Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on January 23, 2014 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

The following ***Authority Members*** *were in attendance:*
Brian O'Neill, Designee of the Commissioner of Health (Chairing); Greg Lovell, Designee of the Commissioner of Human Services; Elisa Charters, Public Member; and via telephone: Mary Ann Kralik, Designee of the Commissioner of Banking & Insurance; and Dr. Munr Kazmir, Public Member.

The following ***Authority staff members*** *were in attendance:*
Mark Hopkins, Stephen Fillebrown, Ron Marmelstein, Suzanne Walton, Michael Ittleson, Linda Hughes, Carole Conover, Carl MacDonald, Bill McLaughlin, Ellen Lieber, Debra Coons, Paige Piotrowski, Taryn Jauss, Tracey Cameron, and Miriam Bolger.

The following ***representatives from the State and/or the public*** *were in attendance:*
Cliff Rones, Deputy Attorney General; Peter Simon, Governor's Authorities Unit; Joseph Lemaire of Holy Name Medical Center; Chuck Stafford of Ziegler; Scott Kobler of McCarter & English; and Dr. James T. Kostinas of David Kostinas & Associates.

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 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.

Mr. Hopkins recommended, at the request of the Vice Chair, that a Chair pro tem should be named. Ms. Charters nominated Brian O'Neill to serve as Chair pro tem for the January 23, 2014 meeting and Dr. Kazmir seconded. Mr. O'Neill, Ms. Charters, Mr. Lovell and Dr. Kazmir voted yes, and the motion carried.

AB RESOLUTION NO. NN-46

NOW, THEREFORE, BE IT RESOLVED, that, in the absence of the Authority's Chairperson, and at the request of the Vice Chairperson, Brian O'Neill will serve as the chair pro tem for the January 23, 2014 Authority meeting.

1. **APPROVAL OF MINUTES**
    a. **December 19, 2013 Authority Meeting**

Minutes from the Authority's December 19, 2013 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Ms. Charters seconded. Mr. O'Neill, Ms. Charters, Mr. Lovell and Dr. Kazmir voted yes, and the motion carried.

2. **DEBT MANAGEMENT PLAN FOR 2014**

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 by January 31 each year. The Authority's plan for 2014 reflects financings which were completed during 2013 and identifies seven bond financings that are anticipated for 2014, 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 seven transactions, six have a high probability of being completed in 2014; however, one transaction involves the issuance of debt on behalf of an unrated, non-traditional health care provider and the borrower may encounter difficulty accessing the credit market.

In addition, the debt management plan anticipates the Authority entering into additional leases with Barnabas Health under their existing master lease program up to the approved balance of $38 million in the coming year. To date, Barnabas Health is the only hospital system that has taken advantage of the Master Leasing Program.

Finally, 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 2014 is subject to change, depending upon market conditions and borrowers' preferences. Ms. Walton requested the Members' approval of the proposed plan and authorization to submit it to the Treasurer.

Dr. Kazmir made a motion to adopt the proposed 2014 Debt Management Plan and submit it to the Treasurer in accordance with the requirements of Executive Order No. 26. Ms. Charters seconded the motion. Mr. O'Neill, Ms. Charters, Mr. Lovell and Dr. Kazmir voted yes, and the motion carried.

AB RESOLUTION NO. NN-47

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves a motion to adopt the proposed 2014 Debt Management Plan and submit it to the Treasurer in accordance with the requirements of Executive Order No. 26.

3. APPROVAL OF EXPENSES

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

AB RESOLUTION NO. NN-48

> **WHEREAS,** the members of the Authority have reviewed the memoranda dated January 14, 2014, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $37,378.20 and $31,162.04 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.

4. STAFF REPORTS

Mr. O'Neill thanked Staff for the Project Development Summary, Cash Flow Statement, Year-End Budget Report, and Legislative Advisory reports.

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

1. 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, known as 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, 2013 the CPI-U in the New York region increased 1.681% and in the Philadelphia region increased 1.177%, for an average increase of 1.429%. Based on this increase and the fact the cap is rounded to the nearest million, the Authority will now collect its initial fee and annual fee on bond amounts up to the cap of $95,000,000 in bonds, up from $94,000,000 in 2013.

