

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on September 26, 2013 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

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

Elisa Charters, Public Member (Chairing); Brian O’Neill, Designee of the Commissioner of Health; Greg Lovell, Designee of the Commissioner of Human Services; Mary Ann Kralik, Designee of the Commissioner of Banking & Insurance; Dr. Munr Kazmir, Public Member; and Suzette Rodriguez, Public Member (via telephone).

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

Mark Hopkins, Stephen Fillebrown, Ron Marmelstein, Suzanne Walton, Michael Ittleson, Carole Conover, Linda Hughes, Bill McLaughlin, Carl MacDonald, Ellen Lieber, Marji McAvoy and Bernie Miller.

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

Cliff Rones, Deputy Attorney General; Peter Simon, Governor’s Authorities Unit; Ryan Feeney, Treasury; Jim Quackenbush of JNESCO; and Dr. James Kostinas of David Kostinas Associates.

## **CALL TO ORDER**

Vice Chair Elisa Charters called the meeting to order at 10:03 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 23, 2013 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 the *Courier Post*, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

### **1. APPROVAL OF MINUTES**

#### **a. August 22, 2013 Authority Meeting**

Minutes from the Authority’s August 22, 2013 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Mr. O’Neill seconded. Mr. O’Neill, Mr. Lovell, Ms. Rodriguez and Dr. Kazmir voted yes; Ms. Charters and Ms. Kralik abstained; and the motion carried.

### **2. BOND SALE REPORT**

#### **Robert Wood Johnson University Hospital**

Ms. Suzanne Walton informed the Members that on Thursday, September 12, the Authority closed on a \$180,175,000 issuance of bonds on behalf the Robert Wood Johnson University Hospital to provide funds for various construction and renovation projects on the hospital’s New Brunswick campus. The bonds were comprised of two series – a fixed-rate series approximating \$110 million and a \$70 million variable rate series.

The pricing for the fixed-rate bonds took place on August 28, and, two weeks later on September 11, Staff set the weekly interest rate for the Variable Rate Bonds. To market the deals, RWJUH hosted an investor call two days in advance of the fixed rate pricing and more than 24 firms participated. RWJUH entered the market with the tax-exempt fixed-rate piece on the morning of Wednesday, August 28. The issue received strong investor demand, which allowed the Underwriter's desk the ability to tighten yields across the curve. The fixed-rate transaction was comprised of serial bonds from 2016 to 2023 with coupons ranging from 3% to 5% and yields of 1.28% to 4.03% and three term bonds in 2028, 2035 and 2043 with coupons from 5.25% to 5.50% and yields ranging from 4.88% to 5.53% on the long bond. The all-in TIC on the Series 2013A Bonds was 5.35%. The Bonds are rated A/A2 by S&P and Moody's respectively.

RWJUH entered the market with the tax-exempt variable rate bonds on the afternoon of September 11. The \$70 million issue was rated Aa1/VMIG1 and AAA/A1+ by Moody's and S&P respectively based on the combined strength of a letter of credit provided by Wells Fargo Bank and the Obligated Group. The Underwriter estimated that the weekly SIFMA index would be set at 0.05% and suggested initially marketing the bonds one basis point above SIFMA at 0.06% in order to get a good book of business for the first pricing. Staff agreed with this approach for the initial marketing but would expect future rates to be set 1-2 basis points below SIFMA. Since the initial pricing, the interest rate has reset twice at rates 2 basis points below the SIFMA index.

Staff was also curious to learn from the Senior Manager how the Series 2013A tax-exempt issuance would compare to a comparable, taxable rate issuance. Given the compressed markets during the week of pricing, and based on pricing levels provided by JPMorgan, RWJUH yielded present value savings of approximately \$1.5 million over a taxable financing alternative.

Ms. Charters reminded the Members that the information presented was for information purposes only and no action was required.

### **3. RECOMMENDATION OF CO-MANAGERS**

#### **Virtua Health**

Ms. Walton informed the Members that Staff is currently working on a tax-exempt financing on behalf of Virtua Health, Inc. to currently refund the remaining portion of its Authority issued Series 1998 Bonds and Series 2009A Bonds. The transaction size will total approximately \$138 million and is currently scheduled to come before the Board next month for contingent sale approval.

Virtua selected Morgan Stanley as their senior managing underwriter and indicated a desire to have J.P. Morgan appointed as a co-senior manager and Edward Jones appointed as a co-manager. For a financing of this size, Staff would recommend the following: To complement the senior managing underwriter, Staff supports Virtua's request to add J.P. Morgan and Edward Jones to the management team and further recommends the appointment of Academy Securities and Ziegler as co-managers.

Virtua has used a co-senior manager banker structure on earlier Authority deals and believes that J.P. Morgan provides significant banker coverage and has demonstrated the ability to effectively serve as a co-senior manager on previous Authority transactions.

Edward Jones is a securities firm located in St. Louis, Missouri. The firm maintains a large presence in New Jersey, including 81 office locations and 85 financial advisors, which will provide additional retail distribution to the management team.

