

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on January 24, 2013 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

*The following **Authority Members** were in attendance:*

John Calabria, Designee of the Commissioner of Health (Chairing); Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Greg Lovell, Designee of the Commissioner of Human Services; Dr. Munr Kazmir, Public Member and via telephone; Elisa Charters, Public Member; and Suzette Rodriguez, Public Member.

*The following **Authority staff members** were in attendance:*

Mark Hopkins, Steve Fillebrown, Ron Marmelstein, Suzanne Walton, Michael Ittleson, Carole Conover, Linda Hughes, Bill McLaughlin, Carl MacDonald, Jessica Lucas, and Christopher Kulick.

*The following **representatives from the State and/or the public** were in attendance:*

Cliff Rones, Deputy Attorney General; Ryan Feeney, Treasury; Robert Smith and Joanne Celleil of J.P. Morgan; Doug Placa of JNESCO; and Dr. James J. Kostinas of David Kostinas.

CALL TO ORDER

Executive Director Mark Hopkins called the meeting to order at 10:05 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 24, 2012 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 *Courier Post*, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

Mr. Hopkins suggested that in the absence of the Authority's Chairperson and Vice Chair, a Chair pro tem should be named. Dr. Kazmir nominated John Calabria to serve as Chair pro tem for the January 24, 2012 meeting and Mr. Lovell seconded. Ms. Kralik, Mr. Lovell, Ms. Rodriguez, Dr. Kazmir and Ms. Charters voted yes, Mr. Calabria abstained and the motion carried.

AB RESOLUTION NO. MM-48

NOW, THEREFORE, BE IT RESOLVED, that, in the absence of the Authority's Chairperson and Vice Chairperson, John Calabria will serve as the chair pro tem for the January 24, 2013 Authority meeting.

1. APPROVAL OF MINUTES

December 20, 2012 Authority Meeting

Minutes from the Authority's December 20, 2012 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Ms. Charters seconded. The vote was unanimous and the motion carried.

2. 2013 DEBT MANAGEMENT PLAN

Ms. Suzanne Walton reported that under Executive Order No. 26 (Whitman), the Authority is required to prepare an annual Debt Management Plan and submit it to the Treasurer. The Authority's plan for 2013 reflects financings which were completed during 2012 and identifies six bond financings that are anticipated for 2013, along with a description of each project, the anticipated date of sale and issue size, security, ratings and a proposed method of sale. Of the six (6) transactions, four have a high probability of being completed in 2013; the remaining two are in the very early stages of planning, however, based on conversations with the borrowers, we have a reasonable expectation that they would be financed through the Authority in 2013. Several borrowers also indicated the need to obtain financing for their capital equipment needs through the issuance of an equipment revenue note.

In addition, we anticipate entering into additional leases with Barnabas Health under their existing Master Lease Program up to the approved balance of \$50 million in the coming year.

The proposed plan excludes Capital Asset Program (CAP) Loans, since these transactions do not involve the issuance of new debt.

As in prior years, the total volume for 2013 is subject to change, depending upon market conditions and borrowers' preferences. Ms. Walton requested that Members approve the proposed plan and authorize its submission to the Treasurer.

Dr. Kazmir made a motion to adopt the proposed 2013 Debt Management Plan and submit it to the Treasurer in accordance with the requirements of Executive Order No. 26. Ms. Charters seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-49

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves a motion to adopt the proposed 2013 Debt Management Plan and submit it to the Treasurer in accordance with the requirements of Executive Order No. 26.

3. MODIFICATION TO THE QUALIFIED BANKERS LIST

Ms. Suzanne Walton reported that R. Seelaus & Co. has provided the Authority with a "Statement of Qualifications" and has requested to be added to the list of approved Authority bankers as Co-Manager.