2. After a relatively slow 2012, with only $488.8 million in financing, the Authority in 2013 returned to its recent above-$900 million average of the prior six years. The Authority provided over $937 million in financing in 2013 to 12 separate borrowers. The financings included $780 million in bonds, $150 million in notes and nearly $7 million through the Master Leasing Program. There were no financings through the Capital Asset Program in 2013.
   Using the Authority's best estimates and its underwriters' best estimates of what the interest would be if the $780 million in tax-exempt bonds were issued as taxable bonds, the

Authority saved its borrowers over $136 million on a present value basis, over the first 10 years of the bonds. If those bonds remain outstanding longer, there will be additional savings. The average all-in true interest cost on the $780 million in tax-exempt bonds issued in 2013 was 3.8% compared to an estimated 5.165% if they had been issued as taxable bonds. The $150 million in notes for University Hospital had an all-in true interest cost of 5.04%. Loans from the Capital Asset Program averaged an interest rate of 1.77% for calendar year 2013.

A total of over $338 million was issued to finance new money projects at the following health care organizations: Christian Health, Greystone Psychiatric Hospital, Marlboro Psychiatric Hospital, Palisades Medical Center, Robert Wood Johnson University Hospital and University Hospital. Nearly $611 million in bond and note proceeds were issued to refund outstanding bonds for Children's Specialized Hospital, Greystone Psychiatric Hospital, Marlboro Psychiatric Hospital, Palisades Medical Center, RWJUH at Hamilton, Shore Memorial Hospital, St. Luke's Warren Hospital, University Hospital and Virtua Health System. The Master Leasing Program financed acquisition of new equipment for the Barnabas Health System.

According to the unaudited year-end numbers, the Authority's 2013 expenses came in at $3,227,649, which was 14.7% under budget and 4.5% above 2012 expenses. More details are available in the Year-End Report provided to Members. The Authority's income came in at $4,316,126 which was 13.2% over budget and 2.3% above 2012 income. The Authority's receipts over disbursements came in at $1,088,477, which is $1,060,019 over budget but $43,765 less than 2012.

3. Authority Members should have received two disclosure forms to be filled out by Friday, January 31. 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. Authority Members should feel free to consult Robin Piotrowski, the Authority's Human Resources Manager and Ethics Liaison Officer, if they have any questions.

4. Hospital & Other News

a. Chet Kaletkowski retired as President and CEO of Inspira Health Network on December 20. He started at South Jersey Health System, Inspira's predecessor, 15 years ago as Executive Vice President.

b. Shore Medical Center has announced that it is promoting Linda Kenwood to Chief Operating Officer. She served as interim CNO for a year before being named to the position permanently in September.

c. David Hughes has been named as Shore Medical Center's Chief Financial Officer. He replaces Jim Foley who recently left for other opportunities. Mr. Hughes has been the Executive Vice President, Treasurer and Chief Financial Officer of Trump Entertainment Resorts since 2010 and also served on Shore's finance committee.

d. Moody's has affirmed its Ba1 rating of $165.8 million of bonds issued on behalf of St. Peter's University Hospital by the Authority. The outlook is stable.

e. A number of additional articles were provided regarding the hospital industry both nationally and in the State as well as continued changes coming about as the result of the Affordable Care Act and an article on the expected increase in enforcement actions against municipal bonds by the IRS, SEC and MSRB.

f. Barnabas Health has announced that Kimball Medical Center in Lakewood will be merged with Monmouth Medical Center in Long Branch and renamed Monmouth Medical Center, Southern Campus. Both Kimball and Monmouth are part of Barnabas Health System.

g. Effective January 1, Chilton Hospital joined Atlantic Health System and will now be known as Chilton Medical Center. Atlantic Health System also owns Morristown Medical Center, Overlook Medical Center and Newton Medical Center as well as Goryeb Children's Hospital.

h. The CN and CHAPA applications for the sale of St. Mary's Hospital to Prime Healthcare Services have been declared complete and public hearings were held in Passaic last week. The next step in the CN process is a hearing by the State Health Planning Board on February 13. Thereafter, the Commissioner of Health will have up to 120 days to consider the State Health Planning Board's recommendation. The CHAPA process needs to be finalized by a Superior Court Judge after receiving a recommendation from the Attorney General's office.

i. The CN and CHAPA applications for the sale of St. Michael's Medical Center to Prime Healthcare Services have not yet been declared complete.

