

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on October 22, 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, Public Member (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

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

Mark Hopkins, Steve Fillebrown, Ron Marmelstein, Carole Conover, Michael Ittleson, Carl MacDonald, Bill McLaughlin, Frank Troy, Taryn Rommell, Jessica Lucas, Ellen Lieber, Nino McDonald, Edwin Fuentes, Bernie Miller 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 Authorities Unit; Barry Rabner, Chief Executive Officer and Glenn Zirbser, Chief Financial Officer, Princeton HealthCare System; Brian Carter, Wells Fargo Securities; Mark Salimena, Managing Director, Optimal Capital Group, LLC

CALL TO ORDER

Ms. Charters called the meeting to order at 10:20 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. September 24, 2015 Authority Meeting

Minutes for the Authority's September 24, 2015 Authority meeting were distributed for review prior to the meeting. Ms. Charters asked for a motion to approve the minutes. Dr. Kazmir made the motion. Ms. Feehan seconded. The vote was unanimous and the minutes were approved.

2. INFORMATIONAL PRESENTATION

Princeton HealthCare System

Ms. Charters called on Carl MacDonald to give the Members an informational presentation on the Princeton HealthCare System transaction. Ms. Charters reminded the Members that they had approved a motion to permit the pursuit of a negotiated sale in the form of a private placement and a motion to permit a public sale of bonds on behalf of Princeton HealthCare System in July of this year.

Mr. MacDonald informed the Members that Princeton HealthCare System (Princeton), a New Jersey nonprofit corporation, is a 371-bed acute care facility located in Plainsboro Township. The System offers a full continuum of care that includes acute care hospital services, behavioral healthcare, acute rehabilitation, skilled nursing, home care hospice care, ambulatory surgery and fitness and wellness services.

Mr. MacDonald said that Authority Staff is in the process of structuring a tax-exempt financing of approximately \$316 million on behalf of the System. Currently, the Series 2015 transaction is authorized to be issued in a combination of a private placement and/or a public offering. The proceeds are expected to be used to currently refund the Authority's Princeton Medical Center Series 2010B Bonds, which are privately placed with TD Bank; the 2010C Bonds, which are privately placed with Wells Fargo Bank; the 2010D bonds, which are privately placed with JP Morgan Chase. The funds will also be used to: refinance a private loan held with Bank of America; provide reimbursement for a surface parking lot project on the hospital campus; renovations, construction and expansion of the obstetrics and gynecology suite and facilities; fund a debt service reserve fund, if necessary; and to pay the related cost of issuance.

According to Mr. MacDonald, the FY2014 audited financial statements and the Authority's Apollo Report, Princeton reported a deficit of revenues over expenses of \$(16.947) million and \$(17,601) million for the years ending 2014 and 2013, respectively, primarily due to depreciation on the new hospital. Princeton has seen consistent increases in revenues from \$334.3 million in 2012 to \$367.0 million in 2014. In addition, since FY2012, inpatient admissions have remained relatively constant from 16,544 in 2012 to 16,815 in 2014, as occupancy rates have increased from 63% in 2012 to 71.6% in 2014. In addition, financial ratios designed to measure the System's liquidity as well as operating performance and capital structure are on par with statewide medians. At year-end 2014, Princeton had 100 days cash on hand, an operating margin of (3.34%) and debt service coverage of 1.94 times.

Mr. MacDonald informed the Members that Princeton has previously issued debt through this Authority for the construction of its new facility during 2010, in a total amount of \$355M. The System is currently pursuing credit ratings with Moody's, S&P and Fitch. And, in accordance with Authority policy, management submitted financial projections for the years 2015 through 2020. The projections were reviewed by staff and included in the meeting packet.

Mr. MacDonald said that following a competitive process, Princeton has selected Wells Fargo and Bank of America Merrill Lynch to serve as their Co-Senior Managing Underwriters for the

2015 Public Offering. Bank of America and Wells Fargo were also selected as bond purchasers for the Series 2015 Direct Placement.

Mr. MacDonald concluded by saying that he or Mr. Glenn Zirbser, Chief Financial Officer for Princeton, would be happy to answer any questions.

Mr. Hopkins announced that Barry Rabner, CEO of Princeton HealthCare System was also in attendance.

Ms. Charters asked about Princeton HealthCare System's credit rating. Mr. Zirbser responded that Fitch was asked to assess their credit status and the preliminary rating is in the BBB+ range which is investment grade. Fitch is encouraged by Princeton's 2015 financial results, their strengthening balance sheet and earnings. Princeton expects Fitch to get back to them in November with a formal rating.

Ms. Charters thanked Mr. MacDonald for his presentation.

3. EXTENSION OF THE PROGRAM ADMINISTRATOR CONTRACT FOR THE CAPITAL ASSET PROGRAM Optimal Capital Group, LLC

Ms. Charters asked Jessica Lucas to inform the Members about the contract for the Administrator of the Capital Asset Program.

