Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on September 18, 2014 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

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

*The following **Authority staff members** were in attendance:*
Mark Hopkins, Steve Fillebrown, Suzanne Walton, Ron Marmelstein, Michael Ittleson, Carole Conover, Carl MacDonald, Bill McLaughlin, Debra Coons, 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; Michael Collins, Governor's Authority Unit; Mark Salimena, Optimal Capital Group; Gail Kosyla, Hunterdon Medical Center; Scott Kobler, McCarter & English; Bob Bahara, Echo Financial Services.

CALL TO ORDER

Vice Chair Elisa Charters called the meeting to order at 10:03 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 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.

1. APPROVAL OF MINUTES
August 28, 2014 Authority Meeting

Minutes from the Authority's August 28, 2014 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Mr. Lovell seconded. Mr. Lovell, Ms. Charters, Dr. Kazmir voted yes with Mr. O'Neill and Ms. Kralik abstaining. Because the August meeting was attended by six Members, the minutes require four votes for approval. The votes recorded will carry over and the minutes will be presented for approval at the following meeting.

2. BOND SALE REPORT
Robert Wood Johnson University Hospital

Ms. Charters asked for an update on the bond sale for Robert Wood Johnson University Hospital.

Suzanne Walton provided the Members with an update on the Robert Wood Johnson University Hospital bond sale. On Wednesday September 10, 2014, the Authority closed on an $85,925,000 issuance of Bonds on behalf of RWJUH. The proceeds of the bonds were used primarily to repay loans made to RWJ to retire Somerset Medical Center's Series 2003 and 2008 Bonds tied to their recent merger with RWJUH. The bonds were comprised of two series – a Fixed Rate series approximating $55 million and a $30 million variable rate series. JPMorgan served as Senior Manager on the fixed rate bonds and sole book runner on the variable rate bonds. The pricing for the Fixed Rate bonds took place on August 25 and two weeks later on September 9th, staff set the weekly interest rate for the Variable Rate Bonds.

To market the deals, RWJUH hosted an investor presentation on Thursday, August 21st, two business days in advance of the fixed rate pricing – 14 firms dialed into the live call and an additional 12 firms listened to the recorded presentation. The following Monday we entered the market with the tax-exempt fixed rate bonds. The transaction was structured with three serial bonds from 2032 to 2034 and two term bonds in 2039 and 2043. All the maturities carried a 5% coupon. The issue received strong investor demand, allowing JPMorgan's desk, to tighten yields across the curve. The $22 million long-term bond in 2043 ultimately priced at a yield of 3.76%. JPMorgan asserted and later confirmed that the transaction had the tightest spread for an A-rated deal (64 bpts spread to MMD on the term bonds) since the financial crisis in 2008. As a point of comparison, we had been seeing 80 to 85 bpts spread on a generic A-rated transactions.

On Tuesday afternoon, September 9th, RWJUH entered the market with the Series 2014B tax-exempt variable rate bonds. The $30 million issue was rated Aa1/VMIG 1 and AA-/A-1 by Moody's and S&P respectively based on the combined strength of a letter of credit provided by TD Bank and the Obligated Group. The initial rate was set at 0.03%, which was 1 bpt below the anticipated SIFMA rate and in line with RWJ's Series 2013 variable rate bonds.

The All-In TIC on the fixed rate bonds with a premium structure of 5% was 4.36%; however, when you factor in the variable rate bonds with an interest rate of 0.033%, the all-in TIC was 3.94.

Ms. Charters reminded the Members that no action needed to be taken and asked if there were any questions. There were none.

3. NEGOTIATED SALE REQUEST & INFORMATIONAL PRESENTATION <u>Hunterdon Medical Center</u>

Ms. Charters announced that Hunterdon Medical Center has requested a negotiated sale. Ms. Charters asked Executive Director Mark Hopkins to present the request to the Members.

Mr. Hopkins reported that this presentation serves as both a request for a negotiated sale and as an informational overview of the proposed transaction. Mr. Hopkins then introduced Gail Kosyla, Chief Financial Officer of Hunterdon Medical Center. The Medical Center has signed a Memorandum of Understanding with the Authority to undertake a tax-exempt public issuance of approximately $39.0 million, the proceeds of which will be used to advance refund the 2006A and 2006B bonds issued by the Authority on behalf of the Hospital and pay the related costs of issuance. Specifically, Hunterdon Medical Center plans to advance refund its $16.070 million term bond, due on July 1, 2035 (5.125%); and its $5.455 million term bond due on July 1, 2025 (5.25%) of 2006A bonds; as well as its $10.135 million term bond, due on July 1, 2036 (5.00%); its $3.260 million term bond due on July 1, 2026 (5.00%); and its $2.945 million of serial bonds due from July 1, 2025 [correction: should have read 2015] (4.50%) through July 1, 2020 (5.00%) of 2006B Bonds. The sum of the bonds being refunded is $37,865 million.