Mary Ann Kralik joined the meeting by phone at approximately 10:30.

5. EDUCATIONAL PRESENTATION
<u>Medicaid</u>

Mr. O'Neill invited Mr. Greg Lovell, Designee of the Commissioner of Human Services, to make a presentation to the Authority on Medicaid.

Mr. Lovell informed the Members that the name of the program has changed from Medicaid to NJ Family Care. He also noted that:

- The program covers individuals whose income is up to 133% of the poverty rate.
- It receives federal funds and is bound by State authority and federal authority.
- Although Human Services administers the program, there are three other departments involved: Department of Children and Families, Department of Health, and the Office of the State Comptroller which focuses on Medicaid fraud and abuse.
- 57% of NJ Family Care recipients are children
- In regards to cost:
  - The cost of the program is steadily increasing, but well below the federal average.
  - NJ is also spending less than surrounding states.

- Many who would be included by the Affordable Care Act (ACA) "Medicaid Expansions" provisions had already been enrolled in NJ Family Care, and the program has already been caring for them.
- It is a $14 billion program, about half of which is federally funded.
- Of the $14 billion, much of the funds are related to hospitals: $861 million in fee-for-service inpatient care, $161 million in fee-for-service outpatient care, and $674 million in Charity Care.

- In regards to future planning:
  - In response to expanded eligibility through the ACA, 100,000 to 200,000 additional recipients are expected to be enrolled in the next 18-24 months. It is a very manageable number, and less than what other states are expecting because NJ has been enrolling many of these individuals already.
  - There are two issues that the federal government expects to be addressed: 1) Individuals will have the ability to access needed care, and 2) some doctors (e.g. primary care physicians and certain specialists) who have not serviced Medicaid patients in previous years will be enticed to enroll as Medicaid providers when the federal government pays those specific doctors the same for Medicaid as they would receive for Medicare for the next two years, through more than $700 million in federal funding.
  - Currently about 90% of recipients receive medical services through managed care. The other 9%-10% are receiving fee-for-service care in long term care settings, hospice or home health care, or behavioral health services. The hope is that managed care will be able to cover these services, and 100% of NJ recipients of Family Care will be in managed care.
- The program is moving from a service entity to a monitoring agency, focusing on performance based contracting. Specific monitoring focus is on: pre-term birth rates, pre-natal and post-partum care, diabetic care, and BMI documentation.

In response to a question from Ms. Charters, Mr. Lovell clarified that New Jersey was not expecting a hard hit when it came to new enrollees due to the ACA. The State has approximately 1.3 million clients, and is expecting about 100,000 to 200,000 new enrollees. The number is not higher because many of the people who are now included, New Jersey has already been enrolling them before the law took effect. The $700 million in federal aid will cover the cost of those additions, by comparing the 2013 Medicaid coverage numbers to the increase in 2014 and the future year, and covering 100% of the difference. Those funds will also be used to cover care by primary care doctors and certain specialties to increase provider rates in situations where it is determined more providers of a particular specialty are needed.

In response to a question from Mr. Hopkins regarding many hospitals' complaint that Medicaid rates are lower than in other states, so there is wider eligibility, but lower reimbursement, Mr. Lovell, stated that:

- In regards to outpatient care:
  - It takes two years to submit cost reports to Medicare, as it has to go through Medicare first. In the interim Family Care relies on a cost chart ratio.
  - The program will not pay above actual costs.

  - After the two years, there is a settlement process where either Family Care owes the hospital, or the hospital owes Family Care. It's a cost-based system.
  - Family Care is paying approximately 94.6% of the hospitals' outpatient costs
  - This is all through audited reporting through Medicare.

- In regards to inpatient care:
  - Services are submitted, and the entire stay is given a three-digit DRG number.
  - The DRG number allows the agency to come up with a comparable rate based on legislative funding.
  - Then a formula is used to figure out what the payment will be.
  - Family Care ends up paying approximately 65% of the actual costs of the hospitals.
  - When subsidies - such as Charity Care, DSRIP, Mental Health, GME - are added in, this bumps the total that the average hospital receives up to 100% of the hospitals' costs.

