Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on December 18, 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, Ron Marmelstein, Michael Ittleson, Carole Conover, Carl MacDonald, Taryn Jauss, Frank Troy, Ellen Lieber, Jessica Lucas, Diane Johnson, Debra Coons, Edwin Fuentes and Chris Kniesler.

*The following* ***representatives from the State and/or the public*** *were in attendance:*
Cliff Rones, Attorney General's Office; Warren Broudy, Mercadien; Emily Hoffman, Mercadien; Dr. James T. Kostinas, David Kostinas and Associates; and, via telephone: John Bitar, Windels Marx Lane & Mittendorf.

## 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 December 18, 2014 meeting and Mr. Lovell seconded. Mr. Conroy, Ms. Charters, Mr. Lovell, Dr. Kazmir and Ms. Rodriguez voted yes, and the motion carried.

## 1. APPROVAL OF MINUTES

### A. November 20, 2014 Authority Meeting

Minutes for the Authority's November 20, 2014 Authority meeting were distributed for review and approval prior to the meeting. Mr. Conroy asked for a motion to approve the minutes. Dr. Kazmir made the motion. Mr. Lovell seconded. The vote was unanimous and the minutes were approved.

## 2. BOND SALE REPORT

### A. Hunterdon Medical Center

Mr. Conroy asked Suzanne Walton to provide the Members with a status report on the Hunterdon Medical Center transaction.

Ms. Walton reminded the Members that Hunterdon Medical Center received approval to issue bonds, in one or more series, to provide funds to restructure its long-term debt. One series of bonds, the Series 2014A Bonds, will be publicly issued and three series of bonds, Series 2014 B-D, will be privately placed with TD Bank.

Ms. Walton reported that on Wednesday, December 3, 2014, bonds were priced and a purchase contract was signed for Hunterdon Medical Center's $42,735,000, Series 2014A Revenue and Refunding Bonds. The bonds, rated A-/A by S&P and Fitch respectively, will be used to advance refund the Medical Center's Series 2006A Bonds and currently refund and fix out a bank financing done earlier in 2014, which provided new money for capital projects. Ziegler, the Senior Manager, hosted an investor webinar a week prior to the pricing. Many of the large mutual funds who owned positions in the Series 2006 Bonds participated on the call and ultimately placed orders for the new bonds.

According to Ms. Walton, market conditions led the underwriter to recommend a structure for the issue that included serial bonds with maturities from 2030 through 2035 and three term bonds – one term bond maturing in 2036 and two term bonds maturing in 2045. Most of the maturities were structured as premium bonds since, in the current interest rate environment, premium bonds act as a hedge against rising interest rates. Following discussions with the borrower, its financial advisor and the managers, the scale was approved for an order period on Wednesday.

Ms. Walton said that, due to strong investor interest across the entire structure of the financing, sufficient orders were obtained to allow the underwriter to adjust the yields on all the maturities and reduce the coupon on the 2045 Discount Bonds from 4.125 to 4%. The Underwriter offered to purchase the bonds with yields ranging from 3.4-3.63% on the long dated serial bonds and 4.05% on the 2045 Discount Bonds and 3.8% on the 2045 Premium Bonds. These yield changes reduced the total debt service cost of the financing by approximately $450,000 (or roughly 1% of the bonds) in present value terms. The all-in interest cost of the issue is 4.33%.

Ms. Walton stated that between today and the closing on December 23, 2014, we will set the interest rates for Hunterdon's 2014 Bank Placement Bonds. Proceeds from the three series of bonds will be used to advance refund Hunterdon's Series 2006B Bonds, currently refund their Series 2009 Bonds and refinance a taxable loan. The interest rate on the Series 2014B Bonds in the principal amount of $16,260,000 was set today and will carry a fixed interest rate of 2.44% until maturity. The Series 2014C and D Bonds, totaling approximately $6,360,000 and $4,935,000 respectively, will be issued as multi-modal bonds and will initially bear interest at a Direct Purchase Rate based off of LIBOR. Final rates for these two series of Bonds will not be set until the closing on the bonds; however, the indicative rates as of today are 2.95% and 3.50% respectively.

Mr. Conroy advised the Members that this report was for informational purposes only and no action needed to be taken.

## 3. TEFRA HEARING

### A. Barnabas Health

Mr. Conroy announced that the following portion of the meeting would be considered a public hearing in connection with the Barnabas Health Master Lease Program transaction. 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.

Mr. Conroy asked Suzanne Walton to present the details of the Barnabas Health Master Lease Program.