Hunterdon is a not-for-profit 178-bed acute care medical center located in Flemington, New Jersey that provides inpatient, outpatient and emergency care services for the residents of Hunterdon County and surrounding areas. The Medical Center is an affiliated member of the Hunterdon Healthcare System, Inc. The System is also the controlling entity for Hunterdon Medical Center Foundation, Inc.; Hunterdon Regional Community Health, Inc. and Mid-Jersey Health Corporation, a for-profit entity.

Hunterdon issued debt through the Authority in 1990, 1994, 2006, 2009 and 2014 totaling $96,826,000 of which approximately $69,095,000 million remains outstanding. The Medical Center maintains a rating of “A-” from Standard and Poor’s and “A” from Fitch.

The annual financial information for the Medical Center presented in the mailed materials, indicates that Days Cash on Hand increased from 153.59 days for 2012 to 161.68 days for 2013. The Days Cash on Hand position remains stronger than the 2013 Statewide Median of 67.55 days. The Hospital’s Operating Margin for 2013 was at 0.06, a decrease from 3.82 in 2012, below the 2013 Statewide Median of 2.18%. The Hospital has attributed this decrease in operating margin to lower admissions and outpatient volume. This has improved substantially in 2014; operating margin through August 2014 is at 1.8%, or $3.2 million. The Hospital’s volume has improved over the trend in the latter part of 2013, and a significant change to the Hospital’s pension plan has lowered benefit expenses significantly. Debt Service Coverage is solid at 5.35 times as was the Cushion Ratio at 28.05 times for 2013. Days in Accounts Receivable were 48.20 days versus the statewide median of 44.06 days and FTE’s per adjusted occupied bed were 6.84 FTE’s versus a statewide median of 5.57.

The Medical Center’s Annual Inpatient Utilization Trends for the period 2011 to 2013 are stable, showing no material deviation in admissions and inpatient days. Length of stay has increased modestly and the occupancy rate on licensed beds has risen slightly. Utilization statistics derived from interim financials indicating six-month performance are consistent with year-end 2013 results.

Hunterdon has asked that the Authority permit the use of a negotiated sale based on a: (1) Sale of a complex credit; and (2) volatile market conditions. These reasons are considered under the Authority’s policy regarding Executive Order #26, to be a justification for the use of a negotiated sale. Therefore, staff recommends the consideration of the resolution, included in the meeting materials, approving the use of a negotiated public offering and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Hopkins and Ms. Koysla then offered to answer any questions from the Members.

Mr. O’Neill asked Ms. Koysla is she could explain the decline in volume and revenue between 2012 and 2013. Ms. Koysla replied that they had an influx of high deductible insurance plans in their area and that they are working to restructure their pricing by looking at employer plans in the area as well as their own plan.

Ms. Charters asked the Members' pleasure with respect to the adoption of the Resolution supporting the issuance of revenue bonds by negotiated transaction pursuant to Executive Order #26 on behalf of Hunterdon Medical Center. Dr. Kazmir offered a motion to adopt the resolution; Mr. O’Neill seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. OO-23

> **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.”

4. EXTENSION OF CONTRACT FOR THE CAPITAL ASSET PROGRAM ADMINISTRATOR

Marji McAvoy informed the Members that the contract for the Program Administrator of the Capital Assets Program is due to expire. Ms. McAvoy then introduced Mark Salimena, Managing Director of Optimal Capital Group to answer any questions from the Members

Consistent with the Authority’s practice of conducting a competitive process for awarding the contract for the program administrator of the Capital Asset Program (“CAP”), Series A-D, a Request for Proposals process was undertaken in July 2012. The process included the distribution of an information package that included a description of the Authority, general conditions, general maintenance specifications, methodology to be used in analyzing the proposals and a form of contract/agreement for program administrator. The packet was sent to all firms that had previously expressed an interest in serving as the Authority’s CAP program administrator. In addition, legal advertisements were placed in The Bond Buyer and packets were sent to those firms expressing interest in the position.

At the September 27, 2012 Authority meeting, the Members, upon staff’s recommendation appointed Optimal Capital Group, LLC (“Optimal”) as program administrator for the CAP for a two-year period, with the right to extend the term for three (3) one-year periods. The original two-year contract for program administrator for the CAP will expire on November 30, 2014. Article III, Section B of the contract states “the Authority and Optimal reserve the right to extend the terms of this Agreement for a maximum of three (3) additional one-year periods.” In addition, it states, “in the event the Agreement is extended, all of the original terms will remain in effect for the extended period.”

