Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on July 24, 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; Mary Ann Kralik, Designee of the Commissioner of Banking & Insurance; and via telephone: Elisa Charters, Public Member; Dr. Munr Kazmir, Public Member; and Suzette Rodriguez, Public Member.

*The following **Authority staff members** were in attendance:*
Mark Hopkins, Steve Fillebrown, Ron Marmelstein, Suzanne Walton, Michael Ittleson, Carole Conover, Carl MacDonald, Bill McLaughlin, Debra Coons, Paige Piotrowski, Taryn Jauss, Jessica Lucas, Frank Troy, Edwin Fuentes, 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 and Adam Tamzcoke, Governor's Authorities Unit; Geri Ann Swenarton, Robert Wood Johnson University Hospital; Robert Nyman, CentraState Medical Center; Hak Kim, AtlantiCare Regional Medical Center; Kay Fern, Ponder & Co.; Christine Zuk, JNESCO; Andrew Kitchenman, NJ Spotlight; Dr. James T. Kostinas of David Kostinas & Associates; Chris McCann, JP Morgan Securities LLC; John Kelly, Wilentz, Goldman & Spitzer P.A.; Dorit Kressel, Wolff & Samson PC; Scott Kobler, McCarter & English; Gary Walsh, Windels Marx Lane & Mittendorf, LLP; and via telephone: Jerry Ostow, DeCotiis, Fitzpatrick & Cole, LLP.

CALL TO ORDER

Executive Director Mark Hopkins called the meeting to order at 10:01 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. Greg Lovell nominated Brian O'Neill to serve as Chair pro tem for the July 24, 2014 meeting and Dr. Kazmir seconded. Mr. O'Neill, Ms. Kralik, Mr. Lovell, Ms. Charters and Dr. Kazmir voted yes, and the motion carried.

AB RESOLUTION NO. OO-10

NOW, THEREFORE, BE IT RESOLVED, that, in the absence of the Authority's Chairperson, and as the Vice Chairperson was participating by phone, Brian O'Neill will serve as the chair pro tem for the July 24, 2014 Authority meeting.

1. **APPROVAL OF MINUTES**
   <u>June 26, 2014 Authority Meeting</u>

Minutes from the Authority's June 26, 2014 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Ms. Charters seconded. Mr. O'Neill, Ms. Kralik, Mr. Lovell, Ms. Charters and Dr. Kazmir voted yes, and the motion carried.

Ms. Rodriguez joined the meeting at 10:07 am.

2. **TEFRA HEARING & CONTINGENT BOND SALES**
   a. <u>CentraState Medical Center</u>

Mr. O'Neill 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 CentraState Medical Center and Robert Wood Johnson University Hospital. 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. Carl MacDonald introduced Robert Nyman, Assistant Vice President of Finance. Mr. MacDonald informed the Members that he would be requesting the approval of a contingent sale of bonds on behalf of CentraState Medical Center (the "Medical Center"), in an aggregate principal amount not to exceed $49,500,000. The proceeds of the Series 2014 Bonds, together with other funds, will be used by the Medical Center to provide funds to: (1) currently refund and redeem all or a portion of the Authority's outstanding CentraState Medical Center Series 1998 Bonds; (2) construct and equip a new information technology and data center and various other additions, expansions, renovations and capital improvements to the Medical Center's facilities; and (3) pay the related costs of issuance.

The Medical Center, a wholly-owned subsidiary of the CentraState Healthcare System (the "System"), is a 276 bed general acute care community hospital located in Freehold, NJ. The Medical Center provides a broad range of adult, pediatric and newborn acute care services as well as numerous outpatient, ambulatory and emergency care services and enjoys a leading market position in an affluent and high growth service area with an absence of any significant nearby inpatient competition. It has a history of strong admissions and favorable financial performance and represents approximately 86% of the System's total revenue.

The Series 2014 Bonds will be issued in three series, 2014A, 2014B and 2014C. The Series 2014A Bonds will be issued and sold on a direct purchase basis to Siemens Public, Inc., the proceeds of which will be used to currently refund and redeem the Medical Center's Series 1998 Bonds maturing on July 1, 2028. The Series 2014B Bonds will be issued and sold on a direct purchase basis to TD Bank, N.A., and the proceeds thereof will be used to currently refund and redeem the remainder of the Medical Center's outstanding Series 1998 Bonds, which mature on July 1, 2015 and July 1, 2018. The refunding of all of the outstanding Series 1998 Bonds through the issuance of the Series 2014A & B Bonds is expected to produce approximately $3.7 million in NPV savings for the Medical Center. The 2014C Bonds will be issued and sold on a direct purchase basis to TD Bank, N.A., the proceeds of which will be used for the construction and equipping of the new information technology and data center and other capital improvements to the Medical Center's facilities. Each Series of the Series 2014 Bonds will be secured by payments made by the Medical Center under a separate Loan Agreement with the Authority, as evidenced and secured by three separate Promissory Notes issued pursuant to the provisions of the Medical Center's Master Trust Indenture. The Medical Center is currently rated Baa1 by Moody's and it is not expected that this rating will change as a result of this issuance.