Academy Securities is an institutional broker dealer and certified Disabled Veteran Business Enterprise that has been approved to underwrite and trade municipal securities. In August of 2013, the firm entered into a Mentor-Protégé Agreement with J.P. Morgan under the US Department of the Treasury Mentor-Protégé program. Through this agreement, the bank offers training in trading and investment banking as well as capital infusion.

Ziegler is a full-service investment bank and broker dealer headquartered in Chicago, Illinois that specializes in healthcare, senior living and education sectors. They currently have 19 offices located throughout the country, including New York where they provide services to their capital markets clients.

All four firms are on the Authority's qualified list, have an ability to distribute New Jersey securities and have sufficient capital to participate in the underwriting. Therefore, Staff asked for the Board's consideration of adding J.P. Morgan as a co-senior manager and the firms of Edward Jones, Academy Securities and Ziegler as co-managers to the management team.

Dr. Kazmir made a motion to approve the naming of J.P. Morgan as co-senior manager and the naming of Edward Jones, Academy Securities and Ziegler as co-managers for the Virtua Health transaction. Mr. Lovell seconded the motion. Mr. O'Neill, Ms. Kralik, Mr. Lovell, Ms. Rodriguez and Dr. Kazmir voted yes; Ms. Charters abstained; and the motion carried.

#### **AB RESOLUTION NO. NN-24**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the naming of J.P. Morgan as co-senior manager and the naming of Edward Jones, Academy Securities and Ziegler as co-managers for the Virtua Health transaction.

#### **4. APPROVAL OF EXPENSES**

After seeking advice from the Authority's Deputy Attorney General, Ms. Charters and Dr. Kazmir recused themselves from this item and stepped away from the table, as payment for their conference attendance was included in the expenses.

Mr. O'Neill referenced a summary of Authority expenses and invoices. Ms. Kralik offered a motion to approve the bills and to authorize their payment; Mr. Lovell seconded. Mr. O'Neill, Ms. Kralik, Mr. Lovell, and Ms. Rodriguez voted yes and the motion carried.

## AB RESOLUTION NO. NN-25

**WHEREAS**, the members of the Authority have reviewed the memoranda dated September 18, 2013, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of \$37,991.00 and \$1,777.27 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.

Ms. Charters and Dr. Kazmir returned to the table.

### 5. STAFF REPORTS

Ms. Charters thanked Staff for the Project Development Summary, Cash Flow Statement and Legislative Advisory reports.

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

1. Members of the Authority's Finance Committee, Dr. Kazmir, Ms. Charters and Ms. Rodriguez, were reminded that the next Finance Committee meeting will be held on Wednesday, November 6 at 10:00 a.m. to consider the Authority's 2014 budget.
2. The Authority's 2012 Annual Report is back from the printer and was provided to the Authority Members. The Annual Report is a little more fact-filled and fancier than recent ones because it celebrates 2012 as the Authority's 40<sup>th</sup> anniversary. Mr. Hopkins complimented the Authority's Communications Specialist Linda Hughes on a job well done.
3. Hospital & Other News
  - a. Commissioner O'Dowd was honored as one of the NJBiz "Forty under 40" most accomplished New Jersey young business men and women who have been making headlines in their field and who share a commitment to business growth, professional excellence and to the community.
  - b. The ongoing series of Ridgewood Planning Board hearings on the expansion plans of Valley Hospital will continue on September 30 with arguments from the group in opposition to the expansion scheduled to be heard.
  - c. Capital Health has sold its Mercer Campus on Bellevue Avenue in Trenton. Capital vacated that former hospital facility several years ago for its newly constructed hospital in Hopewell. The purchaser is Global Life Enterprises, who plans on using the facility to lease out office and other space for several different medical and healthcare services.

d. St. Francis Medical Center in Trenton has named Christy Stephenson as its interim Chief Executive Officer. Ms. Stephenson has been Executive Vice President of Strategic Planning and Clinical Transformation at St. Francis since 2010. Prior to joining St. Francis, Ms. Stephenson was the CEO of Robert Wood Johnson University Hospital at Hamilton. St. Francis' former CEO Jerry Jablonowski stepped down at the beginning of this month after 10 years helming the hospital. St. Francis is one of the 82 hospitals nationwide that make up Catholic Health East/Trinity Inc.

e. JFK Health Services has proposed a mixed-use development for the site of its former Muhlenberg Regional Medical Center, which closed in 2008. The site would house up to 600 apartments as well as some retail and healthcare services. JFK plans to move the satellite emergency room, currently in the Muhlenberg building, to an adjacent building. It also plans to keep its school of nursing on the campus. Several Plainfield City Council Members have voiced their concerns about the plan, some calling it an ultimatum, believing the continuation of the satellite emergency department is being threatened if the plan is not approved.

f. Atlantic Health System, Hackensack University Health Network and Meridian Health have formed an alliance called AllSpire Health Partners which will also include Pennsylvania health systems Lancaster General Health, Lehigh Valley Health Network, Reading Health System and WellSpan Health. AllSpire representatives stress that it is not a merger of the systems but rather an affiliation to "address quality, population health management, best practices and medical research" in the region - all goals consistent with the Affordable Care Act.

g. The Bond Buyer published an article on a report released by the bipartisan nonprofit Committee for a Responsible Federal Budget, which makes the case for at least some reform limiting the tax-exemption enjoyed by municipal bonds.

h. The following ratings actions were taken in the last month:

(i) Moody's assigned a Aa1/VMIG 1 rating to the variable rate 2013B Bonds issued by the Authority on behalf of Robert Wood Johnson University Hospital which are backed by a letter of credit from Wells Fargo Bank.

