

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on January 28, 2016 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

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

Alison Gibson (Chairing), 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; and, via telephone, Elisa Charters, Vice Chair, Public Member; Dr. Munr Kazmir, Public Member; and, Suzette Rodriguez, Public Member

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

Mark Hopkins, Steve Fillebrown, Ron Marmelstein, Carole Conover, Michael Ittleson, Carl MacDonald, Bill McLaughlin, Frank Troy, John Johnson, Marji McAvoy, Nino McDonald, Debra Coons and Chris Kniesler

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

Cliff Rones, Attorney General's Office; Lisa LaBoeuf, Governor's Authority Unit; Matthew Kostinas, David Kostinas and Associates

## **CALL TO ORDER**

Executive Director Mark Hopkins called the meeting to order at 10:06 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.

Mr. Hopkins began by introducing Alison Gibson as the Authority's new Designee for the Commissioner of Health. Ms. Gibson serves as the Department's Deputy Chief of Staff.

Mr. Hopkins recommended that in the absence of the Chair and the Vice Chair, that a Chair pro tem should be named. Dr. Kazmir nominated Alison Gibson to serve as Chair pro tem for the January 28, 2016 meeting and Ms. Feehan seconded. All Members voted in the affirmative and the motion carried.

## **1. APPROVAL OF MINUTES**

### **a. December 17, 2015 Authority Meeting**

Minutes for the Authority's December 17, 2015 Authority meeting were distributed for review prior to the meeting. Ms. Gibson asked for a motion to approve the minutes. Dr. Kazmir made

the motion. Ms. Rodriguez seconded. All Members voted in the affirmative and the minutes were approved.

## **2. BOND SALE REPORT**

### **Princeton Healthcare System**

Ms. Gibson called on Bill McLaughlin to give the Members a report on the recent Princeton Healthcare System transaction.

Mr. McLaughlin informed the Members that, on January 6, 2016, the Authority, along with Wells Fargo Securities, as lead underwriter, priced the \$190,065,000 publicly issued tax-exempt Series 2016A bond financing on behalf of the Princeton Health Care System. The bonds were rated Baa2/BBB by Moody's and Fitch, respectively. Additionally, on behalf of Princeton Health Care System, this Authority issued two directly placed series of bonds. The \$65 million Series 2016B bonds were directly placed with Wells Fargo while the \$20 million Series 2016C bonds were placed with Bank of America.

Mr. McLaughlin reported that the proceeds of the combined Series 2016A, Series 2016B and Series 2016C issuances were or will be used to currently refund all or a portion of the Authority's Princeton Medical Center Series 2010B, 2010C & 2010D Bonds; refinance all or a portion of a Bank of America loan; construct a surface parking lot on the hospital's campus; and pay the related costs of issuance.

According to Mr. McLaughlin, extensive pre-marketing efforts were utilized to ensure a large and concerted investor engagement effort. The Preliminary Official Statement was posted and available one month prior to pricing. A comprehensive investor roadshow, "in-person" investor presentations and site visits were conducted by Princeton's management team.

Mr. McLaughlin said that, following discussions with Princeton and the underwriting team, the decision was made to enter the market with a two-hour order period. The transaction was structured with serial bonds from 2016 to 2034 and a bi-furcated term bond in 2039; retail investors received priority on orders placed for maturities 2016 through 2026 and the 3.875% coupon 2039 term bonds; with net designated orders receiving priority on the remainder of the transaction.

At the conclusion of the order period, Mr. McLaughlin said that the underwriters had received approximately \$2 billion of orders. The transaction was more than 11 times oversubscribed. As a result of the "blowout" order period, the underwriters lowered yields by 8 to 15 basis points throughout the yield curve. At this point, Wells Fargo Securities made an offer to underwrite the bonds at the new levels and the Staff gave the verbal award. Yields on the Series 2016A bonds ranged from one-half a percent on the 2016 maturity to 3.41% on the 2039 maturity.

Mr. McLaughlin explained to the Members how well this credit was received in the marketplace. He said that when the pricing process began on Tuesday afternoon, the proposed all-in total

interest cost for the transaction was approximately 3.87%. At the time of the verbal award the all-in total interest cost had been decreased by over 20 basis points to 3.66%.