John Kelly of Wilentz, Goldman & Spitzer P.A., Bond Counsel, presented the Bond Resolution pertaining to this transaction.

BOND RESOLUTION

Mr. Kelly stated that the Bond Resolution authorizes the issuance of tax-exempt Series 2014 Bonds in three separate Series, Series 2014A, Series 2014B and Series 2014C, with an aggregate principal amount not in excess of $30 million for Series 2014A Bonds; an aggregate principal amount not in excess of $9 million for Series 2014B Bonds; and an aggregate principal amount not in excess of $10.5 million for Series 2014C Bonds. The Bond Resolution provides that the Series 2014A Bonds shall have a final maturity date of no later than July 1, 2028; the Series 2014B Bonds shall have a final maturity date of no later than July 1, 2018; and the Series 2014C Bonds shall have a final maturity date of no later than July 1, 2029. The Bond Resolution provides that each Series of the Series 2014 Bonds will bear interest at a fixed rate to maturity, provided that the true interest cost for each Series shall not exceed 4.00% per annum. The fixed interest rate for each Series of the Series 2014 Bonds will be determined at or shortly prior to closing. The initial fixed rate for the Series 2014B and Series 2014C Bonds only is subject to being increased or decreased based upon changes in the credit ratings of the Medical Center over the life of the applicable Bonds. Each Series of the Series 2014 Bonds will be subject to redemption prior to maturity as set forth therein and in the respective Trust Agreement pursuant to which such Series is issued, provided, that the redemption price cannot be greater than 105%, except in the case of any optional "make-whole" redemption of the Series 2014B Bonds.

The Series 2014 Bonds will be secured by payments made by CentraState Medical Center under three separate Loan Agreements with the Authority. The obligations of the Medical Center under each Loan Agreement with the Authority will be evidenced and secured by a separate Promissory Note issued by the Medical Center pursuant to the provisions of a Master Trust Indenture and by amounts on deposit in certain funds held by the Bond Trustee pursuant to each applicable Trust Agreement. The Bond Resolution also approves the form of and authorizes the execution of a separate Direct Bond Purchase Agreement with (i) Siemens Public, Inc., for the purchase of the Series 2014A Bonds, (ii) TD Bank, N.A., for the purchase of the Series 2014B Bonds, and (iii) TD Bank, N.A., for the purchase of the Series 2014C Bonds. Each Direct Bond Purchase Agreement must be executed prior to the close of business on October 22, 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 each purchaser of the Series 2014 Bonds to provide the Authority with a travelling investor letter on or prior to the date of closing.

Additionally, the Bond Resolution approves the form of and authorizes the execution and delivery of (i) the Series 2014A Bonds, the Series 2014B Bonds and the Series 2014C Bonds, (ii) a separate Trust Agreement for each Series of the Series 2014 Bonds, and (iii) a separate Loan

Agreement with the Medical Center for each Series of the Series 2014 Bonds. Further, the Bond Resolution appoints TD Bank, National Association, as Bond Trustee, Bond Registrar and Paying Agent for all three Series of the Series 2014 Bonds. In addition, the Bond Resolution also authorizes the Authorized Officers of the Authority to execute and deliver such other documents and to take such other action as may be necessary or appropriate to effectuate the execution and delivery of the Trust Agreements, the Loan Agreements, the Direct Bond Purchase Agreements and one or more Letters of Instructions relating to the refunding of the Series 1998 Bonds, the completion of the refunding, the financing of the new money projects and the issuance and sale of the Series 2014 Bonds.

Mr. O'Neill asked if any of the three series of bonds were taxable to which Mr. Kelly responded that all three were tax-exempt.

Mr. Nyman thanked the Board as well as the Authority staff for all their hard work on the transaction.

Mr. O'Neill asked if there were any questions or comments from the public. Hearing none, Mr. O'Neill asked the Members' pleasure with respect to the adoption of the Bond Resolution on behalf of CentraState Medical Center. Dr. Kazmir made a motion to approve the adoption of the Bond Resolution on behalf of CentraState Medical Center. Ms. Charters seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. OO-11

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 REFUNDING AND REVENUE BONDS, CENTRASTATE MEDICAL CENTER OBLIGATED GROUP ISSUE, SERIES 2014"

(attached)

b. **Robert Wood Johnson University Hospital**

Mr. Carl MacDonald introduced Geri Ann Swenarton, VP Finance. Mr. MacDonald informed the Members that he would be requesting approval of a contingent sale of bonds on behalf of Robert Wood Johnson University Hospital ("RWJUH" or the "Hospital") in two series, the Series 2014A Bonds, which will be fixed rate bonds, and the Series 2014B Bonds, which will be variable rate bonds, in an aggregate principal amount not to exceed $95 million.

