

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on August 27, 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); Michael Conca, Designee of the Commissioner of Health; Jessica Feehan, Designee of the Commissioner of Human Services; Maryann Kralik, Designee of the Department of Banking and Insurance; Dr. Munr Kazmir, Public Member and, via telephone; Suzette Rodriguez, Public Member

*The following **Authority staff members** were in attendance:*

Mark Hopkins, Steve Fillebrown, Michael Ittleson, Bill McLaughlin, Carl MacDonald, Frank Troy, Taryn Rommell, Jessica Lucas, Ellen Lieber, Marji McAvoy, John Johnson and Chris Kniesler

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

Cliff Rones, Attorney General's Office; Lisa LeBoeuf, Governor's Authorities Unit; Tom Daly, Chief Financial Officer, University Hospital; Bob Palermo, Vice President for Finance, Meridian Health System; Kathryn Gibbons, Meridian Health; Charlie Visconsi, Morgan Stanley; John Brodsky, Fairmount Capital; Steve Petrecca, New Jersey Department of Treasury; and, Jerry Ostow, Bond Counsel

## **CALL TO ORDER**

Vice-Chair Charters called the meeting to order at 10:11 a.m. and announced that this was a regular Meeting of the Authority, held in accordance with the schedule adopted at the May 28, 2015 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. July 23, 2015 Authority Meeting**

Minutes for the Authority's July 23, 2015 Authority meeting were distributed for review and approval prior to the meeting. Ms. Charters asked for a motion to approve the minutes. Dr. Kazmir made the motion. Ms. Kralik seconded. The vote was unanimous and the minutes were approved.

## **2. INFORMATIONAL PRESENTATION**

### **Meridian Health System**

Ms. Charters welcomed Bob Palermo, VP of Finance, Meridian Health System and then called on Carl MacDonald to present the details of the Meridian Health System transaction to the Members.

Mr. MacDonald said that this was an informational presentation regarding the issuance of bonds on behalf of Meridian Health Systems (Meridian Health).

Mr. MacDonald stated that Meridian Health is the parent organization and sole member of Meridian Hospitals Corporation and Meridian Nursing and Rehabilitation, Inc. Meridian Hospitals Corporation operates five hospital divisions: Jersey Shore University Medical Center, Ocean Medical Center, Riverview Medical Center, Southern Ocean Medical Center and Bayshore Community Hospital.

Mr. MacDonald informed the Members that Authority Staff is in the process of structuring a tax-exempt financing of approximately \$130 million on behalf of Meridian Health, the proceeds of which will be used to either fund or reimburse the cost of a series of construction projects at various campuses across Meridian Health's system. The funds will be spent as follows: approximately \$76.5 million for the reimbursement of the Emergency Department expansion project at Ocean Medical Center; approximately \$7.1 million for the reimbursement of the catheter lab expansion at Bayshore Community Hospital; approximately \$7.1 million for the reimbursement of the Cardiac/Neuro ICU project at Jersey Shore University Medical Center; reimbursement of the Interventional Radiology at Riverview Medical Center; reimbursement of the energy project at Riverview Medical Center; reimbursement of the Bayshore Community Hospital lobby renovation project; reimbursement of the parking lot project at Southern Ocean Medical Center; \$31.4 million in various capital and equipment needs throughout the system; and, to pay the related cost of issuance on the transaction.

According to Mr. MacDonald, Meridian has maintained strong financial metrics and currently maintains credit ratings of A/A from S&P and Fitch. Meridian Health has consistently reported positive results from operations and bottom line. The FY2014 audited financial statements and the Authority's Apollo Report indicate that Meridian Health generated an excess of revenues over expenses of \$127.77 million and \$87.049 million for the years ending 2014 and 2013, respectively. The unaudited numbers for the first three months of 2015 reflect an excess of revenues over expenses of \$22.0 million. In addition, since FY2012, inpatient admissions have increased from 59,000 in 2012 to 62,500 in 2014; and occupancy rates have remained relatively constant at approximately 51%. The utilization statistics are projected to remain stable for the foreseeable future.

Mr. MacDonald further stated that the financial ratios designed to measure Meridian Health's liquidity, operating performance and capital structure have consistently outperformed statewide medians. Based on audited numbers at year end 2014, Meridian Health has 273 days cash on hand, an operating margin of 7.76% and debt service coverage of 4.39 times.

Mr. MacDonald told the Members that Meridian has actively utilized the services of the Authority, and currently has nine outstanding financings issued through the Authority totaling over \$570 million. Most recently, Meridian executed a \$29.525 million public offering in May of 2013.