Mr. McLaughlin told the Members that this series achieved better overall yields than more highly rated transactions in the market at the same time, including both Lafayette General Health System which is rated Baa1 by Moody's and A minus by Fitch and Tallahassee Memorial Health Care which is rated Baa1 by Moody's. Among the factors that could have contributed to this remarkable performance are: strong sales performances by the underwriting team, high levels of investor liquidity, exemplary marketing strategy and a recent dearth of publicly issued Authority transactions.

Mr. McLaughlin concluded by saying this transaction closed on January 20, 2016. He then offered to answer any questions that the Members had on the transaction.

Ms. Gibson thanked Mr. McLaughlin for his report. She reminded the Members that this report was for informational purposes only and that no action was required. She then asked if there were any questions or comments.

Mr. Hopkins remarked on the phenomenal job done on this transaction by the Authority's Project Management team, the underwriter team and the Princeton HealthCare System staff. He said that getting interest rates lower than an A rated credit issued on the same day for a BBB rated issue was incredible. Mr. Hopkins believes that this reflects the fact that the Authority is more active than our counterparts in other states when it comes to following up with the borrowers on matters such as their continuing disclosures, tax covenants and debt ratios.

### **3. APPROVAL OF EXPENSES**

Ms. Gibson 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. Feehan seconded the motion. All Members voted in the affirmative and the motion carried.

#### **AB RESOLUTION NO. PP-44**

**WHEREAS**, the Members of the Authority have reviewed the memoranda dated January 20, 2016, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of \$94,599.50 and \$34,870.16 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.

#### 4. STAFF REPORTS

Ms. Gibson thanked Staff for the Project Development Summary, Cash Flow Statement, Year-End Budget Report and Legislative Advisory reports.

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

Mr. Hopkins then presented the following items to Members:

1. In June of 2007 the Authority adopted Resolution No. HH-28 which lowered certain Authority fees but created an automatic annual adjustment to the amount of bonds that would be subject to the Authority's initial fees and annual fees (the "fee cap"). The resolution called for the adjustment of the fee cap commensurate with the change in the average of the Consumer Price Index for all Urban Consumers ("CPI-U") in the New York and Philadelphia regions, rounded to the nearest million. For the twelve month period ending December 31, 2015 the CPI-U in the New York region increased 0.13% and in the Philadelphia region decreased 0.79%, for an average decrease of 0.33%. Based on this decrease and the fact we round to the nearest million, the Authority will continue to collect initial fees and annual fees on bond amounts up to the cap of \$96,000,000, the same amount as 2015. With the hospital industry consolidation already beginning, and in anticipation of fewer but much larger future financings, the Authority staff has begun researching ways to ensure the Authority will continue to be available to provide access to the capital markets in the future. These may involve restructuring of the Authority fee structure. Mr. Hopkins hopes to have some proposals to discuss with Authority Members by the next Authority meeting.
2. The Authority provided over \$514.8 million in financing in 2015 to seven (7) separate borrowers. The financings included \$323,364,000 in new money bonds and \$182,175,000 in refunding bonds. There was one \$7,845,950 financing for Barnabas Health through the Master Lease Program in 2015. There was one \$1.5 million Federally Qualified Health Center loan made to the Lakewood Resource and Referral Center, commonly referred to as CHEMED. There were no financings through the Capital Asset Program. The average all-in true interest cost on the \$505,539,000 in bonds issued in 2015 was 3.623%. Compared to taxable rates, the issuance of the \$323,364,000 in new money tax-exempt bonds saved Authority borrowers about \$41.1 million on a present value basis, over the first 10 years of the bonds. If those bonds remain outstanding longer, there will be additional savings. The \$182,175,000 million in refunding bonds saved Authority borrowers over \$8.1 million on a present value basis compared to the bonds that were refunded. Existing loans under the Capital Asset Program averaged an interest rate of 1.77% for calendar year 2015. The \$323,364,000 of new money bonds were issued to finance projects at the following health care organizations: Hackensack University Medical Center, Samaritan Healthcare & Hospice, Meridian Health System and \$100 million of the University Hospital financing. The \$182,175,000 in refunding bonds were issued to refund outstanding bonds for Children's Specialized Hospital and \$154,975,000 of

the University Hospital transaction. According to the unaudited year-end numbers, the Authority's 2015 expenses came in at \$3,324,033, which was 12.6% under budget and 7.1% above 2014 expenses. The Authority's income came in at \$4,240,268 which was 5.7% over budget and 0.3% above 2014 income. The Authority's receipts over disbursements came in at \$916,235, which is \$708,738 over budget and \$257,581 less than 2014.

