Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on August 28, 2014 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

The following ***Authority Members*** *were in attendance:*
William Conroy, Designee of the Commissioner of Health (Chairing); 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, Suzanne Walton, Michael Ittleson, Carole Conover, Carl MacDonald, Bill McLaughlin, Debra Coons, Paige Piotrowski, Taryn Jauss, Frank Troy, Marji McAvoy, Ellen Lieber, and Chris Kniesler.

The following ***representatives from the State and/or the public*** *were in attendance:*
Cliff Rones, Attorney General's Office; Peter Simon, Governor's Authority Unit; Hak Kim, AtlantiCare Regional Medical Center; Eileen Urban, Barnabas Health; Dorit Kressel of Wolff & Samson P.C.; Dr. James T. Kostinas of David Kostinas & Associates; Chris McCann, JP Morgan Securities LLC; and Kevin Quinn, McCarter & English.

CALL TO ORDER

Executive Director Mark Hopkins called the meeting to order at 10:02 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 22, 2014 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 that in the absence of the Chair, and as the Vice Chair was participating by phone, that a Chair pro tem should be named. Dr. Kazmir nominated Bill Conroy to serve as Chair pro tem for the August 28, 2014 meeting and Ms. Charters seconded. Mr. Conroy, Ms. Charters, Mr. Lovell, Dr. Kazmir and Ms. Rodriguez voted yes, and the motion carried.

AB RESOLUTION NO. OO-18

NOW, THEREFORE, BE IT RESOLVED, that, in the absence of the Authority's Chairperson, and as the Vice Chairperson was participating by phone, Bill Conroy will serve as the chair pro tem for the August 28, 2014 Authority meeting.

1. APPROVAL OF MINUTES
July 24, 2014 Authority Meeting

Minutes from the Authority's July 24, 2014 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Ms. Charters seconded. Mr. Conroy, Mr. Lovell, Ms. Charters, Dr. Kazmir and Ms. Rodriguez voted yes, and the motion carried.

2. TEFRA HEARING & CONTINGENT BOND SALE
a. AtlantiCare Regional Medical Center

Mr. Conroy announced that the following portion of the meeting would be considered a public hearing in connection with the proposed issuance of bonds on behalf of AtlantiCare Regional Medical Center. This hearing is taking place in accordance with the public notice and approval requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended.

Bill McLaughlin introduced Mr. Hak Kim, Assistant Vice President- Financial Planning for AtlantiCare Regional Medical Center.

Following the introduction, Mr. McLaughlin informed the Members that today we would be requesting approval of a contingent sale of bonds on behalf of the AtlantiCare Regional Medical Center Obligated Group. Proceeds of the proposed Series 2014 Bonds will be used to construct a new two story addition that will house same day surgery suites, post anesthesia care unit; expand an existing visitor parking area; construct three new operating rooms; renovate several areas of the facility including, sterile processing department, operating room support areas, intensive care unit and upgrades to existing operating rooms; and pay the related costs of issuance.

The Series 2014 bonds will be privately placed with TD Bank, N.A., as Purchaser and will be secured by a Note issued pursuant to the provisions of a Master Trust Indenture and Eighth Supplemental Indenture, together with a gross receipts pledge and a mortgage on certain property. The Bonds will be structured as a multi-modal rate obligation, initially issued at the Direct Purchase Rate. The Direct Purchase Rate will be a fixed rate equal to sixty-nine percent of the TD Bank fifteen year cost of funds plus sixty basis points. This rate will be fixed through October 1, 2029, at which time the bonds are subject to optional tender.

No disclosure document is being prepared in connection with this transaction and, as a result, TD Bank, N.A. has agreed to provide the Authority with the Travelling Investor Letter on the date of closing.

Mr. McLaughlin stated that Dorit Kressel of Wolff & Samson, P.C., the Bond Counsel, would present the Bond Resolution pertaining to this transaction.

