals and systems to consolidate their debt.

The Authority has played a critical role in building and improving New Jersey's expanding and evolving health care infrastructure. And, due to the recent policy changes implemented from June's Roundtable, the Authority is well-positioned to react quickly and effectively to the changing needs of our providers. Because, as we learned from the film **Field of Dreams**, ***"If you build it, they will come."*** §

Mergers and Acquisitions

The hospital merger and acquisition frenzy that began with the implementation of the Affordable Care Act is alive and well in New Jersey.

On October 10, 2019, Trinitas Regional Medical Center in Elizabeth signed a letter of intent to join the RWJBarnabas Health system. Trinitas is a 554-bed hospital that serves as a "safety net" hospital for many inner-city residents who either lack private health insurance or rely upon Medicare or Medicaid. Last year, a Moody's report noted that 68% of their patients are covered through Medicare or Medicaid. Trinitas is a Catholic teaching hospital that is sponsored by the Sisters of Charity of Saint Elizabeth and it will maintain its Catholic identity.

As one of New Jersey's largest health care systems, RWJBarnabas is increasing its Central New Jersey footprint. They will now have will now have 12 acute care hospitals under their banner.

On October 22, 2019, RWJBarnabas announced it has entered into a letter of intent to acquire Christ Hospital in Jersey City and Hoboken University Hospital from CarePoint Health.

The merger is expected to be completed by the end of 2019. This transaction is in the due diligence stage.

The prior week, on October 15, 2019, Englewood Health and Hackensack Meridian *Health* announced that they had signed a definitive agreement to merge. Hackensack Meridian *Health* anticipates a $400 million capital investment into the 352-bed teaching hospital. Once approved, Englewood Hospital and Medical Center will be the 13th acute care hospital in the Hackensack Meridian *Health* system, making it the largest network in the state. Hackensack Meridian *Health* also announced an affiliation with St. Joseph's Hospital in Paterson and Wayne.

New Jersey has a total of 71 acute care hospitals. As a result of the result of the 2 mergers, only 12 will remain independently operated. §

NJHCFFA Approves New Policies for Borrowers

At the NJHCFFA meeting on September 26, 2019, the Authority Members voted to adopt six (6) policy amendments that will enable the Authority to be responsive to our borrowers and become more competitive with commercial lenders.

A. One Meeting Approval Process

Only one meeting may be required for approval of the issuance of bonds under the following conditions: (i) the Borrower contacts the Authority with a request for Bond Counsel with an adequate amount of time for appointment of bond counsel by the Attorney General's office and for bond counsel to perform any necessary due diligence and draft the necessary bond documents (we estimate this would be at least fifty (50) days prior to the Authority meeting at which the Borrower expects to request approval of a Contingent Bond Sale); (ii) TEFRA Notices and the TEFRA Hearing are timely completed in compliance with TEFRA at or before the Authority meeting at which the Borrower expects to request approval of a Contingent Bond Sale; (iii) the structure of the deal is finalized and the bond resolution is in final form ten (10) days before the Authority meeting and the bond documents are in substantially final form the day before the Authority meeting at which the Borrower expects to request approval of a Contingent Bond Sale; (iv) all necessary approvals, permits and licenses for the project to be financed are secured; (iv) there is adequate time before issuance of the bonds to conduct a thorough and compliant due diligence process; and (v) if the project involves construction, the construction contract has been duly executed by the date of the Contingent Bond Sale. The one meeting will thus consist of a Negotiated Sale approval (if not seeking a Competitive Sale of the Bonds), an informational presentation by the Borrower (if the financing is not solely a refunding), and a Contingent Bond Sale approval.

B. Debt Service Coverage Ratio and Days Cash on Hand Requirements

Borrowers shall be required by the Authority to maintain at a minimum Debt Service Coverage Ratio and Days Cash on Hand as below (more may be required as the market demands, based on the advice of the underwriter and/or the financial advisor). Note that where there is a choice, the Borrower must select the option that best suits it at the time of drafting the bond documents. Should the rating category on the bonds change while the bonds are outstanding, the Debt Service Coverage Ratio and Days Cash on Hand requirements will spring into the respective requirements for such rating category, effective the next quarterly reporting period after the quarter the rating change occurs. If the bonds are enhanced the rating category will be the higher of the bond enhancer or the Borrower.