Mr. MacDonald concluded by saying that he or Mr. Palermo would answer any questions the Members might have.

Ms. Charters thanked Mr. MacDonald and Mr. Palermo and asked if there were any questions. There were none.

Ms. Charters then reminded the Members that the presentation was for information only and that no action was required at this time.

### **3. NEGOTIATED SALE REQUEST AND INFORMATIONAL PRESENTATION University Hospital**

Ms. Charters recognized Tom Daly, Vice President of Finance and Chief Financial Officer for University Hospital. She then called on Executive Director Mark Hopkins to present the details of the University Hospital transaction to the members.

Mr. Hopkins introduced Steve Petrecca, Assistant State Treasurer and stated that University Hospital's Bond Counsel, Jerry Ostow was participating via telephone.

Mr. Hopkins informed the Members that the Office of Public Finance, on behalf of University Hospital, has requested that the Authority undertake a tax-exempt negotiated sale of bonds in an amount not to exceed \$300 million. He further advised the Members that this presentation served as both a request for negotiated sale and an informational presentation.

Mr. Hopkins reminded the Members that during 2012, Governor Christie signed into law the New Jersey Medical and Health Sciences Education Restructuring Act, P.L. 2012, c. 45 (the "Restructuring Act"). The Restructuring Act essentially divided the University of Medicine and Dentistry ("UMDNJ") between Rutgers University and Rowan University. It also established University Hospital as a stand-alone instrumentality of the State of New Jersey.

In support of this legislation and on behalf of the Office of Public Finance and University Hospital, the Authority issued the University Hospital Series 2013A and 2013B Bond Anticipation Notes in the total amount of \$150 million with a stated maturity of July 2, 2017. At that time University Hospital was being re-established with both a new organizational and managerial structure, therefore it had no operating or credit history. These primary factors prompted the decision to issue bond anticipation notes in lieu of a longer term financing option. With two years of operating and credit history, University Hospital is now ready to effectuate a cost effective long term financing structure.

According to Mr. Hopkins, the proceeds of the bonds are expected to be used to: refund and/or redeem all of the Authority's outstanding Revenue Bond Anticipation Notes, University Hospital Issue Series 2013A and Series 2013B (Federally Taxable); finance a portion of the costs of various capital improvements to University Hospital's existing acute care facility located in Newark, New Jersey; fund a Debt Service Reserve Fund, if necessary; and pay all or a portion of the costs of issuance.

Mr. Hopkins then told the Members that Tom Daly, the Chief Financial Officer of University Hospital, would outline the specific components of the capital improvements being funded by this transaction.

Mr. Hopkins reported that the annual audited financial statements for 2014 indicate that University Hospital had a loss of (\$24.02) million compared to loss of (\$25.1) million for 2013. For year-end 2014, University had 24.5 days cash on hand, an operating margin of (4.03) and debt service coverage of 0.51 times.

Mr. Hopkins explained that this financing is expected to include the sale of bonds for a complex or poor credit; the development of a complex financing structure; volatile market conditions; and have a large issue size. Each of these reasons is 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 approving the use of a negotiated sale and the forwarding of a copy of the justification in support of this resolution to the State Treasurer.

Mr. Hopkins concluded by stating that following the receipt of proposals, the Treasurer's Office and the Authority selected Morgan Stanley as the Senior Managing Underwriter for the bonds and TD Bank, National Association was selected to serve as Bond Trustee. Further, the Attorney General's Office selected Wilentz, Goldman & Spitzer to serve as bond counsel for the transaction.

The Authority expects to conduct a contingent sale of bonds at the Authority's September meeting.

Mr. Hopkins turned the meeting over to Mr. Daly to outline the projects to be funded by this transaction.

Mr. Daly began by explaining how University Hospital is now the teaching hospital for Rutgers University Medical School and Dental School. He also discussed how University Hospital took over the role of the University of Medicine and Dentistry of New Jersey (UMDNJ) and 300 employees from Rutgers.

Mr. Daly then informed the Members that University Hospital's deficit has been decreasing over the past three years and that this year they are doing \$6 million better than expected. He credits an 8% increase in discharge rate and a 7% increase in outpatient services for the improvement of their financial status.

