NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$

2017 Series B FALL

MESSAGE FROM THE EXECUTIVE DIRECTOR

New Jersey always seems to be at the forefront of innovation when it comes to healthcare. Our hospitals and health systems have led the way over the past five years with strategic partnerships, mergers and collaborations. In order to stay competitive, several of our hospitals have reached across state lines to expand their network while enhancing their operations.

These transactions, though, have been about much more than buildings and money. The result has been the creation of some very large, powerful organizations that now have greater access to medical resources, talent, research – and patients. Moreover they have the ability to exert a lot of influence on the future direction of healthcare in our state.

We are beginning to experience the value of these new alliances. The pooling of resources and talent has encouraged innovation and creativity. We are seeing novel approaches to achieving our goal of population health as well as cutting edge technology and innovation.

In just the past two months, RWJBarnabas Newark Beth Israel's

continued on Page 2

Merger Results Are Worth the Wait: *It's a Matter of Patience and Patients!*

In 1989, Axl Rose sang the immortal lyrics *"...and we come together fine. All we need is just a little patience."* While it is doubtful that *Guns 'N Roses* were singing about hospitals and mergers, the words certainly describe the sentiment of many healthcare executives today.

America's healthcare industry has witnessed a decade of mergers and acquisitions. Between 2008 and 2015 more than 750 hospitals were involved in a merger or an acquisition. According to the American Hospital Association's 2015 survey, nearly 60% of the 5,000 hospitals across the country now belong to a system. This trend is reflected in New Jersey where the number of stand-alone hospitals has dropped from 28 in 2008, to 17 today and that number may soon drop to 14.

Recently, several surveys were commissioned to examine two main questions: what was the impetus for the merger or acquisition; and were the anticipated results achieved? Two of the studies have generated considerable interest from the healthcare industry and have initiated critical conversations about whether the anticipated goals were attained.

The American Hospital Association contracted with Charles River Associates to analyze hospital mergers between 2009 and 2014. Similarly, the Deloitte Center for Health Solutions and the Healthcare Financial Management Association conducted a study on hospital mergers and acquisitions between 2008 and 2014. Both analyses reached similar conclusions – mergers and acquisitions initially experience a decrease in operating expenses, but see an even larger decline in operating revenue. As a result, the hospital's overall operating margins decline. Further investigations showed logical reasons for this anomaly.

The hospital executives surveyed cited similar reasons for acquiring hospitals: increasing their market share; access to more patients; broadening their physician network; and reducing their financial risk in a value-based healthcare environment. Other reasons cited were: improving efficiency; increasing purchasing power improving quality of care; and increasing patient satisfaction.

Commonalities also existed among the hospitals seeking to be acquired. Many of the acquired hospitals were in financial distress, so access to capital was a driving force behind those decisions. Almost 80% of acquired hospitals stated that they required significant capital investments. Immediate investments included: staff, technology, facilities,

continued on Page 2

continued from Page 1

greenhouse qualified for the Supplemental Nutrition Assistance Program (SNAP.) Hunterdon Medical Center purchased a Mobile Antimicrobial Robotic Infection Treatment Aid or "bug-zapping" robot. Hackensack Meridian *Health* opened a teaching kitchen at the Meridian Fitness & Wellness Center in Hazlet to promote healthier eating habits. Finally, Villa Marie, Holy Name Medical Center's hospice received a grant to help it become the national model for hospice care.

In the area of patient care and treatment, Atlantic Health System's Overlook Medical Center now offers an innovative new treatment for patients at risk for stroke due to blockages in the neck arteries. This minimally invasive procedure is called TransCarotid Artery Revascularization. Hackensack University Medical Center Has partnered with Celgene to establish the Multiple Myeloma Institute at the Seton Hall-Hackensack Meridian School of Medicine. Also, Hackensack Meridian *Health* and Jefferson Health's hospitals in New Jersey announced the formation of Medi-Centrix - a new venture designed to prepare for value-based care and improve clinical integration.