Ms. Lucas began by introducing Mark Salimena, Managing Director of Optimal Capital Group, LLC.

Ms. Lucas reminded the Members that in November 2012, the Authority entered into a contract with Optimal Capital Group, as program administrator for the Capital Asset Program, Series A-D. The original contract was for a two-year period, subject to three (3) one-year extensions.

Ms. Lucas reported that the Members approved a resolution to extend the contract for the first of three (3) possible one-year extensions last September. According to Ms. Lucas, Optimal Capital Group has agreed to the second extension with the same terms at an annual cost of \$12,000.

Ms. Lucas said that Staff requests the Authority's consideration of appointing Optimal Capital Group for the second of three (3) one-year extensions.

Ms. Lucas then said that she or Mark Salimena would be happy to answer any questions the members might have. There were no questions.

Ms. Charters asked for a motion to grant Optimal Capital Group a second one-year extension of their contract as the Program Administrator for the Capital Assets Program. Dr. Kazmir made the motion. Mr. Conca seconded. The vote was unanimous and the motion passed.

AB RESOLUTION NO. PP-28

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the second of three (3) possible one-year extensions of the contract with Optimal Capital Group, LLC to serve as the Administrator of the Capital Asset Program.

4. AUDIT COMMITTEE REPORT Mercadien Group

Ms. Charters asked Mr. Conca to provide the Members with a report on the Audit Committee's meeting to select an auditing firm for the Authority.

Mr. Conca reported that the Audit Committee, comprised of Ms. Kralik, Mr. Feeney, and he (Chair), met at 11:00 am on October 7, 2015, via conference call to consider the Evaluation Committee's ranking report on selecting an auditing firm for the Authority. According to Mr. Conca, the Committee recommends that Mercadien, LLC be hired for a three-year contract as the Authority's Auditor, with the possibility for two (2) one-year extensions. In addition, the Committee advised the Members that, in instances when the same agency is awarded Auditor in consecutive engagements (as would be the case for Mercadien, the current Auditor), a different partner in the agency should be assigned.

Mr. Conca then made a motion to award the auditing contract to Mercadien, LLC.

Ms. Charters asked for a second. Ms. Feehan seconded. The vote was unanimous and the motion passed.

AB RESOLUTION NO. PP-29

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the awarding of the Authority's auditing contract to the Mercadien Group for three (3) years, with the option of two (2) one-year extensions.

Ms. Charters thanked Dr. Kazmir and Ms. Rodriguez for work on the bid Evaluation Committee and making the recommendation to the Audit Committee.

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. Conca seconded the motion. All Members voted in the affirmative and the motion carried.

AB RESOLUTION NO. PP-30

WHEREAS, the Members of the Authority have reviewed the memoranda dated October 14, 2015, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of \$73,518.00 and \$12,872.70 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, the Third Quarter Budget Report 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. The Authority was in the news this month, mentioned as a potential bidder in the Saint Michael's Medical Center bankruptcy auction. A number of articles on the Saint Michael's bankruptcy are being provided today.
2. Hospital & Other News
 - a. AtlantiCare Health System merged with Geisinger Health System on October 1, 2015. Geisinger is based largely in rural Pennsylvania, is physician-led and has emerged as a model of care coordination. A recent article on Geisinger's care coordination model is also being provided today.
 - b. Prime Healthcare Services completed its acquisition of St. Clare's Health System on October 1, 2015. Prime is a growing for-profit hospital company that has

hospitals in California, Texas, Nevada, Kansas, Pennsylvania and Rhode Island. Prime acquired St. Mary's Hospital in Passaic in August of 2014 and is the stalking horse bidder for St. Michael's Medical Center in Newark.

- c. Dennis Kelly, the President and CEO of CarePoint Health, has announced he is stepping down at the end of this month. He plans to move back to Charlotte, North Carolina, where his family is. CarePoint co-founder Jeff Mandler will succeed Mr. Kelly as President and CEO.
- d. Trinitas Regional Medical Center has announced plans to double the capacity of its emergency room and upgrade technology in an \$18 million capital plan. The project is expected to be completed by 2017, in three phases, and funded entirely through donations.
- e. HUMC at Pascack Valley Hospital is also planning to expand its emergency room with a \$14 million capital project.
- f. Virtua Health has formed an alliance with the University of Pennsylvania Health System for cancer and neuroscience services.
- g. St. Luke's Warren Campus dedicated its new intensive care unit and infusion center on October 15, 2015. The 20,000 square foot project cost about \$9 million and was partially funded by donations.
- h. Four New Jersey hospitals have been named among the "Most Connected" by U.S. News & World Report: Hackensack University Medical Center, Morristown Medical Center, Overlook Medical Center and St. Peter's University Hospital.
- i. Aetna has launched a tiered network health insurance plan for State employees, called the Aetna Liberty plan. The State requested that health insurers serving the State Health Benefits Plan provide lower cost options for State employees to choose.
- j. Horizon Blue Cross Blue Shield of New Jersey's OMNIA Health Alliance, which is available to both State employees and the general marketplace, continues to be the subject of a great deal of press and scrutiny for its exclusion of some hospitals including many inner city and Catholic hospitals. The Attorney General's office is looking into how the alliance was created and legislators grilled Horizon executives at a hearing on October 5, 2015. A sampling of articles on Omnia is being provided today.
- k. Several other articles are being provided on the following New Jersey issues: (i) improving health outcomes from the Camden Coalition of Healthcare Providers initiative to pay doctors for follow up visits with patients within a week of hospitalization; (ii) the growth of health care to primary care facilities and even electronic-based services; (iii) the expected drop in New Jersey health insurance