"AA/Aa":	No Authority imposed requirement (but any market imposed requirements must be reported and certified by the Borrower to the Authority)		
"A":	1.10 DSCR + 60 Days Cash on Hand	or	1.25 + 45 Days Cash on Hand
"BBB/Baa":	1.25 DSCR + 60 Days Cash on Hand	or	1.50 + 45 Days Cash on Hand
Below Investment Grade or Unrated:	1.25 DSCR + 90 Days Cash on Hand	or	1.50 + 75 Days Cash on Hand

C. Investor Calls

Borrowers shall be required to hold quarterly investor calls if the Borrower falls within 10 Days Cash on Hand requirement or 0.10 of the Debt Service Coverage Ratio requirement for two consecutive quarters. Investor calls

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shall continue quarterly until the borrower returns to 10 days above the Cash on Hand Requirement or 0.10 above the Debt Service Ratio Requirement. Investor calls shall also be required following a 15% drop in Days Cash on Hand or a 15% drop in Debt Service Coverage Ratio from one quarter to the next or a 30% drop in Days Cash on Hand or a 30% drop in Debt Service Coverage Ratio over any four quarters. Investor calls under these circumstances will continue quarterly for four consecutive quarters (unless otherwise required by the paragraph above). Failure to hold an Investor Call will be considered to be non-compliance with the Debt Service Coverage Ratio and Days Cash on Hand requirements of the Loan Agreement and will require the Borrower to retain a consultant who shall produce a consultant's report which must be adopted and by the governing body of the Borrower in the same manner as is directed pursuant to Required Ratios section of the Loan Agreement.

D. Borrowers Prepare Quarterly Management Discussion & Analysis

Borrowers are encouraged to prepare a reasonably descriptive quarterly management discussion and analysis and post it on EMMA along with its quarterly financial statements. If a Borrower has triggered Investor Calls, it will be required to prepare a reasonably descriptive quarterly management discussion and analysis and post it on EMMA along with its quarterly financial statements. The management discussion and analysis must include explanations of material variances from budget and/or prior year. Failure to provide a reasonably descriptive quarterly management discussion and analysis will be considered to be non-compliance with the Debt Service Coverage Ratio and Days Cash on Hand requirements of the Loan Agreement and will require the Borrower to retain a consultant who shall produce a consultant's report which must be adopted and by the governing body of the Borrower in the same manner as is directed pursuant to Required Ratios section of the Loan Agreement.

E. Semi-Annual Construction Progress Reports

Within 185 days of the issuance of bonds, Borrowers must begin to provide semi-annual construction reports (could be a stage analysis, examples to be provided) on EMMA or hold semi-annual investor calls regarding construction on any individual construction project in excess of $100 million for investment grade Borrowers, in excess of $50 million for below-investment grade or unrated hospital borrowers and in excess of $6 million for below-investment grade or unrated non-hospital borrowers (not to include renovations occurring within the footprint of existing buildings that do not take more than five (5) beds out of service). Such reports or call shall continue until 95% of the Project is completed or a Certificate of Occupancy is received. Failure to provide a written construction progress report or hold an investor call on construction progress as described above will be subject to enforcement by the Authority, the Trustee or any Holder or beneficial owner of the bonds through an action for specific performance.

F. Title Insurance

Borrowers required to provide a mortgage must obtain title insurance from a company rated in at least the "A" category by any two or more of AM Best, Demotech, Fitch, Kroll, Moody's or S&P in an amount of 75% of the par amount of bonds for projects up to $20 million, and in an amount equal to at least $15 million for any project between $20 million and $75 million and at least 20% of the par amount of bonds for which more than $75 million of bonds will be issued, up to a maximum of $200 million in title insurance.

G. Borrowers Disclose Bios of Board Members Annually

A Borrower will be required to include in their primary market disclosure, and in annual updates on EMMA, the names, terms and brief relevant experience of all the members of its governing body and its Chief Executive Officer. Failure to provide the information above will be subject to enforcement by the Authority, the Trustee or any Holder or beneficial owner of the bonds through an action for specific performance.

Virtua Health Introduces a New Brand and Logo

Since becoming South Jersey's largest health system by acquiring Lourdes Health System's two hospitals, Virtua Health has been seeking to establish their new identity.

On Monday, October 7, 2019, Virtua Health's President and CEO Dennis Pullin unveiled a new logo and explained their strategy for establishing the new brand. According to Mr. Pullin, the goal was to honor the past accomplishments of Virtua and Lourdes Health System, while presenting a fresh, new look for the future.

Virtua explained that, after a little over a year of quantitative and qualitative research, including key stakeholder interviews, focus groups, and extensive social listening, Virtua Health's senior leadership and board decided on the positioning strategy: ***"Here for Good."***

The most significant change was the addition of the word ***"Health"*** to the logo. Mr. Pullin believes that it will "signal to the community that our emphasis is on "health." A second aspect of the new logo is a multi-color icon inspired by the lotus flower, a symbol of serenity and healing. In addition to the lotus, the icon is open to a number of interpretations, Virtua said, including a caring heart, outstretched caring hands, and the letter ***"V."*** It also consists of four colors – ocean, sky, coral and sun to invoke trust and hope.

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Acting Commissioner of Health

Carole Johnson
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Commissioner of Banking & Insurance

Public Members

Suzette T. Rodriguez, Esq.
Munr Kazmir, M.D.

The Authority currently has two Public Member vacancies.

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