Healthcare in New Jersey is constantly evolving and progressing - seeking the newest technology, the best talent and the highest quality of care. The Authority has done the same. We expanded the FQHC Loan program to enable existing FQHCs to expand and purchase new equipment. The Equipment Revenue Note Program is a quick and easy way to finance technology needs as well medical equipment. With the recent mergers, the Master Leasing Program enables multiple members of the health system to obtain tax-exempt leases. There is also the streamlined Capital Asset Program that is available for quick access to capital.

We applaud your creativity and innovation. The Authority is here to help you grow and move forward.

- Mark E. Hopkins

continued from Page 1

medical equipment or physician recruitment in order to improve their quality of care. In a few instances pension funding and debt consolidation were also factors. This spending was necessary, but it affected the bottom line and caused the decline in operating margins.

In the Charles River study, hospitals reported an average reduction of 2.5% in operating expenses. Unfortunately, they also saw an average decline in per-admission revenue of 3.9%. The initial investments, however, began to pay off after two years and the negative revenue trends leveled out. The Deloitte survey though, found that most of the 103 hospital executives interviewed believed that it takes more than two years for their investments to begin to see profitability.

On the positive side, the acquired hospitals increased their efficiency of care and improved in some quality standards. They had fewer readmissions, shorter physician wait times, reduced mortality rates and higher Hospital Consumer Assessment of Healthcare Providers and Systems scores. Financially, 70% of the survey respondents said that at least some of their cost efficiency goals were achieved.

Even with mixed initial results, the merger frenzy is not subsiding. The Healthcare Financial Management Association reported 102 merger and acquisition deals in 2015 and 90 more in 2016. In addition, a Kaufman Hall & Associates report found that the second quarter of 2017 had a 15% increase in merger activity over last year.

As in any venture, there is always a learning curve and merging hospitals is no different. The experiences of the early mergers established a "defined operating model." This blueprint contains the actions and factors that enabled successful mergers. The primary element of the model is that both the acquirer and the acquired must share the same strategic vision. Specific areas for increasing value and defining strategies to grow revenue and cut costs must be identified. The prerequisites for implementing the model are strong leadership, a keen focus and accurate communications.

The current healthcare market favors mergers. The goal of population health, demands that hospitals maximize efficiency within their market. That objective is made easier when a hospital expands its footprint within their market or an adjacent market. The efficiencies of scale become greater because of the sharing of resources, medical talent and purchasing power. Most importantly, the greater market share creates a stronger negotiating position with insurance companies.

Over time, the majority of the mergers are expected to succeed and the way things look, we can expect to see more. All hospitals need is a little patience and a lot more patients.

A recent study by Ernst & Young revealed that, in 2013, nonprofit hospitals were *exempt from paying $6 billion in federal taxes*, however, they *provided $64.7 billion benefits* to their communities.

The New Jersey Hospital Association announced that Health Commissioner Cathleen D. Bennett was selected as their next President and Chief Executive Officer. Ms. Bennett will assume her new role on November 9, 2017.

Congratulations Commissioner Bennett!

Assistant Health Commissioner Christopher Rinn was named Acting Commissioner by Gov. Chris Christie on November 8, 2017

New Management & More Mergers Highlight the Summer!

On July 14, 2017, the Bergen County Board of Freeholders awarded a contract to manage the Bergen Regional Medical Center to Care Plus Bergen. Care Plus Bergen is comprised of three subcontractors: Care Plus NJ, Rutgers New Jersey Medical School and Integrity House. Care Plus Bergen took over the hospital on October 1, 2017.

On August 31, 2017, Cooper University Health Care announced that it had signed a letter of intent to acquire three New Jersey hospitals from Trinity Health: Our Lady of Lourdes Medical Center, Camden; Lourdes Medical Center of Burlington County: and St. Francis Medical Center, Trenton.