According to Mr. Daly, University Hospital intends to use the funds from the bonds issuance as follows:

- \$30 million for a heat exchange system and hot water production (will improve the facility's bottom line)
- \$10 million to expand the cancer program
- \$ 5 million for diagnostic imagery equipment (for the expanded cancer program)
- \$ 5 million for new operating rooms (for the expanded cancer program)
- \$30 million for additional upgrades
- \$45 million for expanding services (assuming and expanding upon the former UMDJ services)
- \$20 million for information technology upgrades (the current service agreements from Rutgers are ending and University Hospital must take over those costs) and for the completion of the Electronic Medical Records (EMR) conversion
- \$8 million for routine equipment replacement

Mr. Daly stated that all of these expenses were approved by University Hospital's Financial Audit Committee and Board.

Mr. Daly said that he would answer any questions the Members might have.

Mr. Hopkins took the opportunity to recognize Charlie Visconsi from Morgan Stanley who is the senior managing underwriter for the transaction.

Ms. Charters asked the Members if there were any questions.

Ms. Charters asked if the proposed replacement equipment would be rentals or leases.

Mr. Daly replied that they would be purchases.

Ms. Charters asked if the federal payments for the EMR project were for hiring employees.

Mr. Daly responded that the federal funding was for converting paper records to electronic records. This included records for Rutgers as well as the hospital. He stated that nearly every employee, every doctor and nurse, is involved with the project. The federal grant was received because they were meeting all of their targets. The additional funding is to separate this project from the regular information technology budget.

Ms. Charters then asked if the hospital would be retaining the 300 employees from Rutgers.

Mr. Daly replied that they are showing positive results in their cost per unit of service ratio and that their service volume is up. He stated that they are currently up 150 FTEs (fulltime equivalents) since the reorganization and if the current trends continue, they will be hiring more staff.

Ms. Charters asked Mr. Daly to explain what he meant when he said they were doing \$6 million better than expected. Does that mean a profit?

Mr. Daly explained that they projected a \$16 million deficit for this year, but they were running \$6 million ahead of the projections.

Ms. Charters asked if that was achieved through managing expenses.

Mr. Daly replied that the hospital reduced the length of stay by 1.5 days and that the State was providing funds to maintain programs for which there were previously responsible.

Ms. Charters asked for a motion to approve the resolution. Dr. Kazmir made the motion. Mr. Conca seconded. The vote was unanimous and the motion passed.

#### **AB RESOLUTION NO. PP-12**

**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. CORPORATE BANKING RESOLUTIONS & SIGNATURE CARDS**

Ms. Charters referred the Members to the August 19, 2015 memorandum in their packets regarding the check signing policy of the Authority. She reminded the Members that when there is a change in officers, Staff must provide the Authority’s bank with new corporate banking resolutions and signature cards. Since the last Authority meeting, Ms. Cathleen Bennett was named as Acting Commissioner of Health, which also makes her the Chair of the Authority. As a result, new signature cards are required. Ms. Charters asked for a motion to approve the new signature cards. Dr. Kazmir offered a motion to adopt these updated resolutions; Ms. Kralik seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. PP-13**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby adopts corporate banking resolutions as a result of the appointment of a new Chair and authorizes the submission of new signature cards.

## **5. NEW/OLD BUSINESS**

### **Resolution of Appreciation for Commissioner O'Dowd**

Ms. Charters read to the Members a Resolution of Appreciation for former Commissioner and Authority Chair Mary E. O'Dowd.

Ms. Charters asked for a motion to approve the resolution. Dr. Kazmir made the motion. Mr. Conca seconded. The vote was unanimous and the motion passed.

### **AB RESOLUTION NO. PP-14**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby adopts the resolution entitled "RESOLUTION OF APPRECIATION FOR MARY E. O'DOWD as Commissioner of the New Jersey Department of Health and as the Chair of the Authority and thanks her for her service.

## **6. 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. Ms. Rodriguez seconded the motion. All Members voted in the affirmative and the motion carried.

### **AB RESOLUTION NO. PP-15**

**WHEREAS**, the Members of the Authority have reviewed the memoranda dated August 19, 2015, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of \$79,677.00 and \$25,149.41 respectively, and have found such expenses to be appropriate;

**NOW, THEREFORE, BE IT RESOLVED**, that the Members of the Authority hereby approve all expenses as submitted, and authorize the execution of checks representing the payment thereof.

## 7. STAFF REPORTS

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 presented the following items to Members:

1. As he announced at a previous meeting former Commissioner Mary O'Dowd's final day was July 31, 2015. Mr. Hopkins noted Ms. O'Dowd was due to give birth at the end of this month and asked Mr. Conca if there was any news. Mr. Conca confirmed that Ms. O'Dowd gave birth to a baby boy. She will also be serving on the board of the Horizon Blue Cross Blue Shield. Acting Commissioner Cathleen Bennett began serving on August 1, 2015. Prior to being named Acting Commissioner, she was the Department of Health's Director of Policy and Strategic Planning since August 2010. Prior to joining the Department, Commissioner Bennett was an executive in the private sector for 20 years. She holds a Master of Government Administration from the University of Pennsylvania, a Juris Doctorate from The Dickinson School of Law and a Bachelor of Arts from Villanova University.
  