BOND RESOLUTION

Dorit Kressel of Wolff & Samson P.C., the Bond Counsel, stated that the Bond Resolution authorizes the issuance of the tax-exempt Series 2014 Bonds in an aggregate principal amount not in excess of $60 million. The Bond Resolution provides that the Series 2014 Bonds shall have a final maturity date of no later than July 1, 2042. The Bond Resolution also provides that the Series 2014 Bonds shall bear interest at an all-in true interest cost not to exceed 6.0% per annum for the period through and including October 1, 2029, and thereafter not to exceed 12% per annum. The Series 2014 Bonds will be subject to redemption prior to maturity as set forth therein at a redemption price not greater than 105%, provided, however, that the redemption price of any Series 2014 Bond subject to optional redemption pursuant to a "make-whole" provision, which will apply during the Direct Purchase Rate Period, may exceed 105% of the principal amount of such Series 2014 Bond, as provided in the Trust Agreement. The Series 2014 Bonds will be secured by payments made by AtlantiCare, under the Loan Agreement with the Authority. The obligations of the AtlantiCare under the Loan Agreement with the Authority will be evidenced and secured by a Note issued by the Obligated Group pursuant to the provisions of a Master Trust Indenture and by amounts on deposit in certain funds held by the Trustee pursuant to the Trust Agreement. The Note to be issued pursuant to the Master Trust Indenture will be secured by a gross receipts pledge of the Obligated Group and a mortgage on certain AtlantiCare property. The Bond Resolution also approves the form of and authorizes the execution of a Direct Bond Purchase Agreement with TD Bank, National Association for the purchase of the Series 2014 Bonds. The Direct Bond Purchase Agreement must be executed prior to 5:00 p.m. (local New Jersey prevailing time) on November 19, 2014. No disclosure document is being prepared in connection with the issuance of the Series 2014 Bonds and, as a result, the Bond Resolution also requires the purchaser of the Series 2014 Bonds to provide the Authority with an investor letter in form and substance satisfactory to an Authorized Officer of the Authority on or prior to the date of Closing.

Additionally, the Bond Resolution approves the form of and authorizes the execution and delivery of (i) a Trust Agreement and (ii) a Loan Agreement. Further, the Bond Resolution appoints TD Bank, National Association as Trustee, Bond Registrar and Tender Agent for the Series 2014 Bonds. The Bond Resolution also authorizes the Authorized Officers to appoint a Remarketing Agent should it become required pursuant to the Trust Agreement. In addition, it authorizes the Authorized Officers to execute and deliver such other documents and to take such other actions as may be necessary or appropriate to effectuate the execution and delivery of the Trust Agreement, the Loan Agreement and the Direct Bond Purchase Agreement, and the completion of the issuance and sale of the Series 2014 Bonds.

Mr. Conroy asked if the Members of the Authority had any questions or comments regarding this transaction. Mr. Lovell asked whether AtlantiCare was pursuing this action because they were anticipating an increase in clients. Mr. Kim of AtlantiCare replied that AtlantiCare was anticipating an increase in medical procedures and more outpatient services. Mr. Conroy inquired as to whether the Atlantic City's declining employment and industry were factored in to their projections. Mr. Kim responded that despite the decline of employment and revenue in Atlantic City, they are still meeting their projections. Mr. Conroy followed up by asking if there was anything unique about this deal. Ms. Kressel replied that it was a straightforward direct purchase financing.

Mr. Conroy asked the Members' pleasure with respect to the adoption of the Bond Resolution on behalf of AtlantiCare Regional Medical Center. Dr. Kazmir made a motion to approve the adoption of the Bond Resolution on behalf of AtlantiCare Regional Medical Center. Ms. Charters seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. OO-19

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Bond Resolution entitled, "A RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, ATLANTICARE REGIONAL MEDICAL CENTER OBLIGATED GROUP ISSUE, SERIES 2014"

(attached)

Mr. Kim thanked the Authority, the staff and Bill McLaughlin for their hard work.

Mr. Conroy then closed the public hearing in accordance with Section 147(f) of the Internal Revenue Code of 1986, as amended.

3. INFORMATIONAL PRESENTATION
<u>Barnabas Health</u>

Mr. Bill McLaughlin introduced Eileen Urban, Senior Vice President and Treasurer of Barnabas Health.

Members were advised that this was an Informational Presentation concerning a proposed bond transaction for Barnabas Health ("Barnabas").

Barnabas has requested that the Authority consider the issuance of approximately $290,000,000 of tax-exempt bonds, the proceeds of which are expected to be used to: refinance FHA-insured mortgages of the recently acquired Jersey City Medical Center; fund certain capital budget items, including: a "Cyber-Knife" addition to the Oncology Department and a 6,500 square foot operating room expansion project at the Saint Barnabas Medical Center as well as a 30,000 square foot Intensive Care Unit expansion at the Clara Maas Medical Center; advance refund all of or a portion of the NJHCFFA issued Series 2006B Capital Appreciation Bonds, fund a debt service reserve fund, if required, and pay the related costs of issuance.