Effective June 1, 2014, Robert Wood Johnson University Hospital ("RWJ" or the "Institution") merged with Somerset Medical Center, a 355-bed acute-care hospital located in Somerville, New Jersey and the former Somerset Medical Center is now an operating division of the Institution known as Robert Wood Johnson University Hospital Somerset. The proceeds of the Series 2014

Bonds will be loaned by the Authority to RWJ to provide funds to (i) repay loans made to RWJ, the proceeds of which were used by the Institution to pay for costs allocable to a portion of the health care facilities of the former Somerset Medical Center including, but not limited to, the acute care hospital facility, ancillary facilities to such acute care hospital facility and fixed and major moveable equipment located at the project location acquired in connection with the merger of Somerset Medical Center into the Institution; (ii) make a deposit to a debt service reserve fund, if necessary; and (iii) fund the related costs of issuance.

The Series 2014 Bonds will be secured by payments made by RWJUH under its Loan Agreements, as evidenced and secured by Notes issued under the Hospital's Master Trust Indenture and amounts on deposit in certain funds held by the Trustee pursuant to the Resolutions. The Notes will be secured by the Master Trust Indenture, which includes a gross receipts pledge. It is expected the Series 2014 Bonds will be rated "A2" by Moody's and "A" by Standard & Poor's. The variable rate Series 2014B Bonds will be secured by a TD Bank, N.A. Direct Pay Letter of Credit and remarketed by JP Morgan Securities.

Dorit Kressel, of Wolff & Samson PC, Bond Counsel, presented the Series Resolution pertaining to the Series 2014A Bonds, as well as the Bond Resolution pertaining to the Series 2014B Bonds.

SERIES RESOLUTION

Ms. Kressel stated that because the transaction involves both fixed rate and variable rate debt, Bond Counsel has prepared two separate resolutions: a Series Resolution authorizing the fixed rate debt, and a Bond Resolution authorizing the variable rate debt.

Ms. Kressel stated the Series Resolution authorizes the issuance of the Series 2014A Bonds in an aggregate principal amount which, together with the aggregate principal amount of the Series 2014B Bonds authorized pursuant to the Bond Resolution, will not exceed $95,000,000. The true interest cost of the Series 2014A Bonds will not exceed 6.50%. The Series 2014A Bonds will have a final maturity of no later than July 1, 2044, and the redemption price of the Series 2014A Bonds shall not exceed 105%. The Series Resolution approves the substantially final form of and authorizes the execution of a Bond Purchase Contact with J.P. Morgan Securities LLC, as Underwriter on behalf of itself and the other underwriters set forth in the Bond Purchase Contract, prior to the close of business on October 24, 2014.

In addition, the Series Resolution approves the distribution of a Preliminary Official Statement and final Official Statement, and approves the substantially final form of the Loan Agreement, with such changes as counsel may advise and the Authorized Officers executing the same may approve.

The Series Resolution appoints U.S. Bank National Association as the Trustee, Bond Registrar and Paying Agent for the Series 2014A Bonds and authorizes the Authorized Officers of the Authority to execute and deliver such other documents and to take such other action as may be necessary or appropriate to effectuate the execution and delivery of the Series 2014A Loan Agreement and Bond Purchase Contract and the issuance and sale of the Series 2014A Bonds.

BOND RESOLUTION

Ms. Kressel stated that the Bond Resolution authorizes the issuance of the Series 2014B Bonds in an aggregate principal amount which, together with the aggregate principal amount of the Series 2014A Bonds authorized pursuant to the Series Resolution, will not exceed $95,000,000. The Series 2014B Bonds shall mature no later than July 1, 2044. The Series 2014B Bonds shall bear interest initially at a variable rate as described in the Trust Agreement, provided that the interest rate initially shall not exceed 6.50% and thereafter shall not exceed 12.0%, and in no event shall the interest rate exceed the maximum rate permitted by applicable law. The redemption price of the Series 2014B Bonds, if any, shall not exceed 105%.

The Bond Resolution approves the substantially final form of and authorizes the execution of a Bond Purchase Contract by no later than October 24, 2014, for the purchase of the Series 2014B Bonds, with J.P. Morgan Securities, as Underwriter. In addition, the Bond Resolution approves the distribution of a Preliminary Official Statement and a final Official Statement relating to the Series 2014B Bonds.

The Bond Resolution also approves in substantially final form the Loan Agreement and Trust Agreement, with such changes as counsel may advise and the Authorized Officers executing the same may approve.