R. Seelaus & Co. is an independent, New Jersey domiciled broker-dealer located in Summit, New Jersey. Founded in 1984, the company has grown into a full service financial firm specializing in fixed income with a strong emphasis on municipal bonds. They employ 60 financial professionals including 14 institutional and 24 retail salespeople and two municipal and four corporate bond traders. Until recently their focus had been primarily in the secondary market; however, they have recently re-entered the new issue marketplace. Their Statement of Qualifications indicates experience in the competitive, new issue marketplace often serving as a syndicate member bidding on municipal bonds in the New Jersey, New York and Connecticut area. In September of last year, the firm served as a co-manager on a \$16 million competitive transaction for Rockaway Township, New Jersey. In addition, the firm is part of the 2011-2013 underwriter pool for the State of California.

While they have not worked on a health care or negotiated transaction within the past six months, the underwriter who will be assigned to Authority transactions has extensive municipal finance experience having worked as an underwriter at Merrill Lynch, Citi and, most recently, Roosevelt & Cross. The firm reported excess net capital of \$2.6 million with the ability to underwrite up to \$10 million of bonds.

Based upon the information provided, the firm meets the Authority's minimum standard, having been appointed to a municipal issue as a co-manager. However, Staff would suggest caution when appointing this firm to any Authority transaction with a potential liability exceeding \$10 million, until such time as the firm can increase their net capital.

Dr. Kazmir moved to approve adding R. Seelaus & Co. to the Authority's qualified bankers list as Co-Manager. Ms. Charters seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-50

NOW, THEREFORE, BE IT RESOLVED, that the Authority add R. Seelaus & Co. to the Authority's qualified bankers list as a Co-Manager.

4. OLD/NEW BUSINESS

a. Election of Vice Chair

Mr. Calabria noted that since the conclusion of Mr. Gus Escher's term, the Authority had been without a Vice Chair. He offered a motion to nominate Ms. Elisa Charters to serve as Vice Chair. Dr. Kazmir seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-51

NOW, THEREFORE, BE IT RESOLVED, that Ms. Elisa Charters is hereby elected to serve in the official position of Vice Chair until May 23, 2013, or until the next election of officers.

Ms. Charters thanked the Board Members for the nomination and looks forward to serving in the capacity of Vice Chair.

Mr. Calabria added that Ms. Charter's term in her newly elected position will begin immediately following the ten-day veto period for the Authority's minutes, barring veto notification from the Governor's Office.

b. Delegation of Office Manager/Executive Assistant as Custodian of the Record

Mr. Hopkins reminded Members that at the December 20, 2012 Authority meeting, the Authority Members approved a reorganization of the Authority Staff. Part of the reorganization approved was reassigning the duties of Custodian of the Record, a position required by the New Jersey Open Public Records Act (2002), from the Director of Operations and Finance to the Office Manager/Executive Assistant. Because the position of Custodian of the Record needs to be appointed by resolution of the Authority Members, further action by the Authority Members is necessary.

A resolution had been prepared proposing to rescind AB Resolution No. CC-48 (approved September 26, 2002), which appointed the Director of Operations as the Custodian of the Record and replace that resolution with a resolution appointing the Office Manager/Executive Assistant as the Custodian of the Record. The new proposed resolution will also appoint the Executive Director, the Deputy Executive Director and the Director of the Division of Operations and Finance as Acting Custodians of the Record, should the Office Manager/Executive Assistant be unavailable.

Dr. Kazmir made a motion to approve the resolution appointing the Office Manager/Executive Assistant as Custodian of the Record. Mr. Lovell seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-52

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby appoints the Office Manager/Executive Assistant to serve as Custodian of the Record, and appoints the Executive Director, the Deputy Executive Director and the Director of Operations and Finance as Acting Custodians of Record in the absence of the Office Manager/Executive Assistant, in order to fill the role required by the Open Public Records Act (2002).

(attached)

5. APPROVAL OF EXPENSES

Mr. Calabria referenced a summary of Authority expenses and invoices. Dr. Kazmir offered a motion to approve the bills and to authorize their payment; Ms. Rodriguez seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-53

WHEREAS, the members of the Authority have reviewed the memoranda dated January 16, 2013, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of \$54,041.98 and \$101,859.13 respectively, and have found such expenses to be appropriate;

NOW, THEREFORE, BE IT RESOLVED, that the members of the Authority hereby approve all expenses as submitted, and authorize the execution of checks representing the payment thereof.