Members are advised that the potential advance refunding of the Series 2006B bonds is subject to review by bond counsel in order to determine eligibility. Further, should the eligibility for refunding be confirmed, Members are reminded that bond refundings are interest rate sensitive, therefore the final decision on what is to be included will be made as we approach pricing.

The transaction is expected to be structured as a publicly issued fixed rate financing and sold on the basis of Barnabas' credit. Barnabas is currently rated "Baa1/BBB+/BBB+" from Moody's, S&P and Fitch, respectively.

The Barnabas Health Obligated Group currently consists of: Clara Maas Medical Center in Bellville; Community Medical Center in Toms River; Kimball Medical Center in Lakewood; Mega Care Inc. and its affiliates; Monmouth Medical Center in Long Branch; Newark Beth Israel Medical Center in Newark; Saint Barnabas Medical Center in Livingston; Saint Barnabas Corporation; and Union Hospital. It should be noted that Mega Care Inc. and Union Hospital have either been terminated or sold; however, each remains a Member of the Obligated Group. Further, prior to the completion of this transaction, Jersey City Medical Center will be added to the Obligated Group.

The annual audited financial information for Barnabas presented in the mailed materials indicates that Days Cash on Hand increased slightly from 157.48 days in 2012 to 167.46 days in 2013 and remains stronger than the 2013 Statewide Median of 67.55 days. Barnabas' Operating Margin for the years 2012 and 2013 was strong at 5.92% and 5.52%, respectively. Debt Service Coverage Ratio at year-end 2013 was strong at 3.38 times. Days in Accounts Receivable are well managed at 40.23 days versus the statewide median of 41.128 days.

Barnabas' Annual Inpatient Utilization Trends for the period ending December 31, 2013 were stable, showing modest decreases in inpatient admissions and occupancy rate, while, length of stay remained fairly stable.

Financial results for the first quarter of 2014 indicate continued strong performance, with material increases in both income from operations and excess revenues over expenses, when compared to the same period in 2013.

Mr. Conroy reminded the Members that the presentation was for informational purposes only and no action needed to be taken. He then asked if the Members had any questions or comments.

Ms. Charters asked for a breakdown of anticipated expenditures of the projected capital costs for the "Cyber-Knife" in addition to the Oncology Department, the expansion of the operating room at Barnabas Hospital and the expansion of the Intensive Care Unit at Clara Maass. Eileen Urban of Barnabas Health responded that the expansion at Clara Maass would be $23 million, the Cyber Knife was $7 million and the expansion at Barnabas would be $13.5 million. Mr. Lovell asked if they expected an increase in clientele. Ms. Urban responded that the desire is for additional clients but the plans did not include an increase in the number of beds.

Ms. Charters then asked about the outstanding debt of $40 million under Capital Leases. Mr. Hopkins replied that they were primarily issued under the Master Lease Program for typical equipment in need of replacement at various Barnabas facilities.

Appointment of Co-Managers

Suzanne Walton informed the Authority that Barnabas Health has requested co-managers for their financing.

Ms. Walton stated that in July, Barnabas Health notified the Authority that they had undertaken a competitive process and selected J.P. Morgan Securities to serve as their Senior Manager. In addition, the Hospital asked the Authority to consider the appointment of the firms of TD Securities and M&T Securities, Inc. as co-managers on their transaction.

Based on the size of this transaction, staff is recommending the assignment of five co-managers. Ms. Walton notes that staff supports the appointment of the two firms requested by the Borrower and proposes adding the firms of (1) Drexel Hamilton, a full service institutional broker dealer and certified Service Disabled Veteran Owned and Operated Business headquartered in Philadelphia; (2) Roosevelt & Cross Incorporated headquartered in New York City, with five branch locations including an office in Warren, New Jersey, and (3) RBC Capital Markets, headquartered in New York City with extensive experience in municipal finance, including healthcare.

All five firms have been qualified by the Authority to serve in the role of co-manager and have demonstrated the ability to distribute New Jersey securities and have sufficient capital to participate in the transaction. Therefore, we are asking your approval to name TD Securities, M&T Securities, Drexel Hamilton, Roosevelt & Cross and RBC Capital Markets as co-managers on the Barnabas Health Series 2014 transaction.

Mr. Conroy then questioned the reason for the adding multiple co-managers to the project. Ms. Walton stated that JP Morgan has selected two co-managers for the transaction. Ms. Walton said, that due to the size of the bond issue, the Authority recommends that three (3) more co-managers be added. Mr. Conroy asked what the advantage was to having additional co-managers. Ms. Walton replied that the borrower appoints the senior manager for the first $30 million dollars. The Authority recommends a co-manager for every $30 million issued, bringing the total for this transaction to five (5.) The Authority appoints the first co-managers from its list of eligible co-managers on a rotational basis and typically takes the recommendation of the borrower for the second co-manager. Additional co-managers are selected in the same fashion. Mr. Hopkins added that this practice gives more firms experience in handling these transactions and expand the pool of potential buyers.