3. Mr. Hopkins told the Authority Members that they should have received two (2) disclosure forms to be filled out by Friday, February 5, 2016. One was the "Personal and Business Relationships Disclosure Form" that is required pursuant to New Jersey Statute 52:34-10.11 for anyone, including Authority Members and Staff, involved in the procurement process. The second was "Annual Outside Activity Questionnaire" that is required pursuant to the State's Uniform Code of Ethics. Mr. Hopkins told the Members to consult with Robin Piotrowski, the Authority's Human Resources Manager and Ethics Liaison Officer, if they had any questions.

#### 4. Hospital & Other News

- a. Last Friday, Kennedy Health System signed a letter of intent to merge with Thomas Jefferson University Hospital. Kennedy operates hospitals totaling 607 beds in Cherry Hill, Stratford and Washington Township. Jefferson has over 2,200 beds in Philadelphia and its Pennsylvania suburbs.
- b. On January 1<sup>st</sup>, Meridian Health completed its acquisition of Raritan Bay Medical Center, with hospitals in Old Bridge and Perth Amboy. Meridian also operates Bayshore Community Hospital in Holmdel, Jersey Shore University Medical Center in Neptune, Ocean Medical Center in Brick, Riverview Medical Center in Red Bank and Southern Ocean Medical Center in Manahawkin. Meridian is also planning to merge with Hackensack University Health Network once all the regulatory processes are completed.
- c. Inspira is hoping to replace its Woodbury hospital with a new one on property in Harrison Township owned by Rowan University. However, on January 6<sup>th</sup>, Joe Devine, the CEO of Kennedy Health System, which operates a hospital six miles away and shares its Stratford hospital with the Rowan University School of Osteopathic Medicine, objected to Rowan's proposal to sell the property to Inspira. As a result, the Rowan Board of Trustees decided to table its vote on whether to sell the land to Inspira until February, so it could consider Devine's concerns.
- d. The legislature passed an act during the lame-duck session recognizing that nonprofit hospitals should be exempt from local property taxes but requiring them to make community service contributions of \$2.50 per licensed bed per day plus \$750 per day for satellite emergency departments. If a hospital had a negative operating margin it could apply to have the community service

contribution waived. Five percent of the contribution would go to the county and 95% would be retained by the municipality where the hospital was located. The bill was meant to eliminate the uncertainty created by a New Jersey court that found that Morristown Medical Center was not entitled to full property tax exemption based on the amount of for-profit business that went on in the hospital. Morristown Medical Center eventually settled with Morristown, rather than appeal. The Governor, without comment, failed to sign the bill before the end of the legislative session, effectively pocket vetoing it. Hospitals and municipalities are scrambling to come up with other ideas.

- e. In hospital personnel moves:
  - i. John Brennan, President and CEO of Newark Beth Israel Medical Center, is leaving after 23 years to become Executive Vice President of Wellstar Health System in Georgia. Current COO Darrell Terry will be interim CEO starting in February.
  - ii. St. Joseph's Healthcare System has brought in Lisa Brady Schmittgall as Senior Vice President and COO. She previously served in senior positions at Western Connecticut Health Network.
  - iii. Joe Hicks is retiring as President and CEO of Barnabas Health Behavioral Health Center and Network at the end of this month. Deanna Sperling, who has been with Barnabas since 1985, will be the new President and CEO. Jennifer Velez, who was previously the New Jersey Commissioner of Human Services and is currently Barnabas Health's Senior Vice President of Strategy and Planning will become Senior Vice President of Population and Behavioral Health Integration at Barnabas Health Behavioral Health Center and Network. Also, Community Health Center's interim President and CEO Michael Mimoso will become permanent.
- f. Becker's Hospital Review has named Elizabeth Sheridan, the COO at Inspira Medical Center of Elmer and Vineland, as one of the "Women Hospital and Health System Leaders to Know."
- g. The Third Circuit court has affirmed a lower court ruling that St. Peter's Healthcare System's pension plan is not a "church plan" which would have allowed it an exemption from certain ERISA requirements, because it was not established by a church when it was formed in 1974. Unless appealed, the ruling would require St. Peter's to fully fund its pension plan in accordance with ERISA. The plan was believed to be underfunded by \$30 million in 2014.