6. STAFF REPORTS

Mr. Calabria thanked staff for the Project Development Summary, Cash Flow Statement, Year-End Budget Report and Legislative Advisory reports.

In regards to the reports presented, Ms. Charters noted that there had been a significant decline in demand for financing in 2012 and asked if this forecasted a trend for 2013. Mr. Hopkins responded that there was a drop in the dollar volume of transactions, but there were one or two more transactions in 2012 than in the previous year. The anticipated financing amount, noted in the Debt Management Plan, of \$400 million for 2013 is sufficient to keep operations running in the positive. He suspects that the dollar amount will increase with new construction that is coming up towards the end of this year or the beginning of next year.

Ms. Walton added that when discussing anticipated financings with borrowers, the timing of when the Debt Management Plan is due to the Treasurer does not jive with timing for the hospitals to have a good grasp on what their plans are for the year. March is when they will know more about what they will be doing. She added that there are also organizations that may have financing and construction plans, but asked that they not be made public at this time, so there are a few more projects anticipated than what is reflected in the plan.

Mr. Hopkins also noted that it is hard to predict, but the Authority believes there will be more construction coming. He stated that some hospitals were holding off on plans because of the uncertainty of the Affordable Care Act, but the Supreme Court ruling and the reelection of President Obama have removed much of that uncertainty and he anticipates the Authority will see hospitals making more plans.

Mr. Hopkins then presented his Executive Director's report noting the following items to Members:

1. The Authority Members were reminded that in June of 2007 the Authority adopted Resolution No. HH-28 which lowered certain Authority fees but created an automatic annual

adjustment to the amount of bonds that would be subject to the Authority's initial fees and annual fees (the "fee cap"). The resolution called for the adjustment of the fee cap commensurate with the change in the average of the Consumer Price Index for all Urban Consumers ("CPI-U") in the New York and Philadelphia regions, rounded to the nearest million. For the twelve month period ending December 31, 2012 the CPI-U in the New York region increased 1.966% and in the Philadelphia region increased 1.834%, for an average increase of 1.9%. Based on this increase and the fact the Authority rounds to the nearest million, the Authority will now collect its initial fee and annual fee on bond amounts up to the cap of \$94,000,000 in bonds, up from \$92,000,000 in 2012.

2. After the previous six years of averaging over \$943 million in financing activity a year, the Authority experienced a significant decline in dollar volume of financings in 2012. It provided \$488.8 million in financing to eight separate borrowers, including nearly \$459.4 million in bonds on behalf of seven borrowers, \$24.9 million in financing to one borrower through the Master Leasing Program and another \$4.5 million loaned to another borrower through the Capital Asset Program. Loans from the Capital Asset Program averaged an interest rate of 1.57% for calendar year 2012.

The weighted average all-in true interest cost on \$403.9 million of bonds issued in 2012 was 2.765%, which excludes the bonds issued on behalf of St. Luke's Warren Hospital (because it was an outlier) and Wiley Mission (because no estimate was provided by the financial advisor).

Using Staff's best estimates and the Authority's underwriters' best estimates of what the interest would be if those same bonds were issued as taxable bonds, 4.253% was calculated to be the weighted average all-in true interest cost. Based on those estimates, the Authority believes it saved its borrowers over \$84 million in interest over the life of the bonds issued on their behalf.

The only new money project financed by bonds was nearly \$20 million issued on behalf of Kennedy Health System, the remainder of bonds were issued to refund outstanding bonds for AtlantiCare Health System, Barnabas Health System, The House of Good Shepherd, Kennedy Health System, Meridian Healthcare, St. Luke's Warren Hospital, and Wiley Mission. The Master Leasing Program and the Capital Asset Program financed the acquisition of new equipment for Barnabas Health System and Englewood Hospital and Medical Center, respectively.