6. NEGOTIATED PRIVATE PLACEMENT & INFORMATIONAL PRESENTATION <u>Holy Name Medical Center</u>

Mr. Mark Hopkins informed the Members that his presentation would serve as a negotiated sale request in the form of a private placement and an informational presentation. He introduced Joseph Lemaire, Executive Vice President and Chief Financial Officer of Holy Name Medical Center.

Mr. Hopkins informed the Members that Holy Name has signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing of approximately $15 million, the proceeds of which will be used to refund a portion of the Series 2006 Revenue Bonds issued by the Authority and pay the related costs of issuance.

Holy Name is a not-for-profit medical center located in Teaneck, New Jersey. It provides a full range of comprehensive services primarily to residents of northeast New Jersey.

Outstanding Authority issued obligations of Holy Name include: Series 2006 Revenue Bonds, Series 2010 Revenue and Refunding Bonds, and a Variable Rate Composite Program issue in 2006 on behalf of FitnessFirst Oradell Center, LLC. The total outstanding Authority debt issued on behalf of Holy Name is approximately $122.3 million.

Unaudited financial statements from mid-year 2013 indicate that Holy Name had an excess of revenues over expenses of $8.52 million compared to excess of revenues over expenses of $6.57 thousand for the same period of 2012. Holy Name has 361 licensed beds and employs approximately 1,754 people.

Holy Name is currently rated Baa2 by Moody's and BBB- by Standard & Poor's. Based on audited numbers for year-end 2012, Holy Name had 125.19 days cash on hand, an operating margin of 5.71% and debt service coverage of 5.85 times.

Holy Name has asked that the Authority permit the use of a negotiated sale based on the volatile market conditions. Staff also notes that Holy Name could be considered a complex or poor credit. These reasons are considered under the Authority's policy regarding Executive Order #26, to be a justification for the use of a negotiated sale, therefore, Mr. Hopkins recommended the consideration of the resolution, included in meeting materials, approving the use of a negotiated sale and the forwarding a copy of the justification in support of said resolution to the State Treasurer.
Holy Name also conducted an analysis to determine whether to proceed with a private placement or a public offering. Based upon its analysis, a private placement would: expedite the issuance of the refunding bonds; and avoid the requirement for a debt service reserve, lowering the amount borrowed.

The Attorney General's Office has assigned Wilentz, Goldman & Spitzer, P.A. to serve as Bond Counsel on this transaction. It is anticipated that Staff will be requesting Members' approval of a contingent sale of bonds at the Authority's February Board Meeting.

In response to a question from Mr. O'Neill asking why Holy Name was pursuing this financing at this time, Mr. Lemaire responded that the 2006 bonds were structured with no principal payment for the first 16 years in order to minimize its MADS (maximum annual debt service). It has been problematic that Holy Name has not been amortizing that debt, and it had been looking at the secondary market, so there has always been an interest in how it could begin to amortize this debt. Ziegler came forward with a proposal to approach the institutional holders of the debt and because of a dislocation between what tax-exempt bonds are trading for in terms of interest rate verses bank financed debt, Holy Name could convert potentially $15, $20 or even $30 million from 5% debt to 3.8% debt, resulting in 120 basis points in savings.

Capital One will provide funding for this. Holy Name was approved by Capital One's credit committee yesterday. The interest rates have varied, but right now is running around 3.78% to 3.8%, resulting in significant interest savings. Whatever amount of bonds are able to be purchased in the secondary market will begin to be amortized through this refunding and there is more than enough room in the debt service ratio to absorb the additional principal payments. Holy Name talked to a number of underwriters over the years on how accomplish this, and Ziegler came along with a plan that seems like it will work.

Mr. O'Neill asked the Members' pleasure with respect to the adoption of the resolution supporting the issuance of revenue bonds by negotiated private placement on behalf of Holy Name Medical Center. Dr. Kazmir offered a motion to adopt the resolution; Ms. Charters seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. NN-49

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts the resolution entitled "RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY PRIVATE PLACEMENT TRANSACTION PURSUANT TO EXECUTIVE ORDER NO. 26."

(attached)

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 11:00 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 23, 2014.

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Carole A. Conover, Assistant Secretary