Finally, the Bond Resolution appoints U.S. Bank National Association as the Trustee, Bond Registrar and Paying Agent for the Series 2014B Bonds and authorizes the Authorized Officers of the Authority to appoint, at the request of the Borrower, a Remarketing Agent, if and at such time as doing so may be advisable or required pursuant to the Trust Agreement. The Resolution also authorizes the Authorized Officers of the Authority to execute and deliver such other documents and to take such other action as may be necessary or appropriate in order to effectuate the execution and delivery of the Trust Agreement and the Loan Agreement and the issuance and sale of the Series 2014B Bonds.

Mr. O'Neill asked if there were any questions or comments from the public. Hearing none, Mr. O'Neill asked the Members' pleasure with respect to the adoption of the Series Resolution on behalf of Robert Wood Johnson University Hospital. Dr. Kazmir made a motion to approve the adoption of the Series Resolution. Ms. Kralik seconded. Mr. O'Neill, Ms. Kralik, Mr. Lovell, Ms. Rodriguez and Dr. Kazmir voted yes, Ms. Charters abstained, and the motion carried.

AB RESOLUTION NO. OO-12

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Series Resolution entitled, "A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, ROBERT WOOD JOHNSON UNIVERSITY HOSPITAL ISSUE, SERIES 2014A"

(attached)

Mr. O'Neill asked the Members' pleasure with respect to the adoption of the Bond Resolution on behalf of Robert Wood Johnson University Hospital. Dr. Kazmir made a motion to approve the adoption of the Bond Resolution. Ms. Kralik seconded. Mr. O'Neill, Ms. Kralik, Mr. Lovell, Ms. Rodriguez and Dr. Kazmir voted yes, Ms. Charters abstained, and the motion carried.

AB RESOLUTION NO. OO-13

> **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, ROBERT WOOD JOHNSON UNIVERSITY HOSPITAL ISSUE, SERIES 2014B"

(attached)

Ms. Swenarton thanked the Board for approving the sale and giving Robert Wood Johnson the opportunity to realize a substantial savings, and she thanked the Authority staff for all their hard work on the transaction.

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

3. INFORMATIONAL PRESENTATION
AtlantiCare Regional Medical Center

Mr. Bill McLaughlin introduced Hak Kim, Assistant Vice President – Financial Planning.

Mr. McLaughlin advised Members that this was a two-fold presentation, an Informational Presentation concerning a proposed bond transaction for AtlantiCare Regional Medical Center ("AtlantiCare") and a summary of management's financial projections given by Steve Fillebrown.

Staff is in the process of structuring a transaction on behalf of the Atlantic City Regional Medical Center for the issuance of approximately $60,000,000 of tax-exempt bonds, through the use of a direct purchase structure. The proceeds of the proposed issue are expected to be used to: construct a new two story addition; construct three new operating rooms; renovate several areas of the facility including, the intensive care unit, the cardiovascular unit and operating rooms; reconfigure and expand the visitor parking lot; fund a debt service reserve, if necessary; and pay the related costs of issuance.

AtlantiCare Health System ("the System") is the sole member of AtlantiCare which operates two hospitals – one located in Atlantic City (the City Campus) and the other in Pomona (Mainland

Campus). AtlantiCare offers health care services to the residents of Atlantic, Cape May, Cumberland and southern Ocean Counties in southeastern New Jersey. Excluding bassinets, AtlantiCare has 571 licensed beds and employs over 3000 people. AtlantiCare is currently rated "A1/A+/A+" from Moody's, S&P and Fitch respectively.

The System and its affiliates have entered into a definitive agreement to become members of the Geisinger Health System Foundation ("Geisinger"). This merger is currently in the "regulatory approval phase," and is expected to be completed during the next nine to twelve months.

The annual financial information for AtlantiCare included in the meeting materials, indicates that Days Cash on Hand increased from 265.21 days in 2012 to 290.43 days in 2013 and remains materially stronger than the 2013 Statewide Median of 67.54 days. AtlantiCare's Operating Margin for the years 2012 and 2013 was positive at 3.24% and 4.83%, respectively. Debt Service Coverage Ratio and the Cushion ratio at year end 2013 were very strong at 6.60 times and 27.28 times respectively. Days in Accounts Receivable are well managed at 35.49 days versus the statewide median of 41.57 days and full time employees per adjusted occupied bed were 5.28 versus a statewide median of 5.57.

AtlantiCare's Annual Inpatient Utilization Trends for the period 2011 to 2013 were positive; showing consistent levels in inpatient admissions and occupancy rate. While both average length of stay and inpatient days were downward trending.

Results for the period ending March 31, 2014 indicate continued strong performance by AtlantiCare with increases in cash and net patient revenues.