Staff is now asking the Authority's consideration of appointing Optimal Capital Group for the first year of the possible three (3) one-year extensions that would be effective for the period December 1, 2014 through November 30, 2015. Authority staff is very pleased with Optimal's performance under the current contract.

Staff recommends that the Authority approve the appointment of Optimal Capital Group for the first year of the possible three (3) one-year extensions that would be effective from December 1, 2014 through November 30, 2015.

Ms. Charters asked if the Members had any questions regarding the contract extension. There were none.

Ms. Charters then asked the Members' pleasure with respect to the adoption of the Resolution approving the first of three possible one-year contract extensions for Optimal Capital Group to serve as Program Administrator for the Capital Assets Program. Dr. Kazmir offered a motion to adopt the resolution. Mr. O'Neill seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. OO-24

> **NOW, THERFORE, BE IT RESOLVED,** that the Authority hereby approves the first of three possible one-year contract extensions for Optimal Capital Group, LLC to serve as the Capital Asset Program Administrator, as recommended by Authority staff.

5. APPROVAL OF EXPENSES

Ms. Charters 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-25

> **WHEREAS,** the Members of the Authority have reviewed the memoranda dated September 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 $29,287.00 and $29,475.03 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.

6. **STAFF REPORTS**

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

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

1. Commissioner O'Dowd will be speaking at the New Jersey Hospital Association retreat on Friday, including a discussion about her recent recommendation to the Governor on hospital transparency.

2. The Energy Resilience Bank has proposed $65 million in grants and loans for keeping water and wastewater treatment plants running in the event of a storm like Superstorm Sandy. A second round of funding is currently being considered for hospitals and long-term care facilities. Two articles are included on the subject. An article is also included about the struggles hospital experienced during the storm.

3. Nine Authority staff members will be attending The Bond Buyer's Health and Higher Education Super Conference in New York on October 27th & 28th. Authority Members have also been invited to attend. Please let me know if you are interested before September 25th so we can get the discounted rate.

4. Steve Fillebrown attended the Fall Conference of the National Association of Health and Educational Facilities Finance Authorities last week in Big Sky, Montana. Steve, please give the Authority Members a brief overview of the conference.

    a. Mr. Fillebrown reported that the conference had about 100 attendees: mostly member agency staff, and some underwriters, financial advisors and bond counsel firms. Mr. Fillebrown then read a list of the presentations to the Members and informed them that they could view all of the sessions at the Association website: www.naheffa.com.

       Mr. Fillebrown then provided the details of a few key sessions, focusing on legislation and regulations.

       Mr. Fillebrown deferred to Executive Director Hopkins for more details on the SEC's Municipalities Continuing Disclosure Cooperation Initiative and the High Quality Liquid Assets regulations.

5. NJ Hospital & Health Care Organization News

    a. Palisades Medical Center has signed a letter of intent to become a full member of Hackensack University Health Network. The two entities have been affiliated since June of 2012, but this will be a more formal member arrangement. Palisades will become known as Hackensack UMC Palisades. Over the next several months, the parties expect they will work out a definitive agreement and apply for any necessary regulatory approvals from the Department of Health and the Attorney General's Office.

    b. 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.

    c. Lourdes Health System has opened an urgent care center in Cherry Hill, continuing a trend of hospitals expanding into the provision of primary care services.

    d. Navigant continues to gather data, interview health care providers and visit facility sites in the study the Authority and the Department has commissioned regarding the delivery of healthcare services in the Newark area. A second progress meeting will be held with Navigant on Friday. The final report is due by November 15th.

    e. University Hospital has announced that it will be rejoining the Aetna insurance network after signing a multiyear agreement with the insurer.

    f. Physicians and physician practice groups providing care in Atlantic Health System hospitals have been accused of prolonging hospital stays without medical need in order to qualify patients to receive Medicare payments for subsequent stays at skilled nursing facilities.

    g. CentraState Medical Center has reached Stage 2 of meaningful use of its electronic health records. This qualifies CentraState for additional reimbursement from the Centers for Medicaid and Medicare Service.

    h. The following ratings actions were taken:

        i. Fitch Ratings has affirmed the "A-" rating on Hackensack University Medical Center's $404.3 million of debt issued by the Authority in 2008 and 2010 as well as $55.8 million in debt issued on Hackensack's behalf by the Economic Development Authority in 1997. The Rating Outlook is Stable. Moody's also affirmed its A3 rating for Hackensack's debt but revised its outlook from stable to positive.

ii. Fitch and Standard & Poor's Ratings Services have lowered the credit rating of the State from "A+" to "A" citing pension liabilities, narrow financial reserves, below average economic growth. Fitch assigned a rating outlook of negative while S & P assigned New Jersey a stable outlook. Moody's has not changed the State's rating which is A1 with a negative outlook.

i. Articles on the hospital industry in New Jersey and general health care issues include the following:

(i) The use of out-of-network status by New Jersey hospitals to charge insurers the higher charge master rates.