2. Hospital & Other News
  - a. Saint Michael's Medical Center declared Chapter 11 bankruptcy on August 10, 2015. Saint Michael's has stated in the press that it hopes the move will hasten the State's regulatory reviews under the Department of Health's process for a Certificate of Need application and the Attorney General's process under the Community Health Care Assets Protection Act. Prime Healthcare Services, who is the purchaser selected by Saint Michael's, has amended its Asset Purchase Agreement with Saint Michael's to allow it to become the stalking horse bidder in the bankruptcy proceedings. Other interested bidders may also submit bids, which are due by November 3, 2015. Barnabas Health has publicly expressed interest in bidding on Saint Michael's but no other bidders have come forward yet to my knowledge. The date set for awarding the winning bid is November 12, 2015. As the Authority Members may recall, Saint Michael's received \$252.5 million in financing from the Authority backed by a State contract pursuant to the Hospital Asset Transformation Program. The outstanding balance on those bonds is \$228,780,000 plus interest. Prime's stalking horse offer was \$49,150,000 with a possible adjustment for changes in cash on hand. Under the bidding procedures approved by the court, any other bids must exceed that amount by at least \$500,000 and the winning bidder will be required to pay Prime, as the stalking horse bidder, an approximately \$1.2 million breakup fee plus up to \$200,000 in expenses. A number of articles have been provided today on the bankruptcy



proceedings. The Authority and the Master Trustee have each engaged bankruptcy counsel. Further discussion will be held in executive session.

- b. Philly.com reported yesterday that Virtua is planning to build a \$1 billion complex on a property recently acquired in Westhampton, which is about 3 miles away from its Mt. Holly facility.
- c. The CHAPA process for the sale of St. Clare's Health Services to Prime Healthcare Services was concluded at the end of June. The sale was expected to occur on July 31, 2015, but has been postponed until late summer or early fall, amid reports that Prime had dropped plans to issue \$700 million in bonds. Meanwhile, Catholic Health Initiatives, St. Clare's owner, has named Jon Timmis as interim Chief Executive Officer due to the departure of former Chief Executive Officer Les Hirsch, who joined St. Peter's as president earlier this summer. Mr. Timmis is CHI's Vice President of Strategy Integration and has more than 20 years of healthcare leadership experience.
- d. NJBiz has run an article on the status of the merger between Robert Wood Johnson University Hospital and Somerset Medical Center one year after the merger took place. The article touts major improvements and enhancements at the Somerset facility and notes some of the significant changes since the merger.
- e. St. Francis Medical Center has expanded its partnership with Lourdes Health System. Both are owned by Trinity Health (which merged with Catholic Health East over a year ago). St. Francis has also announced it has appointed a Chief Administrative Officer, Vincent Costantino, to be responsible for the hospital's strategy and management. Mr. Costantino was formerly Executive Hospital Director at Aria Health in Pennsylvania and prior to that served as Senior Vice President of Hospital Operations and Chief Operating Officer at Raritan Bay Medical Center.
- f. Standard & Poor's Ratings Services has given a positive credit outlook to Geisinger Health System and AtlantiCare Medical Center amidst their plans to both merge. Standard & Poor's rates Geisinger's debt AA and AtlantiCare's debt A+. The regulatory review required for the Attorney General's CHAPA process has been declared complete and has received the required public hearings. The approval should be finalized within the next few months.
- g. UnitedHealthcare awarded nearly 500 New Jersey doctors a total of \$2.5 million in bonuses for hitting key quality measures in treatment of Medicare Advantage members.
- h. After Morristown Medical Center lost a case to Morristown, which sought to impose property tax on the facility despite it being a nonprofit entity, hospitals are in discussions with legislators on possibly crafting legislation that would require some type of property tax payments to municipalities that would be short of a full

property tax payment. The compromise legislation may take the form similar to payments in lieu of taxes (also known as PILOTS) which are used for some redevelopment projects.