AtlantiCare has solicited proposals from firms that have expressed an interest in purchasing the bonds, including TD Bank, Wells Fargo, PNC and Bank of America. Following a thorough review of the proposals, AtlantiCare will select a Purchaser based on price, financial strength of the institution, diversification of credit risk and market knowledge.

Mr. McLaughlin reminded the Members that the Informational Presentation required no action and introduced Mr. Steve Fillebrown to review the Financial Projections, which were included in the mailing materials.

Mr. Steve Fillebrown then summarized Management's financial projections and noted that the forecast period is 2013-2018 with proceeds not completely spent until 2017.

Mr. Fillebrown reported that the projections show:

- Positive, stable operating margins ranging from 3.7% to 3.8%
- Strong profit margins from 6.9% to 7.8% (slightly lower than recent historical performance)
- Cash on hand ranges from 280 days to well over 300 days. Consistent with strong margins and use of debt to finance a significant part of this project.
- Days in accounts payables are stable in the mid 40's, well below statewide median of about 60 days
- Receivables are constant at about 35 days, slightly below statewide median

- DSCR is over 6 times
- New borrowing puts debt to revenue slightly above the statewide median at first (36% versus 31%) but by end of forecast period the number is very close to the statewide median

Mr. Fillebrown stated that the projections predict solid financial results consistent with the hospital's recent performance.

He outlined the key assumptions include:

- Volume
  - Inpatient admissions – Projected to decline about .5% annually (cardiology and medicine down 1%, other services flat). Recent historical performance – 2013 up very slightly, first quarter 2014 was down 2.9%.
  - Length of stay flat at 4.46 days.
  - Outpatient volume is projected to remain flat.
- Expenses
  - Salaries are budgeted for a 2% increase per year. However, because of attrition, changes in skill mix and a leveling off of physician acquisitions, the total salary expense increases by only .1 to 1.9% per year.
  - Fringe benefits are constant at about 29% of salaries.
  - Other expenses are subject to 3-5% inflation. However, because of decline in volume and expense reduction efforts related to clinical effectiveness (e.g., use of clinical pathways and reducing variations in care), total expenses will rise by less than 1% per year.
- Revenues
  - NPSR rises by less than 1% per year. Modest increases in rates are offset by volume decline, reductions in DSH payments and loss of meaningful use funds.
  - No change in payer mix.

Brian O'Neill asked about the admission volume and how it equates to how admissions have been going over the last few years. Mr. Kim stated that in regards to volume, they have had strong growth over the last 10 years. They are anticipating, based on some measures they are putting in place as it relates to accountable care and population health, a reduction in unnecessary admissions to their facility. With readmissions volume on the decline, they anticipate backfilling some of those admissions with some growth strategies, reducing out migration and physician acquisitions.

Mr. O'Neill also asked about their aggressive measures to reduce costs. Mr. Kim explained that they have looked at cost structure compared to other facilities in the State, and in discussing the potential merger with Geisinger, they have opportunities to help streamline processes, reduce surgical supply costs as well as reduce some unnecessary staffing.

Mr. O'Neill reminded the Members that the presentation was for informational purposes only and no action needed to be taken.

4. NEGOTIATED SALE REQUEST
Barnabas Health

Mr. Mark Hopkins informed the Members that Barnabas Health ("Barnabas") has signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing of approximately $164 million, the proceeds of which are expected to be used to refinance the outstanding debt of the recently acquired Jersey City Medical Center as well as finance certain minor capital budget projects on that campus.

Barnabas Health is the largest multi-hospital system in New Jersey. The System consists of seven free-standing acute care hospitals: Clara Maas Medical Center in Belleville; Community Medical Center in Toms River; Jersey City Medical Center in Jersey City; Monmouth Medical Center – Southern Campus in Lakewood; Monmouth Medical Center in Long Branch; Newark Beth Israel Medical Center in Newark; and Saint Barnabas Medical Center in Livingston; and two children's hospitals: The Children's Hospital at Monmouth Medical Center and The Children's Hospital of New Jersey at Newark Beth Israel Medical Center. Additionally, Barnabas has a psychiatric hospital, two home health-care and hospice programs, two comprehensive ambulatory care facilities and three psychiatric emergency screening and behavioral health centers.

Barnabas has been one of the most active users of the Authority's financing services, completing over twenty financings with an aggregate principal amount of approximately $2 billion. Most recently, Barnabas completed its $106 million Series 2012A during November 2012. Currently, Barnabas has approximately $679 million of Authority issued debt outstanding, comprised of over $662 million in bonds and over $16 million under its master lease program.