- h. St. Peter's also lost a case to halt the January 1<sup>st</sup> rollout of Horizon Blue Cross Blue Shield of New Jersey's OMNIA Health Plans. St. Peter's sought to stop Horizon from offering the new tiered plan until it could demonstrate why St. Peter's was not included in Tier 1 of the plan. The litigation will continue on whether Horizon unfairly excluded St. Peter's. Other hospitals are pursuing similar suits against Horizon's OMNIA.
- i. Virtua Health System has joined AmeriHealth New Jersey's Local Value Network. It will permit Local Value Network members to visit Virtua facilities on an in-network basis. Virtua Health will also be a Tier 1 provider under AmeriHealth's Tier 1 Advantage Plan, providing enhanced member benefits.
- j. The CN and CHAPA application for the sale of St. Michael's Medical Center to Prime Healthcare Services have been declared complete. It is expected that the State Health Planning Board will hear the application on February 4<sup>th</sup>. The Commissioner of Health thereafter has 120 days to act on their recommendation.
- k. Last Thursday, the bankruptcy court named Prospect Medical Holdings as the winning bidder for East Orange General Hospital. The Department of Health and the Attorney General's Office are reviewing the Asset Purchase Agreement approved by the bankruptcy court to determine if the regulatory processes need to be reopened.
- l. Other articles on New Jersey health care provided to the Members included: (i) how winter exacerbates readmissions at safety net hospitals; (ii) why New Jersey has the highest percentage of foreign trained doctors; (iii) New Jersey hospitals' fear that charity care payments will be reduced further in the State's FY2017 budget; (iv) what recent New Jersey hospital mergers mean for patients; and (v) a national study that points out the potential danger of monopolies in New Jersey health care.
- m. Other articles about national health care issues included: (i) the average cost per inpatient day in each of the 50 states (New Jersey is \$4,656 for State/local government hospitals (well above the U.S. average), \$2,553 for nonprofit hospitals (slightly above the U.S. average) and \$1,453 for for-profit hospitals (substantially below the U.S. average)); (ii) hospital merger and acquisition activity rose 70% since 2010; (iii) taxpayers fund 64.3% of U.S. health spending; (iv) a study shows that uninsured hospital stays dropped by 50% in states that adopted Medicaid expansion; (v) what role should the government have in U.S. health care; (vi) how will ACOs grow over time; (vii) how ACO's are improving how the health system cares for patients and reduces costs; (viii) how uninsured rates leveled off at 11.9% over the course of last year, indicating the Affordable Care Act's effect on health insurance may have plateaued; and (ix) Federal Trade Commission actions to block, on anti-

competition concerns, two mergers: the Penn State Hershey/PinnacleHealth merger in Pennsylvania and the Advocate Health Care/NorthShore University Health System merger in Illinois.

## 5. Authority News

- a. Mr. Hopkins reported that Susan Tonry will be rejoining the Authority as a part-time, interim Compliance Manager during Taryn Rommell's maternity leave. Susan was the Authority's Assistant Director of the Division of Research, Investor Relations and Compliance before leaving the Authority to beat a life threatening illness.
- b. Michael Ittleson has tendered his notice that he will be retiring from the Authority effective July 1, 2016. Michael has been at the Authority for over 29.5 years, many of them as our Controller. He is who the Authority has to thank for the accurate financial reports, consistently clean Authority audits and precise budgets.
- c. Steve Fillebrown has also tendered his notice that he will be retiring effective April 1, 2016. Steve will be celebrating his 30<sup>th</sup> anniversary with the Authority next month and his expertise in health care financial monitoring and reporting is legendary not only throughout New Jersey government and health care organization circles, but nationally.

Mr. Hopkins will have much more to say about Michael and Steve before their retirements, but he wanted the Authority Members to be aware as soon as their departures became official, considering their important contributions to the Authority over the last three decades. Mr. Hopkins said that this is a huge loss for the Authority and for him personally.

Mr. Hopkins said that, unless the Members had specific question regarding the St. Michael's Medical Center bankruptcy, there was no need for an Executive Session. Mr. Hopkins provided the Members with a brief update. He reported that the court is waiting on the CHAPA and CN approvals which should be completed shortly. In addition, Mr. Hopkins said that the Authority is currently in negotiations involving the status of \$12 million in a deposit account; we believe it is part of the Authority's security, but the unsecured creditors dispute that claim. A mediation session was originally set for earlier this week, but it was been postponed.

Hearing no further business, following a motion by Ms. Kralik and a second by Ms. Feehan, the Members voted unanimously to adjourn the meeting at 10:34 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  
JANUARY 28, 2016.

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Carole A. Conover, Assistant Secretary