Ms. Walton reported that in November of 2011 the Members approved a Master Lease Agreement and forms of Sublease Agreements and other ancillary documents on behalf of Barnabas Health in an amount not to exceed $70 million. Under the Master Leasing Program, the Authority will lease equipment from a lessor and sublease the same equipment to Barnabas Health or one of its affiliates at tax-exempt rates. A public hearing was held at the November 2011 Board Meeting pursuant to the requirements of Section 147(f) of the Internal Revenue Code of 1986 relating to the various pieces of equipment.

Ms. Walton stated that, at the time of the hearing, it was announced that the Authority would, under one or more Master Lease and Sublease Agreements, provide a tax-exempt funding vehicle to (i) finance the costs of leasing and subleasing health care equipment to Barnabas Health or one of its affiliates at various project locations as set forth in the Notice of Public Hearing including, but not limited to, radiology, cardiology, pediatrics, obstetrics, nuclear medicine, oncology and general medicine purposes and for computer related equipment and to (ii) finance, legal, accounting, consulting and other administrative costs related to the leasing program. After the public hearing, the Minutes from the Meeting were sent to the Governor who approved the tax-exempt leasing program that was described in the public hearing.

Under the tax code, the approval of the Governor after a public hearing is valid with respect to the issuance of tax-exempt leases that are "issued" within three years of the date of the hearing and approval. At this point, Barnabas Health has requested that the Authority issue approximately $3,005,000 for a piece of equipment for its affiliate at Monmouth Medical Center. Since the previous TEFRA approval is no longer valid, it is necessary for the Authority to conduct a new public hearing for this equipment and provide the results of such hearing to the Governor for his approval of the issuance of the tax-exempt lease under the Master Leasing program. There are no changes to the Master Lease Agreement, the Sublease Agreement or any of the ancillary documents.

Since there are no changes to the documents or the leasing program, it is not necessary for the Board to take any action other than holding a public hearing to comply with the provisions of the Code in order to permit the lease in this instance to be issued on a tax-exempt basis. To date, including the new lease transaction, Barnabas Health has entered into leases totaling $34.8 million leaving approximately $35 million available for new leases.

Mr. Conroy asked if it was possible to anticipate the number of future transactions. Ms. Walton replied that she hoped Barnabas would put together a comprehensive list of planned purchases. Mr. Lovell asked if Barnabas now has the authorization for purchases for the next three years. Ms. Walton stated that the authorization only includes their previous equipment request and that, hopefully, next year they will provide their list for the three-year period.

Mr. Hopkins reminded the Members that this TEFRA was to comply with a technicality in the regulations and that no further action was necessary by the Authority.

Mr. Conroy then closed the public hearing in accordance with Section 147(f) of the Internal Revenue Code of 1986, as amended regarding the proposed financing on behalf of Barnabas Health.

## 4. EXPANSION OF THE FQHC LOAN PROGRAM

Mr. Conroy called upon Executive Director Mark Hopkins to present a proposal for expanding the Federally Qualified Health Center (FQHC) Loan Program.

Mr. Hopkins reminded the Members that the Authority created a direct loan program for start-up federally qualified health centers ("FQHCs") in July of 2009. An FQHC is a community-based health center designed to provide out-patient primary care, preventive care and some specialty care to medically underserved and low-income or indigent patients, thus relieving hospitals of the burden of seeing those low-acuity patients in their emergency rooms at commensurately higher costs. FQHCs must meet strict federal standards and receive funding from federal grants, charitable contributions and, sometimes, hospitals. Generally, ongoing funding for their services comes from Medicare and enhanced Medicaid reimbursement for treating patients.

Mr. Hopkins pointed out that lending to FQHCs is consistent with the Authority's mission "to ensure that all health care institutions have access to financial resources to improve the health and welfare of the citizens of the State." It is also consistent with the recommendations of the 2008 report from the New Jersey Commission on Rationalizing Health Care Resources, which identified FQHCs as a critical cog in preserving and improving New Jersey's health care system. This will also benefit the Authority's other borrowers and the New Jersey health care system as a whole because FQHCs provide important preventive care, reducing illness in low-income families, and provide primary care, replacing costlier hospital emergency rooms as the primary care providers to low-income families.

Mr. Hopkins stated that the first financing was for $2,000,000 from the Authority's fund balance to CHEMED in Lakewood. The Authority's governing body determined at the time of its creation, that the program would be a revolving pool, with loan repayments, including interest, to be made available for loans to other start-up FQHCs. The Authority has received over $1.5 million in loan repayments from CHEMED to date that are available for new loans. The Authority has been made aware that there will be no new start-up FQHCs in New Jersey for the foreseeable future. Therefore, it is seeking to expand the FQHC direct loan program to existing FQHCs that would like to expand.