Annual audited financial statements for 2013 indicate that Barnabas had an excess of revenues over expenses of $175.7 million compared to $174.1 million for the same period of 2012. Barnabas has 2,999 licensed beds and employs over 18,500 people. Barnabas is currently rated "Baa1/BBB+/BBB+" from Moody's, S&P and Fitch respectively. For year-end 2013, Barnabas had over 148 days cash on hand, an operating margin of 5.52% and debt service coverage of 3.38 times.

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.

Barnabas asked that the Authority permit the use of a negotiated sale based on: Volatile market conditions and large issue size. These reasons are considered under the Authority's policy regarding Executive Order #26, to be a justification for the use of a negotiated sale.

Mr. Hopkins recommended the consideration of the resolution included in the meeting materials approving the use of a negotiated sale and forwarding a copy of the justification in support of said resolution to the State Treasurer.

Mr. O'Neill asked the Members' pleasure with respect to the adoption of the Resolution supporting the issuance of bonds by negotiated sale pursuant to Executive Order #26 on behalf of Barnabas Health. Dr. Kazmir offered a motion to adopt the resolution; Mr. Lovell seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. OO-14

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

(attached)

5. ADOPTION OF POST ISSUANCE TAX COMPLIANCE PROCEDURES

Ms. Taryn Jauss introduced M. Jeremy Ostow, Esq. of DeCotiis, Fitzpatrick & Cole, LLP, joining the meeting by phone, who assisted staff in the preparation of the procedures.

Ms. Jauss reported that in 2013, the Internal Revenue Service issued Publication 5091, Voluntary Compliance for Tax-Exempt and Tax Credit Bonds. This publication contains, among other things, a summary of considerations relating to policies and procedures concerning general post-issuance compliance, arbitrage requirements, record retention requirements, and timely identification and correction of tax violations.

It is the Authority's current policy that each Borrower is responsible for adopting and implementing post-issuance compliance procedures with respect to the Authority's Bonds issued. However, with the release of this IRS publication, Staff believes that the Authority should adopt written procedures for post-issuance tax compliance.

In order to comply with the recent federal tax rules the Authority, with the advice of Mr. Ostow, has developed written procedures for post-issuance tax compliance to preserve the tax-exempt status of the Bonds and any Refunding Bonds by establishing procedures for: (1) identifying uses that may constitute private use; (2) managing and tracking changes in use, (3) accomplishing remedial action when necessary; and (4) ensuring compliance with the arbitrage requirements of the Internal Revenue Code of 1986.

Staff requested the Board's adoption of a Resolution which authorizes the adoption of the Post-Issuance Tax Compliance Procedures and authorizes the Executive Director or Deputy Executive Director (the "Authorized Officer") to develop and amend the Procedures from time to time, in consultation with bond counsel and the State Attorney General. The Procedures shall be substantially in the form of <u>Exhibit A</u> attached to the Resolution with such changes, additions or omissions as the Authorized Officer, in consultation with Bond Counsel and the State Attorney General, determines is necessary or appropriate.

The Resolution also authorizes an Authorized Officer of the Authority to appoint a Tax Compliance Officer who shall have primary responsibility to carry out the Procedures.

Dr. Kazmir offered a motion to adopt the resolution with regard to post issuance tax compliance procedures; Ms. Charters seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. OO-15

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby adopts the resolution entitled "RESOLUTION AUTHORIZING THE ADOPTION OF POST ISSUANCE TAX COMPLIANCE PROCEDURES, DESIGNATION OF A TAX COMPLIANCE OFFICER AND OTHER MATTERS WITH RESPECT TO CONDUIT BONDS OF THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY.

(attached)

6. ADOPTION OF RESOLUTION AUTHORIZING THE EXECUTION OF DOCUMENTS IN CONNECTION WITH THE DEFEASANCE OF A PORTION OF THE ST. MARY'S HOSPITAL BONDS, SERIES 2007-1

Mr. Hopkins reported to the Members that St. Mary's Hospital in Passaic ("St. Mary's") has entered into an Asset Purchase Agreement with Prime Healthcare Services ("Prime"). The Certificate of Need for the transaction was approved by the Commissioner of Health on June 13, 2014. The court hearing to consider the transaction pursuant to the Community Healthcare Assets Protection Act was yesterday, and the court approved the transaction. St. Mary's and Prime are hoping to close the transaction in mid to late August.

In April of 2007, the New Jersey Health Care Facilities Financing Authority (the "Authority") issued $45,425,000 of bonds on behalf of St. Mary's of which $27,925,000 were tax-exempt and $17,500,000 were taxable. As of June 30, 2014, all the tax-exempt bonds remained outstanding and $7,395,000 of the taxable bonds remained outstanding, for a total of $35,320,000 outstanding.