premiums in 2016 resulting from the accurate prediction of New Jersey insurers at setting rates; (iv) the need to continue the push to electronically connect health care providers for better health outcomes; (v) the current crucial juncture for New Jersey Medicaid ACOs for funding and insurance contracts; (vi) the current trends shaping healthcare as seen by Summit Medical Group's CEO; (vii) federal grants received by the New Jersey Innovation Institute and CarePoint Health to improve quality and efficiency of providing healthcare; (viii) how home-care technology can reduce hospital readmissions; (ix) the decline in hospital acquired conditions at New Jersey hospitals as a result of the ACA-funded Partnership for Patients initiative, which is overseen by the New Jersey Hospital Association; (x) New Jersey's progress in reducing hospital readmissions; (xi) an opinion piece on hospital mergers causing lower quality and higher costs; (xii) Linda Schwimmer's plans as the new president of the New Jersey Health Care Quality Institute; and (xiii) the lagging enrollment in health insurance by North Jersey residents.

1. Also included are the following articles on national health care issues: (i) unintended costs of health care integration; (ii) how high-deductible health insurance plans can lead to costly procrastination in seeking health care services; (iii) The Commonwealth Fund's report noting that the United States spends the most on health care but treats fewer patients and has worse results; (iv) the new payment models proposed by CMS for ACOs; (v) early successes reported in implementing ICD-10; (vi) the Government Accountability Office's report that indicates hospital penalties and incentives for, respectively, poor performance indicators and good performance indicators, have not resulted in demonstrable improvements at hospitals over the first three years of the initiatives; (vii) healthcare added 34,400 jobs in September including 15,500 jobs added at hospitals; (viii) five things to know about ACA enrollment trends; (ix) the slower than expected shift from fee-for-service models of health care payment to value-based models; (x) the higher prices charged by for-profit hospitals; (xi) Moody's prediction that nonprofit hospitals will increasingly enter the health insurance market; (xii) the increases in hospital capital spending and borrowing, which is largely attributed to the ACA; (xiii) Fitch's observation that nonprofit hospitals are benefiting from fewer uninsured as a result of the ACA; (xiv) a finding that health insurance deductibles are increasing faster than wages; and (xv) the increase in the penalty for not enrolling in health insurance under the ACA from \$325 per person or 2% of taxable income (whichever is higher) to \$695 per person or 2.5% of taxable income.
- m. An article is included on the revised rule proposed by the Municipal Securities Rulemaking Board on the municipal bond pricing disclosure.

7. EXECUTIVE SESSION

Ms. Charters asked for a motion to go into Executive Session to discuss potential litigation and contractual negotiations and receive legal advice regarding St. Michael's Medical Center and Deborah Heart and Lung Center.

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 met in Executive Session to discuss potential litigation and contractual negotiations and receive legal advice regarding St. Michael's Medical Center and Deborah Heart and Lung Center. Ms. Charters stated that the discussions in Executive Session would be made public when the need for confidentiality no longer exists. The Members went into Executive Session at 10:35 a.m.

AB RESOLUTION NO. PP-31

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 contractual negotiations, potential litigation and receive legal advice regarding St. Michael's Medical Center and Deborah Heart and Lung 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 10:48.

8. RESOLUTION OF THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY AUTHORIZING A CLOSING AGREEMENT WITH THE INTERNAL REVENUE SERVICE

Ms. Charters asked Mr. Hopkins to read the resolution regarding the Internal Revenue Service closing agreement.

Ms. Charters asked for a motion to authorize the closing agreement with the Internal Revenue Service. Dr. Kazmir made the motion. Mr. Conca seconded. The vote was unanimous and the motion passed.

AB RESOLUTION NO. PP-32

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves a resolution of the New Jersey Health Care Facilities Financing Authority authorizing a closing agreement with the Internal Revenue Service.

(attached)

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 10:51 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 OCTOBER 22, 2015.

Carole A. Conover, Assistant Secretary