The Authority's 2012 expenses came in at \$3,087,278, which was 15.8% under budget and 3.4% above 2011 expenses. The Authority's income came in at \$4,219,520 which was 2.5% over budget but 5.6% below 2011 income. The Authority's receipts over disbursements came in at \$1,132,242, which is \$681,041 over budget but \$350,297 less than 2011.

3. Authority Members should have received two disclosure forms to be filled out before Monday, February 4. The "Personal and Business Relationships Disclosure Form" is required pursuant to NJ Statute 52:34-10.11 for anyone, including Authority Members and Staff, involved in the procurement process. The "Annual Outside Activity Questionnaire" is required pursuant to the State's Uniform Code of Ethics. Members can consult Robin Piotrowski, the Authority's Human Resources Manager and Ethics Liaison Officer, if they have any questions.

4. Hospital & Other News

a. Englewood Hospital and Medical Center accelerated its succession plan earlier this month and named Warren Geller as President and Chief Executive Officer. Doug Duchak, the former President and CEO will move into the role of fundraising for the hospital's foundation. Mr. Duchak has been with Englewood for 21 years. It was previously announced that Mr. Geller, who has been the Executive Vice President and Chief Operating Officer since joining Englewood in 2009, would become the CEO in January of 2014, but the hospital board decided to fast-track the transition. Prior to joining Englewood, Mr. Geller was Senior Vice President at Northern Westchester Hospital and Director of Mount Sinai Medical Center in Manhattan.

b. Southern Ocean Medical Center has opened the first phase of its new Emergency Department, which was financed largely through the issuance of Authority bonds. The second phase is expected to be completed in June. When it is finished the Emergency Department will be 29,000 square feet with 42 private bays and separate areas for behavioral health and pediatric patients.

c. St. Peter's unveiled its redesigned and expanded perinatal center which includes maternal-fetal medicine and antenatal testing.

d. After receiving the North Bergen zoning board's approval earlier this month, Palisades Medical Center is expecting to break ground this spring on a \$20 million medical office building. The building will be approximately 60,800 square feet and is being developed privately by Duke Realty. The construction is expected to take two years. The building will house private doctor's offices as well as the hospital's outpatient program and oncology, orthopedics and nephrology units.

e. Community Medical Center, Englewood Hospital and Medical Center, Hackensack University Medical Center, Morristown Medical Center, Ocean Medical Center and Our Lady of Lourdes Medical Center have been ranked among the top 5% of hospitals in the nation by healthcare quality reporting company Healthgrades. The ratings are based on risk-adjusted mortality and complication rates for 27 common procedures and conditions involving Medicare patients.

f. Standard & Poor's raised the rating on bonds issued by the Authority on behalf of Meridian Health System in 2007 and 2011 from "A-" to "A" with an outlook of stable.

g. Moody's Investors Service affirmed Cooper University Hospital's "Baa3" rating with an outlook of stable.

h. The Department of Health has awarded a \$1 million health information technology subgrant to NJSHINE to form the regional health information exchange for southern New Jersey. This is part of the \$11.4 million grant the State received from the federal government which is being administered by the Authority. NJSHINE was created by the joint efforts of Cape Regional Medical Center, South Jersey Healthcare and Shore Medical Center. It

will provide the conduit for the exchange of patient information among seven hospitals, 400 health care providers and 22 practices in southern New Jersey.

i. The Centers for Medicare and Medicaid Services has provided more than \$22 million in bonus funding to New Jersey as a reward for streamlining enrollment for low-income children who are eligible for the children's health insurance program.

j. The New Jersey Hospital Association has issued a report on the financial status of New Jersey hospitals. The report covers 2011 and shows a slight increase in the operating margin of New Jersey hospitals from 2.3% to 3%. However, hospitals continue to face financial pressures from required pension contributions and declines in the stock market.

k. The PwC Health Research Institute identifies the three top issues hospitals will face in 2013 as: (i) Affordable Care Act implementation and cost reduction; (ii) the need for a security strategy for mobile devices and (iii) pay for performance health care and customer satisfaction initiatives that went into effect in October.

l. A number of other articles were provided on steps being taken in New Jersey to meet other initiatives resulting from the Affordable Care Act, including the creation and approval of Accountable Care Organizations, payment bundling arrangements, medical home programs and transitional care units.