(ii) Some of the differences between not-for-profit and for-profit hospitals.

(iii) The need for hospitals to merge or consolidate to manage population health.

(iv) Whether hospital consolidations are raising health care costs.

(v) The slowing revenue growth at hospitals.

(vi) The Department of Health and Human Services projects that health care costs will increase more precipitously. The costs are expected to grow 6% a year from 2015 through 2023 compared to less than 4% a year over the last five years.

(vii) For-profit hospital chains in states that accepted Medicaid expansion are seeing an increase in admissions and a drop in unpaid care.

(viii) Healthcare's future under the Affordable Care Act is discussed by the Administrator of the Centers for Medicaid and Medicare Services and the CEO of a large health insurer.

(ix) An extensive round-table discussion on how the Affordable Care Act is impacting New Jersey hospitals which included Betsy Ryan, the President and CEO of the New Jersey Hospital Association, Dr. John Brennan, Executive Vice President of Barnabas Health, Stephen Jones, President and CEO of Robert Wood Johnson University Hospital, Les Hirsch President and CEO of St. Clare's Health System and Robert Wise, President and CEO of Hunterdon Medical Center.

(x) The surprising news that the number of people without health insurance in New Jersey rose slightly to 13.2% in 2013. New Jersey was one of only two states that saw an increase in the uninsured that year, the other was Maine. New Jersey still had a higher percentage insured than the national average for 2013, which was 14.5%. The 2013 numbers do not reflect the major initiatives of the Affordable Care Act, which started in 2014 including Medicaid expansion and the requirement for individuals to purchase insurance.

j. In regulatory news:

i. The Bond Buyer reports that many underwriters have self-reported disclosure non-compliance under the SEC's Municipalities Continuing Disclosure Cooperation Initiative. To receive favorable treatment from the SEC on any enforcement action, underwriters needed to self-report noncompliance of continuing disclosure obligations by September 10th. Issuer and borrowers who are obligated to provide continuing disclosure have until December 1st to self-report. Authority borrowers have been provided information on the MCDC Initiative and encouraged to review their disclosure compliance and consult with a professional if they find instances of non-compliance. The MCDC initiative was a hot topic at last week's NAHEFFA conference.

ii. New bank regulations in compliance with the Basel III Rule require that banks with over $250 billion in assets maintain a "Liquidity Coverage Ratio" of 100% of its projected 30-day cash outflow in a stressed scenario (smaller banks have less stringent requirements). The securities that count toward liquidity are termed High Quality Liquid Assets (HQLAs). In a move that surprised many, the Federal Reserve has excluded municipal bonds from the definition of HQLAs. HQLAs have been defined to include corporate bonds, certain equities, conventional mortgages, federal agency securities, and the sovereign debt of the United States and other OECD nations. It is surprising to many because investment-grade corporate bonds have a default rate that is 36 times the default rate of investment-grade municipal bonds. However, commentators noted that municipal bonds, while high in quality, may not be as liquid as corporate bonds. Also a hot topic at the NAHEFFA conference, the rule is expected to result in less investment in municipal bonds by banks, possibly raising interest rates for municipal bonds. While there may be adjustments to the definition by regulators to include some municipal bonds no one expects a blanket amendment to include all municipal bonds.

6. Authority News

a. Governor Christie has nominated Walter H. Placke to fill the public member vacancy on the Authority's governing body. Mr. Placke has extensive experience in bank management, including most recently serving as President, CEO and Director of Start Community Bank in New Haven, Connecticut. He also was an executive at The Bank of New York Mellon, Middlebury Advisors Group, First Trade Union Bank, Centerbank, and Midlantic National Bank. He also served as the Interim Executive Director of the United States Sailing Association. He is currently a member of the board of directors of the Greater New Haven Community Loan Fund. Previously he served on the boards of Partnership 2000 (a Waterbury, Connecticut economic development association), Waterbury Hospital and Clara Maass Hospital. He has a Bachelor's degree in business from Xavier University and an M.B.A. in Finance from Indiana University. His nomination is subject to the advise and consent of the State Senate.

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 10:33 a.m.

I HEREBY CERTIFY THAT THE FOREGOING IS A TRUE COPY OF MINUTES OF THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY MEETING HELD September 18, 2014.

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Carole A. Conover, Assistant Secretary