Mr. Conroy then asked for a motion to approve TD Securities, M&T Securities, Drexel Hamilton, Roosevelt & Cross and RBC Capital as co-managers for the Barnabas Health transaction. Dr. Kazmir made a motion and Mr. Lovell seconded. Mr. Conroy, Mr. Lovell, Dr. Kazmir and Ms. Rodriguez voted yes, with Ms. Charters abstaining, and the motion carried.

AB RESOLUTION NO. OO-20

> **NOW, THERFORE, BE IT RESOLVED,** that the Authority hereby approves the appointment of TD Securities, M&T Securities, Drexel Hamilton, Roosevelt & Cross and RBC Capital Markets as co-managers for the Barnabas Health transaction.

4. APPROVAL OF EXPENSES

Mr. Conroy 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. The vote was unanimous, and the motion carried.

AB RESOLUTION NO. OO-21

> **WHEREAS,** the Members of the Authority have reviewed the memoranda dated August 20, 2014, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $64,834.00 and $4,408.89 respectively, and have found such expenses to be appropriate;
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> **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.

5. STAFF REPORTS

Mr. Conroy 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. The Economic Development Authority ("EDA") and the Board of Public Utilities ("BPU") have been working on creating an Energy Resilience Bank ("ERB") to provide grants and loans for creating local on-site generation of electricity that is capable of islanding and blackstart, the ability to operate off the larger electrical grid and start without access to the electrical grid, respectively. The State was recently awarded $200 million for the creation of the ERB through a grant related the Hurricane Sandy from the Housing and Urban Development

Community Development Block Grant program for Disaster Recovery. The ERB funding will be provided to critical facilities in rounds, starting with water and wastewater treatment plants followed by hospitals and long-term care facilities then universities and other facilities. Authority staff has been working with the EDA, BPU and the Governor's Office of Recovery and Rebuilding to communicate this funding opportunity to hospitals and to suggest financing options that would work best for hospitals.

2. Commissioner of Health Mary O'Dowd's recent recommendations to the Governor on hospital financial transparency gave rise to articles in the Bergen Record and NJBiz. It also spurred two articles in the Bergen Record on how some for-profit owners are achieving financial success at hospitals that were failing when they were not-for-profit.

3. The Authority's sale of $56 million in bonds for Robert Wood Johnson University Hospital got a special mention in The Bond Buyer for their extremely low interest rates.

4. NJ Hospital & Health Care Organization News

a. The sale of St. Mary's Hospital to Prime Healthcare Services was completed on August 15th. The Authority received $15 million from the sale, toward the $37 million in outstanding bonds, and deposited the funds in an Escrow Defeasance Account to partially defease the bonds on the first call date in 2017. The State will pay the remaining debt service, subject to appropriation.

b. The Certificate of Need application for proposed sale of St. Clare's hospitals to Prime received an approval recommendation from the State Health Planning Board. The Commissioner of Health has 120 days to consider the recommendation and issue her determination. The CHAPA application for St. Clare's is not yet complete.

c. The CN and CHAPA applications for the sale of St. Michael's Medical Center to Prime Healthcare Services have not yet been declared complete. Therefore, those regulatory processes have not begun the regulatory timeline.

d. The Leapfrog Group released its 2014 Hospital Safety Survey in late July. Fifty-nine of the State's 71 acute care hospitals participated. Leapfrog will release grades for hospitals on a scale of A to F based on safety in October. High grades can also earn a bonus of up to $250,000 from Horizon Blue Cross Blue Shield and are used in payment negotiations between hospitals and insurers. Leapfrog is one of several publications ranking or evaluating hospital performance, such as Becker's, Consumer Reports, CMS' Hospital Compare, Healthgrades, Truven and U.S. News & World Report as well as the New Jersey Department of Health's Hospital Report Card.

e. The study of healthcare services in the Newark area is well underway, with Navigant currently gathering data, interviewing health care providers and obtaining other information. A meeting with Navigant to discuss the progress is scheduled for next week.

f. Hospitals have announced the following personnel changes:

(i) Felicia Karsos has been named Chief Executive Officer of Meadowlands Hospital. Ms. Karsos was promoted from the position of Chief Nursing Officer at Meadowlands and formerly held executive, administrative and nursing positions at St. Michael's Medical Center. Ms. Karsos replaces Tom Considine, who was the former New Jersey Commissioner of Banking and Insurance, and who joined Meadowlands in May of this year. Mr. Considine will continue as an independent consultant in regard to Meadowland's negotiations with payors.

g. Moody's has upgraded Cooper Health System's rating from Baa3 to Baa2 with an outlook of stable. Moody's cited Cooper's improving operating cash flow margin, cash on hand and increased admissions for the upgrade.

h. University Medical Center of Princeton has confirmed it has laid off 19 full-time employees in a cost saving measure, citing reduced reimbursement rates for care. The Medical Center employs over 3,000 people.

i. Plainfield hired a consultant to recommend appropriate and viable uses for the site of the former Muhlenberg Hospital. Six years ago Solaris Health System, now JFK Health System, closed Muhlenberg but maintained a satellite emergency department in the hospital and a nursing school and dialysis services on the site. JFK recently received Plainfield Planning Board approval to move the satellite emergency department into the same building in which dialysis services are provided. The move would free up the entire former Muhlenberg building for redevelopment. JFK had proposed a mix of luxury apartments and some retail for the site. Plainfield's consultant believes additional health care services would be appropriate for and economically viable on the site, including outpatient treatment, urgent care, medical research and technology companies, pharmacies, laboratories, veteran's housing and assisted living facilities. Some residents objected to any housing on the site, even a veteran's home or an assisted living facility. Authority Members will recall that the Authority financed JFK to assist with the closure of Muhlenberg and construction of renovations at JFK to help absorb patients from the former hospital.

j. Several other articles about hospitals are being provided today, including: (i) Morristown Medical Center's ranking in U.S. News and World Report; (ii) University Hospital joining the United Healthcare network; (iii) Carepoint's Bayonne Medical Center received accreditation by the Commission on Cancer of the American College of Surgeons for cancer care; (iv) St. Peter's Healthcare System's physicians and clinicians joining the Partners In Care Independent Physician Association; (v) 12 New Jersey hospital participating in the CMS/NJHA demonstration project for shared savings achieved nearly $113 million in savings by incentivizing physicians to meet certain quality and performance metrics; and (vi) Chilton Medical Center's achieving mentor status in the Partnership for Patients New Jersey initiative to improve quality, safety and affordability.

k. Several articles are also being provided today on the financial environment for health care in general and resulting from the Affordable Care Act, including: (i) more paying patients for hospitals but the costs of more staffing eclipses the additional income; (ii) ERs are still busy despite expectancy patients would seek primary healthcare from individual physicians as a result of being insured under the ACA; (iii) how transitional care programs are helping patients stay at home rather than in the hospital for some ailments; (iv) Moody's findings that hospitals revenues grew at an all-time low of 3.9% last year, compared to 5.1% in 2012 and 7% historically in years prior; (v) the Rutgers Center for State Health Policy's report that low-income residents are more likely to make avoidable hospital visits; (vi) fears of increased health care costs are being spurred by hospital mergers in the New York area; (vii) Solic Capital notes that hospital bankruptcies are on a record pace this year; (viii) S&P's observation that operating margins are continuing to decline in the health care sector; (ix) and a Forbes article on revolutionizing decision-making at health care organizations.

l. Several articles on legislative proposals, regulatory changes and recommended best practices for municipal bonds are also being provided today, including: (i) NABL guidance for conduit bond deals; (ii) IRS's concerns about unspent bond proceeds; (iii) legislation proposing to increase the limit on bank qualified bonds to $30 million and place the limit on the borrower not the issuer; (iv) the SEC extending the deadline for issuers to December 1st to self-report failure to state in offering documents when it has violated its continuing disclosure obligations (for underwriters the deadline remains September 10th); (v) SIFMA changes to the Muni Swap Index to use only data reported to the MSRB; (vi) MSRB's proposed changes to rule G-18 requiring municipal securities dealers to seek the most favorable price possible when executing transactions for most investors ("best execution"); (vii) the SEC's new program to examine the newly regulated municipal advisor industry compliance with SEC and MSRB rules; and (viii) the MSRB's proposed changes to the pay-to-play rules extending them to municipal advisors.

4. Authority News

a. The Authority has a distinguished guest today. Ben Mathews, a high school student at the Doane Academy is joining us. Ben is very interested in learning about government and asked me if he could watch our proceedings today.

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 10:41 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 August 28, 2014.

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Carole A. Conover, Assistant Secretary