5. Authority News

a. The Authority has undergone a partial reorganization with the following changes to titles and job duties:

Carole Conover will have the title of "Custodian of the Record" added to her title of "Office Manager/Executive Assistant". Her additional duties will include handling all requests for public records under the Open Public Records Act as well as handling scheduling for senior staff and mail merges for Authority mailings.

Michael Ittleson will have the title "Assistant Information Technology Specialist" added to his title of "Controller". His duties have increased by the addition of assisting in the monitoring of funds received and disbursed under the federal Health Information Technology Grant, including the Single Audit, as well as assisting the Network Administrator with the Authority's information technology.

Marji McAvoy will have the title "Senior Account Administrator." Her additional duties will include mentoring Account Administrators.

Bill McLaughlin will have the title "Senior Project and Special Financing Programs Manager." His new duties will include handling his normal assignment of standard financings plus the Equipment Revenue Note Program, the Composite Program, the Capital Asset Program and the Hospital Asset Transformation Program. He will also be expected to mentor the Project Manager.

Bernie Miller will have the title “Construction Compliance Officer.”

Robin Piotrowski will retain the title of “Human Resources Manager” as well as the title of “Ethics Liaison Officer”. The job duties will include the additional duties of overseeing the collection and reporting of staff and Authority Members’ conflicts of interest and financial disclosures and coordinating the presentation of annual ethics training and diversity training for the Authority staff.

Gene Sullens will have the title of “Network Administrator.” In addition to overseeing the Authority’s entire information technology his duties have been increased as a result of the additional data he handles as part of the Authority’s collection and reporting of information for the Hospital Early Warning System and the FQHC Early Warning System as well as the increased requirements for the retention of e-mails and other information as part of the requirements of the Open Public Records Act. Finally, he has the additional duty of making Authority e-mails available to the mobile devices of select Authority staff.

b. Hilary Freed, the Authority’s Database Administrator, resigned effective Friday, January 18. She will be joining the AMC Networks in New York City as a Treasury Analyst. The Authority has begun the search for her replacement.

This concluded the Executive Director’s report.

Ms. Charters commended Authority Staff for their great work in estimating the 2012 budget as reflected by the actual numbers. She also appreciated that Staff calculated the savings realized by the health care organizations that pursued financing through the Authority. She added that the decline in demand was an issue that warranted further discussion and requested it to be added as a topic for the upcoming board training/retreat. Mr. Hopkins said that it could be added. He informed Members that the training was being planned for the fall and invited all Members to provide him with suggestions for topics and issues that they would like included.

7. EXECUTIVE SESSION

At this point, Mr. Calabria asked the Members to meet in Executive Session to discuss personnel issues; and contractual negotiations and potential litigation regarding St. Mary’s Hospital and St. Michael’s Medical Center. As permitted by the Open Public Meetings Act and the Authority’s By-Laws, Dr. Kazmir moved to meet in Executive Session to discuss personnel issues; and contractual negotiations and potential litigation regarding St. Mary’s Hospital and St. Michael’s Hospital. Ms. Kralik seconded it. The vote was unanimous and the motion carried. Mr. Calabria noted that the results of this discussion will be made public when the need for confidentiality no longer exists.

AB RESOLUTION NO. MM-54

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 issues; and contractual negotiations and potential litigation regarding St. Mary's Hospital and St. Michael's Medical Center,

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. No action was taken during Executive Session.

As there was no further business to be addressed, following a motion by Dr. Kazmir and a second by Mr. Lovell, the Members voted unanimously to adjourn the meeting at 10:50 a.m.

I HEREBY CERTIFY THAT THE FOREGOING
IS A TRUE COPY OF MINUTES OF THE NEW
JERSEY HEALTH CARE FACILITIES
FINANCING AUTHORITY MEETING HELD
JANUARY 24, 2013.

Carole A. Conover, Assistant Secretary