Mr. Hopkins presented the proposed expanded FQHC direct loan program that would be set up similarly to the existing program for start-up FQHCs:

1. Loan repayments will not exceed ten years, depending on the project, amount and financial information provided by the borrower;
2. Interest rate will be set at a monthly variable interest rate of 200 basis points over the previous month's interest rate paid by the New Jersey Cash Management Fund;
3. Maximum loan amount will not exceed $2,000,000, based on availability of funds;
4. Security for the loan will be in the form of a first, parity or second mortgage and/or a first, parity or second lien on the gross revenues or accounts receivable of the FQHC; and
5. Principal and interest payments will be returned to the revolving pool of funds set aside for the FQHC direct loan program and made available for new qualifying loans.

New aspects of the expanded FQHC direct loan program are proposed as follows:

1. Up to an additional $1.5 million from the Authority's fund balance will be added to the revolving pool of funds set aside for the FQHC direct loan program, as demand requires;
2. A $250 non-refundable application fee payable to the Authority for its work evaluating the loan application;
3. A $250 closing fee payable to the Authority for due diligence and documenting the loan; and
4. A 75 basis point annual fee based on the outstanding balance of the loan payable to the Authority for monitoring the loan and processing requisitions of loan proceeds.

According to Mr. Hopkins, in order to initiate review of an application, the Authority would require the following of FQHCs applying to borrow through the FQHC direct loan program:

1. Detailed explanation of the purpose of the loan, including the requested amount and the specific use of loan proceeds;
2. Three most recent years of audited annual financial statements;
3. Quarterly unaudited financial statements for the stub period;
4. Utilization statistics for previous three years;

5. Current year's budget;
6. Proof of FQHC's Section 330 status and any licenses or permits required;
7. Copies of title, mortgage and/or lease for any property(ies) where the loan proceeds are expected to be used;
8. Proof that the applicant has submitted to the Department of Human Services, Division of Medical Assistance and Health Services (the "Division"), a change in scope of service application in accordance with N.J.A.C. 10:66-1.5(e)vi for any proposed expansion (if it is deemed that a change in scope of service application to the Division is necessary, no loan funds will be disbursed until an acknowledgment of receipt of a completed change in scope of service application by the Division);
9. Evidence that the FQHC has been in substantial compliance with all applicable State and federal requirements for at least one year prior to the request for the loan;
10. Proof that the applicant is currently in good standing under its letter of agreement with the Department of Health;
11. Three years of financial and utilization projections showing current trends without the expansion and WITH the expansion (may be shorter if the loan is for a shorter period);
12. Documentation from any existing loans or grants;
13. Curriculum vitae for key staff including the Chief Executive Officer, Chief Operating Officer (if any), Chief Medical Officer and Chief Financial Officer;
14. A list of the Board of Directors of the FQHC;
15. The FQHC's letter from the IRS indicating it is a 501(c)(3) organization; and
16. A $250 non-refundable application fee.

Mr. Hopkins concluded by stating that the Authority staff will ensure that the FQHC's application is complete and will do an initial vetting of the financing and utilization information, both retrospective and prospective. Staff will prepare a recommendation for Authority Members to consider at an Authority meeting along with all necessary loan documentation. The Authority Members will consider each loan individually. At the Authority meeting, to consider any loan, the Authority Members will be encouraged to ask questions of the management of the facility. Members should also ask Authority staff about the financial and utilization statistics of the FQHC and the likelihood of the success of the project before considering approval of any loan and authorizing an Authorized Officer of the Authority to execute and deliver any loan documents.

Mr. Hopkins stated that the interest rates on these loans will be very attractive to these companies because they operate on very thin profit margins.

Dr. Kazmir asked how many FQHC's are currently operating in New Jersey. Mr. Hopkins replied that there are approximately 20 companies that operating about 100 health centers. He then asked how many jobs would be created by this program. Mr. Hopkins said that he believes that, since the loans are for expanding a center's operations, it would mean hiring additional doctors, nurses and staff.

Ms. Charters expressed support for the program because it addresses the needs of underserved populations. She then asked if any companies have expressed interest in obtaining loans. Mr. Hopkins said that CHEMED wants to add obstetrics and gynecological services and Zufall Health Centers is planning to expand.

