

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on March 26, 2015 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

*The following **Authority Members** were in attendance:*

Elisa Charters, Vice Chair (Chairing); Brian O'Neill, Designee of the Commissioner of Health; Greg Lovell, Designee of the Commissioner of Human Services; Maryann Kralik, Designee of the Commissioner of Banking and Insurance; 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, Frank Troy, Jessica Lucas, Debra Coons, Carl MacDonald, Bill McLaughlin, Marji McAvoy, Ellen Lieber, Bernie Miller and Chris Kniesler.

*The following **representatives from the State and/or the public** were in attendance:*

Cliff Rones, Attorney General's Office; Amy Herbold, Governor's Authorities Unit; Mary Ann Boccolini, President/CEO, James Hansen, Interim Vice President of Finance and Clinton Boyd, Controller representing Samaritan Healthcare and Hospice; Warren Broudy and Jill Ann Murphy, Mercadien; Jeanne Stiefel, Parker McCay; Doug Bacher, NW Financial and Vijar Kohli, VM Global.

## **CALL TO ORDER**

Ms. Charters called the meeting to order at 10:07 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**

#### **A. February 26, 2015 Authority Meeting**

Minutes for the Authority's February 26, 2015 Authority meeting were distributed for review and approval prior to the meeting. Ms. Charters asked for a motion to approve the minutes. Mr. O'Neill made the motion. Mr. Lovell seconded. Members Charters, O'Neill, Kralik, Lovell voted in the affirmative. The motion carried. Note – Dr. Kazmir did not arrive until 10:14 am.

## **2. SAMARITAN HEALTHCARE AND HOSPICE INFORMATIONAL PRESENTATION**

Ms. Charters called on Carl MacDonald to provide the Members with information on the Samaritan Healthcare and Hospice transaction.

Mr. MacDonald advised the Members that this was an Informational Presentation concerning a proposed bond transaction for Samaritan Health and Hospice Center. He then introduced Mary Ann Boccolini, President/CEO, James Hansen, Interim Vice President of Finance, and Clinton Boyd, Controller of Samaritan Healthcare and Hospice.

Mr. MacDonald stated that the Authority staff is in the process of structuring a \$14.6 million financing on behalf of Samaritan to provide funds to construct a Hospice Inpatient Center in Voorhees NJ, adjacent to the Virtua Campus; and pay the related costs of issuance.

Mr. MacDonald described Samaritan Healthcare and Hospice, Inc. as an independent not-for-profit organization that serves patients and families within a 2200 square mile radius of its campus in Southern New Jersey. That area includes Atlantic, Burlington, Camden, Gloucester, and Mercer Counties. There are no affiliates, partners, or parent organizations of Samaritan. He also stated that Samaritan does not have any debt outstanding with the Authority.

Mr. MacDonald told the Members that, according to financial statements dated December 31, 2014, Samaritan has shown an operating margin of -1.94%, down from 1.21% in 2013. Profit margin in 2014 was at 0.16%, down from 6.73% in 2013. He further stated that the Cash and Investments, totaling \$2.519 million represents 32.45 days cash on hand in 2014, down from 79.35 days in 2013. The reduction in cash can be attributed to Samaritan's equity commitment to the new inpatient center at the Voorhees' campus, as well as an increase in operating expenses.

Mr. MacDonald also reported that in accordance with Authority policy, Samaritan was required to submit financial projections. The projections covering the years 2015 through 2019 were included in the mailing and have been reviewed by staff subsequent to the mailing. The transaction is expected to be structured as a private placement. Samaritan solicited proposals from several banks and selected Wells Fargo as their purchaser.

Mr. MacDonald then turned the meeting to the Samaritan management team to present an overview of the new inpatient center.

Mary Ann Boccolini, President and CEO of Samaritan Healthcare and Hospice began by providing the Members with an overview of their organization and defined the various aspects of their services. She then went into detail about their planned construction of an 18-bedroom Hospice Inpatient Center on property adjacent to the Virtua campus in Voorhees.

At the conclusion of her presentation, Ms. Boccolini answered questions from the Members and staff.

Mr. O'Neill asked if their projections justified the construction of the 18-bedroom facility. Ms. Boccolini replied that they have only 12 bedrooms at their current location with an average daily census of 10.5 patients, but that it is often full. She also pointed out that by moving farther to the south, they will be accessible to more of their coverage area and anticipate an average daily census of 12-14 patients. Ms. Boccolini informed the Members that the average stay of a patient is usually five (5) days but is very unpredictable. She also indicated that Samaritan would also be expanding their out-patient services to assist families in considering hospice sooner, before it is too late for them to help.