On September 13, 2017, Jefferson Health and Kennedy Health signed the formal agreement the officially merged to two organizations. On October 4, 2017, Jefferson health announce to following name changes:

Kennedy Memorial Hospital, Cherry Hill is now ***Jefferson Cherry Hill Hospital***

Kennedy Memorial Stratford Hospital is now ***Jefferson Stratford Hospital***

Kennedy Memorial Hospital, Washington Township is now ***Jefferson Washington Township Hospital***

Appointed!

On September 29, 2017, Governor Chris Christie appointed the Authority's Health Commissioner - Designee Alison Gibson as the Executive Branch of State Government Representative on the New Jersey Board of Nursing.

Congratulations Ms. Gibson!

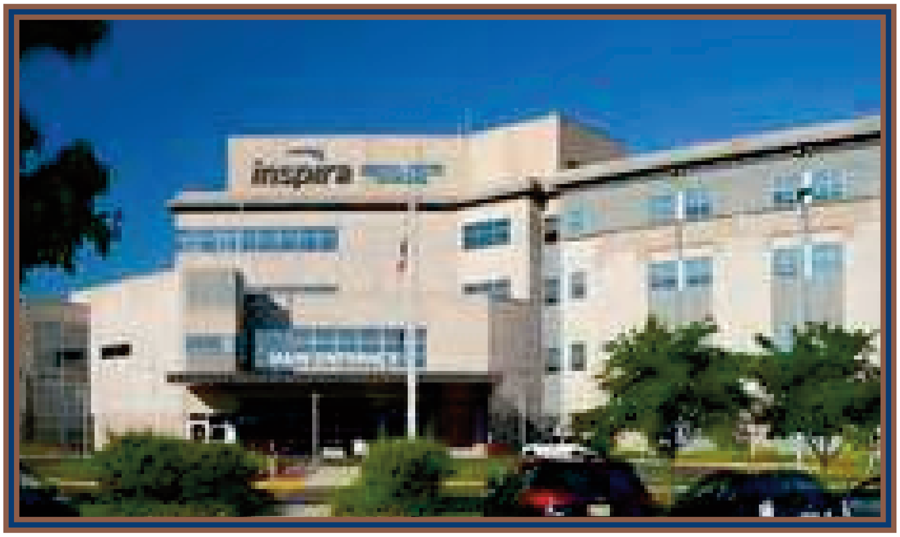
Congratulations!

In October, Administrative Assistant Taryn Brzdek celebrated her 5th Anniversary at the Authority!

Inspira Health Network

On August 17, the Authority closed on $265,000,000 of publicly issued tax-exempt Series 2017A bonds on behalf of Inspira Health Network. The bonds were rated "A2" by Moody's Investors Service and "A" Fitch Ratings.

The Authority also issued $60 million Series 2017B Variable Rate Direct Placement with TD Bank. The proceeds of the Series 2017 bonds will be used to: finance and/or reimburse the Inspira Health Network for the costs of the planning, development, construction, expansion, renovation, furnishing and/or equipping of: a new five story acute care hospital and medical center facility located in Mullica Hill: the construction of a linear accelerator vault at Inspira Medical Center Woodbury; the expansion of the Emergency Department at Inspira Medical Center Vineland; and pay all or a portion of the costs of the issuance.



Yields on the Series 2017A bonds ranged from 1.03% on the 2018 maturity to 3.77% on the 2047 maturity. Overall, the final all-in TIC for the Series 2017A bonds was approximately 3.865%.

Compared to taxable bonds, Inspira saved $10,960,529.83 with the Authority's tax-exempt bonds. The initial rate for the Series 2017B bonds was 1.491%.

New Jersey Health Care Facilities Financing Authority

Mailing Address: P.O. Box 366
Trenton, NJ 08625-0366
Delivery Address: 22 South Clinton Avenue
Trenton, NJ 08609-1212
Telephone: 609.292.8585
Fax: 609.633.7778
Web: www.njhcffa.com