Pursuant to the Authority's Hospital Asset Transformation Program, the bonds were backed by a contract with the Treasurer of the State of New Jersey to pay principal and interest on the bonds when due, subject to appropriation by the legislature. The Authority entered into a Loan Agreement requiring, *inter alia*, that an amount equal to the principal and interest on the bonds be paid to the Authority by St. Mary's. This agreement was amended in 2010 as a result of St. Mary's bankruptcy which permitted lower payments over a longer period of time, in order to make the total payments equal to the original amount. The hospital also provided the Master Trustee with a Mortgage to secure the Loan Agreement.

Prime has agreed to pay St. Mary's $15 million for the hospital, which will be paid to the Authority. In order to maintain the tax-exempt status of the bonds that will remain outstanding, the Authority must use the $15 million received from Prime to defease an equal portion of bonds. Upon receipt of the $15 million payment, the Authority plans to deposit the funds into an escrow account that will be used to defease the tax-exempt bonds pro rata by maturity.

The resolution under consideration today is to authorize the actions necessary to prevent the tax-exempt bonds from becoming taxable. A draft was provided to Authority Members in their meeting packets. The draft was amended once after distribution to include section 4 which authorizes the Authority to appoint a Verification Agent, pursuant to a competitive RFP process and in consultation with the State Treasurer, provided that the verification agent's fee shall not exceed $12,000. In order for the sale to proceed, the Authority will need to terminate the Loan Agreement, engage a Verification Agent to issue a Verification Report on the defeasance, issue an Arbitrage and Tax Certificate and provide a Letter of Instructions to the Bond Trustee. The final resolution distributed today declares the remaining bonds government bonds, authorizes and directs an Authorized Officer of the Authority to execute the attached drafts of the Termination of Loan Agreement, Letter of Instructions, Tax Certificate, take remedial actions, appoint a Verification Agent as well as take such other incidental actions as are necessary and appropriate to effectuate the remedial actions.

Ms. Charters offered a motion to adopt the resolution authorizing the Execution of documents in connection with the defeasance of a portion of the St. Mary's Hospital Bonds, Series 2007-1 and to declare the Series 2007-1 bonds that will remain outstanding as government bonds. Ms. Rodriguez seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. OO-16

NOW, THERFORE, BE IT RESOLVED, that the Authority hereby adopts the resolution entitled "RESOLUTION AUTHORIZING THE EXECUTION OF DOCUMENTS IN CONNECTION WITH THE DEFEASANCE OF A PORTION OF THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY STATE CONTRACT BONDS HOSPITAL ASSET TRANSFORMATION PROGRAM – ST. MARY'S HOSPITAL, PASSAIC, N.J. ISSUE, SERIES 2007-1 AND MATTERS RELATED TO THE TAX STATUS OF THE PORTION OF SUCH BONDS TO REMAIN OUTSTANDING".

(attached)

7. 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; Ms. Rodriguez seconded. The vote was unanimous, and the motion carried.

AB RESOLUTION NO. OO-17

WHEREAS, the members of the Authority have reviewed the memoranda dated July 16, 2014, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $46,995.50 and $3,179.47 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.

8. STAFF REPORTS

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

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

1. The Commissioner of the Department of Health issued her recommendations to the Governor on transparency of hospital financial information. Several articles on the subject have been provided. To summarize the report, hospitals will be asked to (i) provide their annual audited financial statements on their websites within 180 days of their fiscal year end, including a breakdown of each New Jersey hospital, if part of a multi-hospital system; (ii) provide the Department with their quarterly unaudited financial statements within 45 days of the end of each quarter and post them on their websites within 60 days of the end of the quarter; (iii) provide information to patients on which health insurers the hospital is in-network with; (iv) provide notice to the Department before entering into any sale-leaseback agreement and reporting any such agreement to the public at the hospital's next public meeting; and (v) provide the Department with the names of investors holding 5% or more of the hospital, in addition to the names of hospital board members. The report also notes that further work needs to be done with stakeholders to create a standardized disclosure of transactions with related parties and recommends the creation of a working group to strengthen hospital board accountability. The Commissioner did not recommend additional disclosure related to compensation of board members, officers and highly compensated employees or payments to the highest paid independent contractors because, in light of the information already being collected and the

additional information recommended to be collected, the information would not be helpful to the Department for maintaining access to quality health care services where needed and would add an undue burden on hospitals. The Commissioner also noted that requests from advocates for disclosure of statements of functional expenses and hospital charges were redundant as the Department already collects and makes public cost reports containing similar information to the statement of functional expenses and hospital charges will be required to be disclosed October 1, 2014 as a result of recent changes to federal regulations. The Commissioner further noted that the Department recently launched a webpage on the Department's website that provided a central location for the public to access information on hospitals. The Authority assisted the Commissioner by moderating a conference of stakeholders in late May and summarizing the input from the stakeholders as well as providing input on the recommendations.

