

AUTHORITY NOTES

2020 Series C

December 2020

MESSAGE FROM THE EXECUTIVE DIRECTOR

I am pleased to announce that the New Jersey Senate has confirmed Governor Murphy's nominee, David G. Brown II, as a Public Member of the Authority. Mr. Brown has spent many years working in municipal government and municipal authorities. His experience and knowledge will definitely be an asset to the Authority. Welcome!



As we close out the most unusual year of my tenure at the Authority, I am very pleased with how the Authority responded. If there was ever a test of the Authority's resilience, 2020 was it!

Despite having to work remotely since March 17, the Authority overcame many inconveniences, difficulties and challenges to become a more responsive, efficient and flexible agency. To a person, the Authority staff found innovative ways to complete tasks and fulfill our responsibilities from non-traditional work environments.

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Municipal Taxable Bond Issuance Now Faster & Cheaper

On September 24, 2020, the New Jersey Health Care Facilities Financing Authority ("NJHCFFA"), New Jersey's primary issuer of municipal bonds for health care organizations, approved a federally taxable municipal bond product with a reduced fee schedule and a less restrictive threshold approval process than for the federally tax-exempt bonds it has traditionally issued. According to Executive Director Mark E. Hopkins, the initiative accomplished two primary objectives: first, to ensure that the NJHCFFA "collects only the fees it needs to provide efficient, low-cost financing to health care organizations" by matching the services provided to the borrower with the actual NJHCFFA costs; and, second, to make NJHCFFA's municipal taxable bonds more competitive with corporate taxable bonds. The new policies became effective October 9, 2020.

Mr. Hopkins said, "Current low interest rates and the narrowing of the spread between tax-exempt and taxable bonds have made it advantageous for some borrowers to issue taxable bonds instead of municipal tax-exempt bonds." Although NJHCFFA may issue municipal taxable bonds, borrowers had been opting to issue corporate taxable bonds on their own, which are not exempt from federal income tax or

New Jersey state income tax. Interest income on federally taxable municipal bonds issued by NJHCFFA would be exempt from New Jersey state income tax.

To save borrowing costs for New Jersey health care organizations seeking to borrow through taxable municipal bonds, NJHCFFA reduced annual fees for taxable municipal bonds 42% to 45% over the first ten years the bonds are outstanding, compared to the fees for tax-exempt bonds, and 33% for any years the bonds are outstanding for any years beyond ten years.

In explaining the less restrictive threshold approval requirements for the issuance of taxable municipal bonds, Mr. Hopkins also noted that "Many of the requirements which are necessary to affect tax-exempt financings are not necessary for taxable financings." For instance, taxable municipal financings do not require calculation of the useful life of projects, the requirement to continuously monitor projects to ensure the proceeds continue to be used for tax-exempt purposes, public notice and hearings required by the Tax Equity and Fiscal Responsibility Act of 1982, periodic arbitrage calculations, reports and, if necessary, rebate. Because of the lack of these requirements on taxable municipal bonds,

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The pandemic forced us out of our comfort zone and into the 21st Century via technology. It is no secret that government is notorious for being resistant to change and slow to adapt, however, the Authority moved quickly and seamlessly into the virtual world. Within two weeks of the shutdown, the Authority held a virtual board meeting and a virtual bond closing. There was no time for a learning curve.

The pandemic also negatively affected the stock market and rocked the financial world. The resulting low interest rates almost eliminated the Authority's competitive advantage in the municipal tax-exempt bond market. Many of our usual borrowers found it quicker and easier to pursue the municipal taxable bond route.

As you will read in this issue, the Authority board responded by approving a more streamlined municipal taxable bond approval process and with reduced fees. As I have often said, the Authority does listen to our borrowers!

Despite the challenges of 2020, the Authority has become a more improved agency. We have a new Public Member, a new municipal taxable bond product and more advanced technological capabilities. I can't wait to see what 2021 has to offer!

- *Mark E. Hopkins*

New Public Member Confirmed

David G. Brown II was confirmed by the New Jersey State Senate as the newest member of the New Jersey Health Care Facilities Financing Authority on October 29, 2020. He was nominated by Governor Murphy on August 8th of this year.



Mr. Brown is currently the Administrator of the Borough of Bradley Beach. He previously served as the Executive Director of the Linden-Roselle Sewerage Authority and as the Administrator of the Borough of Roselle. Prior to that, Mr. Brown held several municipal leadership positions, including Director of Newark's Urban Enterprise Zone and Director of Public Works and Urban Development for Plainfield, NJ. He also serves on the Board of Directors of the Association of Environmental Authorities of New Jersey.

A native of Long Branch, Mr. Brown served in the New Jersey National Guard and has both a Bachelor of Arts degree and a Master's in Public Administration from Kean University.

Authority Staff News

Bill McLaughlin, Director of the Division of Project Management celebrated his 20th anniversary at the Authority on November 13, 2020.

Congratulations Bill!



Bernie Miller, retired as the Authority's Construction Compliance Officer, on October 1, after 15 years of service.

Good Luck, Bernie!



Bill Lohman was recently hired as the Authority's Construction Compliance Officer. Bill comes to us from the NJ Department of Health where he was an Architect in the Certificate of Need & Facility Licensing Program. He was previously the Authority's Construction Manager from 1997-2005.



Welcome Back, Bill!