Dr. Kazmir and Mr. Lovell asked questions about Samaritan's financing strategy for this project. Ms. Boccolini responded by saying that the Authority's bond issuance is just one (1) of four (4) funding sources for this project.

Ms. Boccolini thanked the Authority for their efforts on behalf of this transaction.

Ms. Charters thanked Mr. MacDonald and Ms. Boccolini for their presentations.

### **3. ADDITION TO THE AUTHORITY'S QUALIFIED BANKERS LIST**

Ms. Charters called upon Suzanne Walton to propose an addition to the Authority's Qualified Bankers List.

Ms. Walton reported that CastleOak Securities has provided the Authority with a "Statement of Qualifications" and has made a request to be added to the Authority's list of approved bankers as a Co-Manager on Authority transactions.

Ms. Walton informed the Members that CastleOak is a minority owned broker-dealer and investment bank that is organized under the laws of the state of Delaware. The firm currently has 60 employees and six (6) offices located in New York, Atlanta, Chicago, Cleveland, Los Angeles and Portland. The firm's primary business lines are municipal finance and corporate finance investment banking as well as equity and fixed income sales and trading. CastleOak has a strategic partnership with Cantor Fitzgerald L.P., which is a global financial services provider. That partnership provides the firm with strong capital and infrastructure support and allows for strategic collaboration on selected business activities. In addition, the partnership enables CastleOak to maintain a presence in New Jersey through Cantor's offices in Summit, Rochelle Park and the Borough of Shrewsbury.

According to Ms. Walton, the firm has participated in over \$330 million of health care financing since its entry into municipal finance in February 2011. Their experience includes financings for health care borrowers through the New York Dormitory Authority, the Maryland Health and Higher Education Facilities Authority and the New York City Health and Hospitals Corporation. The firm is also a qualified senior manager to the Connecticut Health and Education Financing

Authority and was most recently reappointed as a qualified underwriter by the Rhode Island Health and Educational Building Corporation.

Ms. Walton stated that the firm has reported excess net capital of approximately \$5.3 million which enables them to underwrite up to \$76.9 million of bonds.

Based upon this information, Ms. Walton believes the firm has demonstrated that it is qualified to serve as a co-manager on Authority transactions and recommended the Members' consideration for adding CastleOak Securities to the Authority's approved list in the role of Co-manager.

Ms. Charters thanked Ms. Walton for bringing new business to the Authority and for getting new firms involved with the Authority.

Ms. Charters asked the Members' pleasure with respect to the adoption of the Resolution appointing CastleOak Securities, L.P. to the Authority's list of qualified bankers as a Co-manager. Dr. Kazmir made the motion and Mr. O'Neill seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. OO-50**

**WHEREAS**, the Members of the Authority have reviewed the memorandum dated March 18, 2015 regarding the addition of CastleOak Securities, L.P. to the Authority's list of qualified bankers.

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority add CastleOak Securities, L.P. to the Authority's qualified bankers list as a Co-manager.

#### **4. AUDIT COMMITTEE REPORT**

Ms. Charters asked Brian O'Neill, Chair of the Audit Committee to report on the Authority's 2014 Audit.

Mr. O'Neill reported that representatives from Mercadien presented the Authority's 2014 Audit to the Audit Committee on March 10, after which the Committee voted to recommend approving the audit. Mr. O'Neill told Members that today the Audit Committee would be seeking Members' approval of the 2014 Audit, as well as approving its submission to the Governor,

members of the Legislature, the Secretary of State, and the Comptroller of the Treasury, as is required by the Authority's enabling legislation.

Mr. O'Neill reported that the Authority received an unmodified audit opinion, which is the highest level of audit opinion that can be received. He reported that the auditors found:

- No significant or unusual Authority transactions, no disagreements with management on the scope of the audit or application of accounting principles and no difficulties dealing with management.
- There were no audit adjustments made to the original trial balance presented to the auditors.
- There were no unrecorded audit adjustments.
- In regards to all major accounting estimates, all of management's estimation processes appeared appropriate.

Mr. O'Neill then made the motion to authorize the approval of the 2014 Audit and submit it to the Governor, members of the Legislature, the Secretary of State, and the Comptroller of the Treasury, as is required by the Authority's enabling legislation.

Mr. O'Neill commended the Authority staff, in particular the Division of Operations and Finance for their exemplary work.

Ms. Charters noted that the audit was a very thorough process and commended Authority Staff for their work throughout the year. She also thanked the Audit Committee for their work and Mr. O'Neill for his presentation.