Mr. Conroy asked for a motion to approve the proposal. Dr. Kazmir made the motion. Mr. Lovell seconded. The vote was unanimous, and the motion carried.

**AB RESOLUTION NO. OO-38**

> **WHEREAS,** the Members of the Authority have reviewed the memorandum dated December 10, 2014 proposing an expansion of the FQHC Loan Program;
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> **NOW, THEREFORE, BE IT RESOLVED,** that the Members of the Authority hereby approve expanding the FQHC Loan Program as proposed.

## 5. AMENDMENT TO THE 2015 AUTHORITY BUDGET

Mr. Conroy asked Michael Ittleson to explain the reason for amending the 2015 Authority budget.

Mr. Ittleson reported that the Navigant study was not completed by November 15, 2014 as anticipated. As a result, the final payment to Navigant will be made in the 2015 budget year. Therefore, $40,769.00 from the 2014 budget must be carried over to 2015. This move will increase the 2014 revenues over expenditures by $40,769.00, while decreasing the 2015 figure by the same amount.

Mr. Conroy asked for a motion to approve the request. Dr. Kazmir made the motion. Mr. Lovell seconded. The vote was unanimous, and the motion carried.

**AB RESOLUTION NO. OO-39**

> **WHEREAS,** the Members of the Authority have reviewed the memorandum dated December 10, 2014 requesting an amendment of the 2015 Authority budget due to a carryover expense for the Navigant study;
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> **NOW, THEREFORE, BE IT RESOLVED,** that the Members of the Authority hereby approve amending the 2015 Authority budget Special Projects line item by $40.769.00, and authorize the necessary budget adjustments thereof .

## 6. APPROVAL OF EXPENSES

Mr. Conroy referenced a summary of Authority expenses and invoices provided to the Members. Dr. Kazmir offered a motion to approve the bills and to authorize their payment; Mr. Lovell seconded the motion. The vote was unanimous, and the motion carried.

### AB RESOLUTION NO. OO-40

**WHEREAS,** the Members of the Authority have reviewed the memoranda dated December 10, 2014 summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $29,080.00 and $578,894.40 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.

## 7. STAFF REPORTS

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

Mr. Conroy asked Executive Director Hopkins to present his Executive Director's report,

Mr. Hopkins presented the following items to Members:

1. New Jersey is in the top six states to improve its health over the last 25 years based on annual health rankings released by the United Health Foundation. The same study ranked New Jersey as the 11$^{th}$ healthiest state in the country in 2014. New Jersey was cited for its progress in smoking cessation, reduction in infant mortality, and lower cardiovascular deaths.

2. NJ Hospital & Health Care Organization News

    a. The New Jersey Hospital Association released its 2014 N.J. Hospitals Economic Impact Report earlier this month, which found that in 2013 hospitals contributed nearly $21 billion to the state economy and provided 144,000 full and part-time jobs.

b. The Center for State Health Policy at Rutgers released a report that identifies the importance of treating behavioral health conditions along with physical health conditions. Coordination of these treatments can significantly reduce avoidable hospitalizations.

c. The latest report card from The Leapfrog Group, a non-profit health care consumer education organization, ranked five New Jersey hospitals among its Top Hospitals in the country: Children's Specialized Hospital, Englewood Hospital and Medical Center, Hoboken University Medical Center, St. Barnabas Medical Center and Virtua Voorhees Hospital. A top hospital must rank in the top 7% of the 1200 eligible hospitals nationwide.

d. The U.S. Department of Health and Human Services found a 17% decline in preventable infections, drug errors and falls at hospitals from 2010 through 2013. The report estimates this has resulted in 50,000 fewer deaths and $12 billion in health care savings. Payment disincentives from the Affordable Care Act, public-private partnerships such as Partnership for Patients and administration efforts to share best practices were some of the reasons cited for the improvements. Additionally, the Medicare readmission rates have dropped 19% in 2011 to 17.5% in 2013, representing 150,000 fewer hospitalizations. New Jersey experienced similar declines by having 9,306 cases of "harm averted" saving between $102 to $125 million and hospital readmissions declined from 21.6% to 19.8%.

e. Additional articles are being provided on the State legislature's consideration of steps to counter-act the recent trend of a few hospitals going out-of-network with most or all major insurance carriers.

f. St. Francis Medical Center has been recognized as a 2013 Top Performer on Key Quality Measures for attaining and sustaining excellence in accountability measure performance for Heart Attack, Heart Failure, Pneumonia and Surgical Care by the Joint Commission, a leading accreditor of hospitals.