NJHCFFA can approve a financing before all the necessary permits, licenses and other required approvals are received. This will speed up and streamline the NJHCFFA approval process for taxable municipal bonds.

In detail, the new NJHCFFA municipal taxable bond fee schedule is as follows:

- An annual fee of three (3) basis points, calculated on the declining outstanding principal amount of bonds, for each of the first ten years the municipal taxable bonds are outstanding shall be applied solely for those municipal taxable bonds that involve (i) no more than six requisitions, and (ii) exhaust all of the bond proceeds within six months of closing (including any current refunding of bonds); or

- An annual fee of three and one half (3.5) basis points, calculated on the declining outstanding principal amount of bonds, for any municipal taxable bonds for each of the first five years that the municipal taxable bonds are outstanding, shall be applied to those municipal taxable bonds that require: (i) more than six requisitions, or (ii) for which the entire proceeds will not be disbursed by the NJHCFFA within six months of closing; after the first five years, the annual fee applied will be reduced to three (3) basis points for each of the next five years; and

- After ten (10) years, the annual fee applied to municipal taxable bonds will be two (2) basis points, calculated on the declining outstanding principal amount of bonds.

- The Initial Fee and Per Series Fees for municipal taxable bonds will remain the same as for

municipal tax-exempt bonds, i.e. two and one half (2.5) basis points based on the original principal amount of the bonds, plus \$10,000 per series of bonds. Until December 31, 2020, initial fees will be applied to up to the first \$104,400,000 in bonds (the “Initial Fee Cap”). Thereafter, the Initial Fee Cap will be adjusted in January of each year by the average of the prior year’s annual increase or decrease in the CPI-U of New York City and Philadelphia.

The new approval process for federally municipal taxable bonds issued by NJHCFFA allows for borrowers to receive all Authority approvals in one meeting, if the following conditions are met:

1. The Borrower contacts NJHCFFA with a request for a bond counsel with 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 documents;
2. Completion and submission of an NJHCFFA Memorandum of Understanding (MUA);
3. Submission of financial projections;
4. The structure of the deal is finalized and the bond resolution is in final form ten (10) days prior to the NJHCFFA Meeting;
5. The bond documents are in substantially final form one day before the NJHCFFA Meeting at which the Borrower expects to request approval of a Contingent Bond Sale;
6. All necessary approvals, permits and

licenses for the Project to be financed, including any Certificate of Need approval, if required, may not be required by the time of the Contingent Sale meeting, provided, however, that all necessary approvals, permits and licenses must be secured prior to the use of the proceeds of the financing for that specific aspect of the Project;

7. Upon closing of the financing, the NJHCFFA shall receive in the Loan Agreement, Trust Agreement, Certificate of an Authorized Officer of the Borrower or other bond document, a covenant that any craft or trade workers for any current or future construction project funded in whole or part by the proceeds of the NJHCFFA’s taxable financing will be paid not less than prevailing wage;

8. There is adequate time before issuance of the bonds to conduct a thorough and compliant due diligence process.

Mr. Hopkins praised NJHCFFA’s governing body members and staff for their foresight and willingness to adapt to the changing financial market conditions. “The actions taken last month clearly demonstrate that we are listening to our borrowers and can respond to their needs,” Mr. Hopkins said. “Moreover, it shows our commitment to providing flexible low-cost financings to New Jersey health care providers.”

More information on the new federally taxable municipal bond product may be obtained by visiting the NJHCFFA website at www.njhcffa.com or calling (609) 292-8585. ☞

Municipal Taxable Bonds at a Lower Cost to the Borrower

Lower Annual Fees for Municipal Taxable Bonds!

1. An annual fee of three (3) basis points for each of the first ten years the municipal taxable bonds are outstanding shall be applied solely for those municipal taxable bonds that involve (i) no more than six requisitions, and (ii) exhaust all of the bond proceeds within six months of closing (including any current refunding of bonds); or
2. An annual fee of three and one half (3.5) basis points for any municipal taxable bonds for each of the first five years the municipal taxable bonds are outstanding shall be applied to those municipal taxable bonds that require (i) more than six requisitions, or (ii) for which the entire proceeds will not be disbursed by the Authority within six months of closing; after the first five years, the annual fee applied will be reduced to three (3) basis points for each of the next five years; and
3. After ten (10) years, the annual fee applied to municipal taxable bonds will be two (2) basis points.

Initial Fees the Same for Municipal Taxable and Tax-exempt Bonds

1. Initial fees for municipal taxable bonds will be the same as those for municipal tax-exempt bonds, i.e. two and one half (2.5) basis points based on the original principal amount of the bonds, plus \$10,000 per series of bonds.
2. Until December 31, 2020, initial fees will be applied to up to the first \$104,400,000 in bonds (the "Initial Fee Cap"). Thereafter, the Initial Fee Cap will be adjusted in January of each year by the average of the prior year's annual increase or decrease in the CPI-U of New York City and Philadelphia



NJHCFFA MEMBERS

Ex-Officio Members

Judith M. Persichilli, Chair
Commissioner of Health

Carole Johnson
Commissioner of Human Services

Marlene Caride
Commissioner of Banking & Insurance

Public Members

David G. Brown II
Munr Kazmir, M.D.
Suzette T. Rodriguez, Esq.

*The Authority currently has one
Public Member vacancy.*

NJHCFFA SENIOR STAFF

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Executive Director

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William McLaughlin
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