(ii) Moody's has confirmed the Ba2 rating on approximately \$80 million of Authority bonds issued on behalf of Somerset Medical Center with an outlook of stable. The bonds had been put on review for a possible downgrade citing concern over a condition added to a letter of credit reimbursement agreement stating that Somerset must enter into a letter of intent with a partner by August 31, 2013 or be subject to possible acceleration on \$21 million of variable rate bonds issued by the Authority. Somerset successfully entered into a letter of intent with Robert Wood Johnson University Hospital by the deadline.

i. The SEC has adopted rules requiring municipal advisors to register with the SEC and stating that municipal advisors owe their clients a federal fiduciary duty if they provide financial advice. These rules were amended from an earlier version to clarify that members of governmental boards are not required to register as municipal advisors. This is a very important item for the national organization to which the Authority belongs, NAHEFFA, which helped lobby for this change. The boards of their members were being threatened to have to register as municipal advisors or be subject to liability. This clarification is a much desired result.

j. The MSRB has filed a proposal with the SEC that would prohibit broker-dealers from providing consent to issuer requests to change bond documents. This is to prohibit underwriters or remarketing agents, who may hold the bonds for a short period of time, from affecting the rights of the ultimate intended bondholders. For example, in the case of the remarketing agents, often times bonds are issued and then put back to the issuer, which goes to

the remarketing agent to resell the bonds. The remarketing agent can then accept a change requested by the borrower or the issuer in the bond documents that affects the bondholders.

k. The IRS has issued a proposed rule on arbitrage restrictions on bonds. The rule will be subject to public comment and a public hearing that is scheduled for February 5. Currently, the issue price of a bond is considered the first price at which a substantial amount of the bonds is reasonably expected to be sold to the public. Substantial is defined as 10%. The proposed new rule would change substantial to mean 25% and the definition of public would be expanded to other entities such as banks and securities dealers other than the underwriter. The issue price is the basis for calculating whether the investments purchased from bond proceeds are earning more than the bonds, which is impermissible arbitrage.

l. Numerous other articles were provided regarding changes in the health care industry being spurred on by the Affordable Care Act, both in New Jersey and nationwide, including: (i) CarePoint's efforts to become a licensed insurance provider for Medicaid in Hudson County in preparation for the flood of expected new Medicaid eligible people resulting from Medicaid expansion set to take effect in January; (ii) Barnabas Health's Chief Medical Officer's lessons learned from the first stage of development of its Accountable Care Organization; (iii) the importance of expansion for hospitals under the Affordable Care Act as seen by Hackensack University Health Network's CEO Robert Garrett; (iv) Aetna's withdrawal from the New Jersey health insurance exchange; (v) how accountable care is working at AtlantiCare by reducing unnecessary admissions and readmissions; (vi) the awarding of a MacArthur "Genius" award to Dr. Jeffrey Brenner who has provided healthcare to the poorest patients in Camden; (vii) yesterday's HHS announcement that the average cost for midlevel health insurance through the health insurance exchanges across the country will be \$325 per month for an individual nationwide and \$382 in New Jersey; (viii) the entering into a letter of intent by Horizon Blue Cross Blue Shield of New Jersey and Jersey City Medical Center to develop a value-based health care program to improve quality, patient outcomes and lower costs; and (ix) several other articles summarizing the Affordable Care Act presumably triggered by the fact that the health care insurance exchanges are going live on October 1.

m. The CHAPA and Certificate of Need regulatory processes are continuing for Prime Healthcare Services acquisition of St. Mary's and St. Michael's. Other than that, there is nothing further to report on those two hospital transactions.

n. The Authority has received another extension, until October 23, to appeal the IRS's proposed finding of taxability of the bonds issued by the Authority on behalf of Deborah Heart & Lung Center in 1993 and Jersey Shore Medical Center in 1994. Attorneys representing the Authority and the hospitals continue to discuss the proposed finding with the IRS.

#### 4. Authority News

Edwin Fuentes, an Account Administrator, celebrates his fifth anniversary with the Authority this month.

As there was no further business to be addressed, following a motion by Dr. Kazmir and a second by Ms. Kralik, the Members voted unanimously to adjourn the meeting at 10:25 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  
SEPTEMBER 26, 2013.

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Stephen M. Fillebrown, Assistant Secretary