g. Virtua has received a recommendation for approval from the State Health Planning Board to convert its hospital in Berlin to an outpatient facility. Commissioner O'Dowd will be considering the recommendation and making a final decision on the application in the next few months. While there will no longer be inpatient services provided on the Berlin campus, emergency services will continue to be available as well as radiology and laboratory services and long-term care and rehabilitation services. 327 Virtua employees will remain at the Berlin campus and all other employees will be placed elsewhere in the Virtua system.

h. Both Fitch and Moody's have issued negative outlooks for the non-profit hospital sector for 2015. Uncertainties surrounding the continued implementation of the Affordable Care Act, value-based payment models, trends towards high-deductible health plans, other reimbursement pressures and dwindling patient volume were cited as factors.

i. Moody's has affirmed its A3 bond rating for $65.1 million of Authority debt issued on behalf of Kennedy Health System but has upgraded the financial outlook from stable to positive.

j. Moody's has also affirmed the Ba1 rating on $161 million in debt issued by the Authority on behalf of St. Peter's University Hospital. The outlook remains stable.

k. Standard & Poor's has lowered its rating of debt issued on behalf of Catholic Health Initiatives ("CHI") from A+ to A with an outlook of negative. CHI owns 105 hospitals in 18 states, including the St. Clare's Health System in New Jersey, which is currently under contract to be sold to Prime Healthcare Services, pending regulatory review. The Authority does not have any debt outstanding on behalf of CHI.

l. Two articles have been included on the recent increase in health care services being provided by ambulatory care centers rather than hospitals. This coincides with a decrease in hospital inpatient admissions.

m. Modern Healthcare reports that healthcare spending has accelerated as expected with the advent of subsidized healthcare plans and Medicaid expansion.

n. PBS News Hour questions whether we are facing a serious doctor shortage. Medical groups argue yes while economists believe there will not be a significant shortage, if any.

o. The Navigant Center for Healthcare Research and Policy Analysis identifies six key issues facing healthcare in 2015: (1) Uncertainty surrounding the implementation of the Affordable Care Act, including the Supreme Court's upcoming decision on whether subsidies are available to those who signed up for health insurance on the federal website instead of state websites; (2) increasing costs of healthcare causing employers to cost shift to employees to high deductible health plans which may cause margins to drop among providers; (3) consolidation of hospitals and hospitals with other healthcare providers including doctors, long-term care providers and insurers; (4) an emphasis on evidence-based necessary care so that patients are not unnecessarily over-treated or over-tested; (5) shifting from volume based payment structures to value based payments, bundled payments and penalties for unnecessary care; (6) patient-directed healthcare choices resulting from increased out-of-pocket costs to the patient.

p. An article is provided today which describes how changes in breast cancer treatments exposed a systemic problem in health care. Nearly ten years ago oncologists determined rather than treating a patient who had a lumpectomy with five to seven weeks of subsequent radiation treatments, three weeks of higher dosage radiation treatments were just as effective and less costly and time-consuming for patients. Despite these findings, the vast majority of radiation oncologists had not adopted the new recommended protocols. The article speculates that one cause may be the economic disincentive to radiation oncologists who are paid per treatment.

q. A Fierce Health Finance editorial places the blame for high hospital prices on deregulation citing New Jersey for an example.

r. An article from the Bangor Daily News (Maine) is included which argues that the Affordable Care Act is fueling the corporatization of American healthcare, citing hospital consolidations and hospital acquisitions of physician practices.

s. An article from NJ.com cites a Commonwealth Fund study that found about 40% of adults who had high-deductible health insurance delayed care because of costs.

t. An article from Governing Magazine acknowledges the increase in direct loans from banks, perhaps replacing municipal bonds.

u. Several articles are being provided on how the new congress might feel about the elimination of the tax-exemption for municipal bonds.

3 Authority News

a. Tracey Cameron, the Administrative Assistant for the Divisions of Project Management and Research, Investor Relations and Compliance, is celebrating her fifth anniversary with the Authority.

b. Lorraine Donahue, the Authority's Office Management Assistant, will be retiring from the Authority at the end of this month after more than 23 years at the Authority. Her wonderful attitude and personality will be sorely missed.

Mr. Hopkins concluded by thanking the Authority Members for all of their hard work this year. He also thanked the staff for their efforts on behalf of the Authority.

As there was no further business, following a motion by Dr. Kazmir and a second by Mr. Lovell, the Members voted unanimously to adjourn the meeting at 10: 39 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 DECEMBER 18, 2014.

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Carole A. Conover, Assistant Secretary