2. NJ Hospital & Health Care Organization News

a. 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.

b. Several New Jersey hospitals have received rankings from U.S. News & World Report as best hospitals in the NY metro area, the best hospitals in New Jersey and top 50 or high performing hospitals in the country. Hackensack University Medical Center ranked as the best hospital in New Jersey and ranked fourth in the New York metro area, with Morristown Medical Center ranking second in New Jersey and fifth in the New York metro area and Robert Wood Johnson University Hospital in New Brunswick tied for third in New Jersey and 10th in the New York metro area. AtlantiCare Regional Medical Center in Atlantic City also tied for third in New Jersey followed by Kessler Institute for Rehabilitation fifth, St. Peter's University Hospital sixth, Holy Name Medical Center seventh, Jersey Shore University Medical Center and St. Joseph's Regional Medical Center tied for eighth and Newark Beth Israel Medical Center rounded out the top ten. Several New Jersey hospitals were in the top 50 hospitals nationwide for specialties, including Hackensack, which was in the top 50 for eleven specialties, and Morristown, which was in the top 50 for five specialties. In the top 50 for a single specialty each were Robert Wood Johnson for cancer, AtlantiCare for neurology and Kessler for rehabilitation, which ranked second for rehabilitation in the country. Numerous New Jersey hospitals were recognized as "high performing" in specialties. U.S. News & World Report is one of several publications ranking or evaluating hospital performance, such as Becker's, Consumer Reports, CMS' Hospital Compare, Healthgrades, Leapfrog and Truven as well as the New Jersey Department of Health's Hospital Report Card.

c. An article has been provided on the Authority's selection of Navigant Consulting as the consultant to evaluate the delivery of health care services in the Newark area. The Authority and the Department of Health held a kickoff meeting with Navigant's team last Friday. Navigant has already reached out to the hospitals and FQHCs in the Newark area to request information and set up meetings and site visits.

d. Several articles have been provided about Meadowlands Hospital which recently announced a layoff of approximately 20% of its staff and has been the subject of much criticism from the union representing its employees.

e. Three articles are being provided today on the restructuring of University Hospital, one year after becoming an independent instrumentality of the State as a result of the University of Medicine and Dentistry of New Jersey being incorporated into Rutgers University and Rowan University.

f. Hospitals have announced the following personnel changes:

(i) Joseph Lemaire has been named the Executive Vice President of Finance at Meridian Health. Mr. Lemaire was previously CFO at Holy Name Medical Center and prior to that worked at Accenture.

(ii) Holy Name Medical Center has announced that it is promoting Ryan Kennedy to Vice President and Chief Financial Officer. Mr. Kennedy was previously promoted to Assistant Vice President of Financial Services from Director of Budget and Reimbursement at Holy Name.

(iii) Domenic Segalla has been named CFO of Jersey City Medical Center. Mr. Segalla was previously CFO of Newark Beth Israel Medical Center.

(iv) Doug Zehner has been named CFO of Newark Beth Israel Medical Center.

(v) Tom Baldosaro has been promoted to Executive Vice President and CFO of Inspira Health Network. He was most recently Inspira's Vice President of Finance and prior to that Controller. He replaces John DiAngelo who was promoted to CEO of Inspira early this year.

g. Several other articles are being provided today, including other awards received by New Jersey hospitals, concerns about patients being charged hospital facilities fees when visiting doctors' offices and changes resulting from the Affordable Care Act.

3. Authority News

a. I am pleased to introduce Frank Troy who started in the position of Assistant Director of the Division of Research, Investor Relations and Compliance on July 9th. Frank is a Certified Public Accountant and has a Master's in Business Administration. He most recently worked at Pocono Health System as Accounting Manager. Previously he was Chief Financial Officer at Cadbury Senior Services, Vice President of Planning & Finance at New Life Management and Development and Manager of Risk and Advisory Services at KPMG. He was also the Controller at Franciscan Oaks and General Hospital Center at Passaic as well as Director of Budget and Reimbursement at St. Clare's Hospital Dover Campus and Internal Auditor/ Budget Accountant at Warren Hospital.

b. I am also pleased to introduce Chris Kniesler who will be joining the Authority next Monday as our Communications Specialist. Chris has a Master of Arts in Politics and a Bachelor of Arts in American Government. He was most recently the Executive Director of Solutions for New Jersey, a public policy think tank. He was also the Executive Officer of the

Shore Builders Association, Director of Government Relations at the New Jersey School Boards Association and Deputy Director of the Division of Motor Vehicles.

As there was no further business to be addressed, following a motion by Mr. Lovell and a second by Dr. Kazmir, the Members voted unanimously to adjourn the meeting at 10:55 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 July 24, 2014.

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Carole A. Conover, Assistant Secretary