Mr. Lovell congratulated Mr. Hopkins and his staff for an excellent audit. He then asked about Mercadien's recommendation to upgrade the Authority's financial technology. Ms. Murphy responded that they are suggesting that the Authority look at software to replace Excel spreadsheets currently being used. She believes that there may be software available to make the Authority more efficient. Mr. Broudy suggested that the Authority check to see what software other similar government agencies are using. Mr. Hopkins explained that he has been working with staff for about a year and a half on the project. Initially there were problems with the contract of one of the Authority's banks. Those issues are resolved and it is now full speed ahead.

Mr. O'Neill asked if it were possible to expand on currently available software. Ms. Murphy replied that problem is that many of the current products cannot handle numbers in the billions that the Authority requires. Mr. Ittleson injected that there is also a problem finding software that can handle the varying banks holding trustee-held funds.

Ms. Charters asked whether any other state organization has what the Authority needs. Mr. Hopkins said that he has had discussions with the Educational Facilities Authority. Mr. Ittleson

stated that they created their own program in-house after observing the Authority's operations, but that it is not a commercially available product.

As there were no further questions or comments, Ms. Charters asked for a motion from the Members to accept Mr. O'Neill's recommendation and approve the 2014 Audit, and submit it according to the Authority's enabling legislation. Dr. Kazmir made the motion and Ms. Charters seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. OO-51**

**NOW, THEREFORE, BE IT RESOLVED**, that Authority Members hereby approve a resolution to authorize the 2014 Audit's approval and submission to the Governor, members of the Legislature, the Secretary of State, and the Comptroller of the Treasury, as is required by the Authority's enabling legislation.

#### **5. APPROVAL OF EXPENSES**

Ms. Charters 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-52**

**WHEREAS**, the Members of the Authority have reviewed the memoranda dated March 18, 2015 summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of \$8,040.00 and \$230,518.79 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.

## 6. STAFF REPORTS

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

Ms. Charters asked Executive Director Hopkins to present his Executive Director's report.

Mr. Hopkins reported the following:

1. Authority Members and Senior Staff are required to file Financial Disclosure Statements with the State Ethics Commission by no later than May 15, 2015. Filings must be made electronically through the State Ethics Commission website. Late filers will be subject to a fine of up to \$50 per day. Authority Members are required to file the somewhat less onerous disclosure for Public Officers (not Public Employees). If Members have any questions about the process he encouraged them to call him or Robin Piotrowski, the Authority's Ethics Liaison Officer.
2. Navigant Consulting delivered its report on healthcare services in the greater Newark area on March 2, 2015 to the Commissioner of Health, the Authority and the health care providers in the Newark area. The report found that the area: (i) was substantially over-bedded, (ii) had duplicative and fragmented services, (iii) was in need of \$411 million capital improvements and (iv) was suffering from poor financial performance as a whole (with a combined 2013 operating loss at the area hospitals of \$31.8 million).

Over-bedding was predicted to worsen as were the financial losses, amounting to an estimated combined annual operating loss of \$191 million by 2019, if the status quo continued.

In addition to evaluating the continuation of health care services' status quo, Navigant evaluated eight other scenarios, which were virtually all the possible means of rationalization. While seven of the scenarios showed some improvement (combined annual operating losses ranging from \$68 million to \$177 million in 2019), and required capital investment (between \$380 million and \$486 million), only the ninth scenario was deemed to keep the delivery of healthcare services in the greater Newark area accessible and viable. While this scenario was the only one that shows a combined operating gain in 2019, it also requires a capital investment of approximately \$1 billion, or \$514 to \$620 million more than the other eight scenarios.

Scenario 9 showed a combined operating gain of \$64 million by 2019. It consisted of transforming East Orange General Hospital and St. Medical's Medical Center into ambulatory facilities with satellite emergency departments and, in the long-term, combining the services of both University Hospital and Newark Beth Israel Medical Center (possibly through a public/private partnership) onto one campus by building a new patient tower on property adjacent to University Hospital.

In addition to recommending adoption of Scenario 9, Navigant recommended, in the short-term, consolidating inpatient pediatrics and cardiac surgery from all hospitals at Newark Beth Israel Medical Center and expanding Broadway House to serve not only HIV/AIDS patients but to include other patients needing post-acute care.

Several articles on the report are being provided today. The full Navigant report is available on the Authority's website at [www.njhcffa.com](http://www.njhcffa.com).