- i. Cooper University Health Care has entered into an alliance with The Memorial Hospital of Salem County to provide physicians to Memorial's emergency room and hospitalist program.
- j. New Jersey hospitals lead the nation in number of hospitals penalized by CMS for readmissions of elderly patients. It was not however the state with the highest readmission rates. Excessive readmissions of elderly patients within 30 days of discharge for certain conditions trigger an up to 3% reduction in overall Medicare reimbursement from CMS. New Jersey hospitals averaged a penalty of 0.73%. The national average was 0.61%. The penalty will be assessed on every inpatient reimbursement beginning in October.
- k. Horizon Blue Cross Blue Shield has announced it has had success with doctors' practices that participate in Horizon's patient-centered program. The results show higher scores on quality metrics and lower costs. Over 750,000 Horizon subscribers participate in the patient-centered programs.
- l. NorthJersey.com is reporting that three New Jersey insurers selling insurance on the Affordable Care Act's health insurance exchange have asked for double-digit premium increases for the coming year. Other insurers whose requests for increases are below 10% do not have to disclose until November. This is leading to speculation that there might be significant increases in premiums in New Jersey and around the country in 2016.
- m. A Press of Atlantic City editorial discusses the benefits New Jersey is experiencing from expanding Medicaid, with 383,000 new residents being eligible for coverage (for now paid in full by the federal government) allowing a reduction of charity care to hospitals of \$148 million. It also points out some concerns, including the unexpectedly large increase in Medicaid beneficiaries that, starting in 2017, will need to be 10% paid by the State.
- n. A July 31, 2015 article in NJSpotlight discusses CMS's data that a growing number of New Jersey residents have signed up for health insurance through the health care exchange.
- o. Several other articles are being provided today on the following national issues: (i) healthcare spending growth; (ii) the reduction in deaths, hospital stays and costs among seniors; (iii) hospitals grappling with the costs of the tax on "Cadillac" health plans to take effect under the Affordable Care Act in 2018; (iv) 15 findings and thoughts on nonprofit hospitals; (v) the funding of 266 new community health centers by the federal Department of Health and Human Services; (vi) warnings about large hospital mergers and large insurance company

mergers; (vii) the Affordable Care Act's effect of shrinking the number of unpaid hospital bills; (viii) Fitch's report showing strong gains in median operating profitability in nonprofit hospitals but a widening credit gap between low-rated and high-rated hospitals; (ix) needless extension of hospital stays due to Medicare's rule requiring an three day hospital stay before a patient is eligible for rehabilitation services; (x) SEC's adoption of a rule requiring publicly traded hospitals to release the ratio of the CEO's pay to median employee pay; (xi) the rising activity and scope of federal antitrust enforcement in the health sector; (xii) a study that estimates that municipal bonds save state and local governments over \$700 billion in interest; and (xiii) Moody's has improved the credit outlook for nonprofit hospitals from negative to stable for the first time in seven (7) years.

### 3. Authority News –

- a. Mr. Hopkins announced that this would have been Brian O'Neill's last meeting as the Commissioner of Health's designee. Unfortunately, Brian was unable to attend today due to the death of his brother. Brian will be leaving the Department of Health in September to take the position of Chief Financial Officer at St. Mary's Hospital in Passaic. Brian has been a great asset to the Department and to the Authority. He has shared his vast knowledge and wonderful personality. Mr. Hopkins thanked him for all his help and wished him all the best.

Ms. Charters thanked Mr. Hopkins for his report. She then asked Mr. Hopkins to have Staff see if the current vulnerability of the market has any effect on today's two (2) transactions.

Ms. Charters asked for a motion to enter into Executive Session to discuss a potential legal matter.

Dr. Kazmir made the motion. Mr. Conca seconded. The vote was unanimous and the motion passed. As permitted by the Open Public Meetings Act and the Authority's By-Laws, the Members will now meet in Executive Session to discuss potential litigation and get legal advice regarding St. Michael's Medical Center. The members went into Executive Session at 10:54 a.m.

### **AB RESOLUTION NO. PP-16**

**NOW, THEREFORE, BE IT RESOLVED**, that, as permitted by the Open Public Meetings Act and the Authority's By-laws, the Authority meet in Executive Session to discuss potential litigation and receive legal advice regarding St. Michael's Medical Center;

**BE IT FURTHER RESOLVED**, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

The Members went back into public session at 11:45

After the Executive Session ended, hearing no further business, following a motion by Dr. Kazmir and a second by Mr. Conca, the Members voted unanimously to adjourn the meeting at 11: 48 a.m.

I HEREBY CERTIFY THAT THE FOREGOING  
IS A TRUE COPY OF MINUTES OF THE NEW  
JERSEY HEALTH CARE FACILITIES  
FINANCING AUTHORITY MEETING HELD  
AUGUST 27, 2015.

---

Stephen M. Fillebrown, Assistant Secretary