### 3. Hospital & Other News

- a. Vincent Constantino has been named as the Chief Administrative Officer at St. Francis Medical Center in Trenton. He replaces Christy Stephenson, who was interim President and CEO of St. Francis. Mr. Constantino was most recently the Executive Hospital Director for Aria Health in Philadelphia and was previously Senior Vice President of Operations and Chief Operating Office at Raritan Bay Medical Center. St. Francis also announced it was extending its partnership with Camden-based Lourdes Health System, which, like St. Francis, is a subsidiary of Trinity Health.
- b. Atlantic Health System has named Brian Gragnolati as its new CEO. Current CEO Joseph Trunfio announced his retirement last October. Mr. Trunfio will be working with the new CEO to smooth the transition. Mr. Gragnolati was most recently serving as Senior Vice President, Community Division at Johns Hopkins Medicine in Baltimore. He also served in executive positions at Wellspan Health in York, Pennsylvania, Medical Center Hospital of Vermont in Burlington and Baystate Medical Center in Springfield, Massachusetts.
- c. HackensackUMC at Pascack Valley has named Emily Holliman as its new CEO starting in May. She will be replacing Mark Sparta, who has served as CEO since the November resignation of Chad Melton. Ms. Holliman has been the CEO of Norwood Hospital, outside of Boston, which is part of the for-profit Steward Health Care System.
- d. The President of Atlantic Health System's Morristown Medical Center, David Shulkin, has been nominated by President Barack Obama to become the Under Secretary for Health of the Department of Veterans Affairs.
- e. Fitch has upgraded \$29.4 million in bonds issued by the Authority on behalf of Children's Specialized Hospital to "BBB+" from "BBB." The rating outlook remains stable. Fitch cited Children's Specialized Hospital's improved financial results, liquidity and delayed Medicaid reimbursement cutbacks as reasons for the upgrade.



- f. Standard & Poor's has raised the rating on debt issued by the Camden County Improvement Authority on behalf of Cooper Health System to "BBB+" from "BBB" citing improved operating and financial profiles driven by strategic initiatives. The outlook remains positive.
- g. The plans of Hackensack University Health Network and Seton Hall University to establish a private medical school on the former site of the Roche headquarters in Nutley and Clifton are moving forward, receiving a conditional approval of the Board of Medical Examiners, the first of a two-part process. The school is expected to start admitting students for the 2017 fall semester pending accreditation.
- h. Inside Jersey has named its top New Jersey hospitals for 2015 overall, by type of treatment and by patient satisfaction. The results are being provided today.
- i. Aetna and Hackensack University Health Network have expanded their existing relationship for the accountable care organization, HackensackAlliance, to cover over 10,000 Aetna commercial and Medicare Advantage members in Bergen and Hudson counties.
- j. UnitedHealthcare's Oxford division is launching a New Jersey-only network of doctors and hospitals that will offer lower-cost health plans to employers who use the 18,000 doctors and 65 hospitals in the new Oxford Garden State Network.
- k. Cigna completed its acquisition of QualCare Alliance Networks on March 1<sup>st</sup>. QualCare provides and manages health plans for employers throughout New Jersey.
- l. The increase in patients covered by (insurance of) Medicaid as a result of the Affordable Care Act has resulted in a \$148 million reduction in the amount budgeted by New Jersey for Charity Care payments to hospitals. The State fiscal year budget includes \$502 million in payment to hospitals for Charity Care compared to \$650 million in the previous year. Individual hospitals learned their budgeted allocations of Charity Care payments earlier this month. Early estimates indicate that the cuts to Charity Care payments are being more than offset by increases in Medicaid payments. The Governor's proposed budget also includes a \$27.3 million increase in funding for Graduate Medical Education and a \$45 million increase in Medicaid payments to doctors, in an effort, respectively, to attract new doctors to New Jersey and encourage more doctors to see the growing number of Medicaid patients.
- m. The CN and CHAPA application for the sale of St. Michael's Medical Center to Prime Healthcare Services have not yet been declared complete.

- n. Additional articles are being provided today on: (i) new GASB standards regarding tax-exempt bonds; (ii) potential new requirements placed on conduit bond issuers; (iii) more on continuing the tax-exemption for municipal bonds; (iv) saving urban hospitals; (v) whether there is a benefit to having a nonprofit integrated health system; (vi) a finding that fewer Americans are burdened by medical bills; (vii) increased scrutiny of unnecessary health care; (viii) CMS’s “next generation” accountable care organizations; (ix) advantages of resilient design at hospitals to defend against natural disasters; (x) possible SEC accounting mandate for municipal bond issuers; (xi) how outcomes vary by hospital for high risk surgeries; (xii) increase in urgent care centers in New Jersey; and (xiii) hospital consolidation trends.

As there was no further business, following a motion by Dr. Kazmir and a second by Ms. Kralik, the Members voted unanimously to adjourn the meeting at 11:05 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  
MARCH 26, 2015.

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Carole Conover, Assistant Secretary