

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on March 24, 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 Commissioner 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, Jessica Lucas, Frank Troy, John Johnson, Ellen Lieber; Debra Coons, Bernie Miller, Sue Tonry 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; Frank Taylor, Ponder & Company; Chris McCann, JP Morgan, LLC.; Jonathon Ma, Morgan Stanley; Thomas Baldosaro, Executive Vice President and Chief Financial Officer and David Murray, Vice President Finance, Inspira Health Network

CALL TO ORDER

Executive Director Mark Hopkins called the meeting to order at 10:04 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 recommended that in the absence of the Chair and because the Vice Chair was participating by telephone, that a Chair pro tem should be named. Ms. Feehan nominated Alison Gibson to serve as Chair pro tem for the March 24, 2016 meeting and Ms. Kralik seconded. All Members voted in the affirmative and the motion carried.

1. APPROVAL OF MINUTES

a. February 25, 2016 Authority Meeting

Minutes for the Authority's February 25, 2016 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. Feehan seconded. Ms. Gibson, Ms. Feehan, Dr. Kazmir and Ms. Rodriguez voted in the affirmative. Ms. Charters and Ms. Kralik abstained. The minutes were approved.

2. INFORMATIONAL PRESENTATION AND APPROVAL OF CO-MANAGERS Inspira Health Network

Ms. Gibson called on Bill McLaughlin for an informational presentation on the Inspira Health Network transaction.

Mr. McLaughlin began by introducing Thomas Baldosaro, Executive Vice President and Chief Financial Officer and David Murray, Vice President Finance from the Inspira Health Network.

Mr. McLaughlin advised the Members that this was an Informational Presentation concerning a proposed bond transaction for the Inspira Health Network (“Inspira”) and that no action was required.

Mr. McLaughlin reported that Inspira has requested that the Authority consider the issuance of approximately \$190 million of tax-exempt bonds. The proceeds of the issue will be used to: refund all of the NJHCFFA issued South Jersey Hospital Series 2006 bonds; refund all of the NJHCFFA issued Underwood Memorial Hospital Series 2008 bonds; fund a debt service reserve fund, if required; and, pay the related costs of issuance. Mr. McLaughlin said that this is expected to be the first of two (2) tax-exempt bond financings on behalf of Inspira over the next twelve months or so. The second transaction is expected to be used for the construction of a replacement hospital.

According to Mr. McLaughlin, this transaction is expected to be structured as a publicly-issued fixed-rate financing and sold on the basis of the Borrower’s credit. Inspira is currently rated “A2” by Moody’s.

Mr. McLaughlin informed the Members that Inspira Health Network is a 501(c) (3) not-for-profit organization formed in 2012 by the merger of South Jersey Health System and Underwood Memorial Health System. The Network is now comprised of three (3) acute care hospitals and four (4) multi-specialty health centers. The hospitals are Inspira Medical Center, Vineland, a 276-bed facility in Cumberland County; Inspira Medical Center, Elmer, a 96-bed facility in Salem County; and Inspira Medical Center, Woodbury, a 305-bed facility in Gloucester County.

Mr. McLaughlin stated that the annual audited financial information for the period ended December 31, 2014, indicates that Days Cash on Hand increased slightly from 362.72 days in 2013 to 379.31 days in 2014, which is materially stronger than the 2014 Statewide Median of 65.08 days. In addition, Inspira’s Operating Margin for the years 2013 and 2014 was strong at 3.65% and 9.63%, respectively, as was the year-end 2014 Debt Service Coverage Ratio at 5.66 times.

Mr. McLaughlin told the Members that, with the annual period ended December 31, 2015, Inspira Health Network began including Inspira Medical Center, Woodbury in its annual reporting. The Unaudited Financial results for 2015 indicate a continued strong performance, with increases in both income from operations and excess revenues over expenses when compared to the same period in 2014. Also, Inspira’s Unaudited Annual Inpatient Utilization

Trends for the period ending December 31, 2015 were strong, showing decreases in average length of stay and occupancy rate.

Mr. McLaughlin concluded by asking if the Members have any questions pertaining to this transaction or Inspira and that he, Mr. Baldosaro, Mr. Murray would be happy to respond.

Ms. Gibson informed the Members that the Authority had a request for co-managers for the Inspira Health Network financing. She then called on Bill McLaughlin for the recommendation.

Mr. McLaughlin reported that Inspira Health Network notified the Authority that they have completed a competitive process and selected J.P. Morgan, LLC to serve as their senior managing underwriter. In addition, Inspira has requested that the Authority consider the appointment of the firms of Morgan Stanley as the co-senior managing underwriter and Bank of America Merrill Lynch as a co-managing underwriter on the forthcoming public transaction.

According to Mr. McLaughlin, there is an expected \$190 million par amount for the public series, and therefore, staff is recommending the assignment of three (3) co-managers. Mr. McLaughlin said that Staff supports the Borrower's recommended appointment of J.P. Morgan, LLC to serve as their senior managing underwriter, Morgan Stanley as co-senior manager and the Bank of America Merrill Lynch as a co-manager. Staff proposes adding the firms of Siebert Brandford Shank and Raymond James to the transaction as additional co-managers.

Mr. McLaughlin said that each firm has been qualified by this Authority to serve in the role of co-managing underwriter, has demonstrated the ability to distribute New Jersey securities and has sufficient capital to participate in the transaction. He then asked the Members to consider staff's request to name Morgan Stanley as a co-senior managing underwriter and the Bank of America Merrill Lynch, Siebert Brandford Shank and Raymond James as co-managers on the Inspira Health Network Series 2016A transaction.

Ms. Gibson asked if there were any questions on the recommendation.

Ms. Gibson asked for a motion to approve the appointment of Morgan Stanley as the co-senior managing underwriter and Bank of America Merrill Lynch, Siebert Brandford Shank and Raymond James as co-managers for the Inspira Health Network transaction. Dr. Kazmir made the motion. Ms. Kralik seconded. Ms. Gibson, Ms. Kralik, Ms. Feehan, Dr. Kazmir and Ms. Rodriguez voted in the affirmative. Ms. Charters abstained. The motion passed.

AB RESOLUTION NO. PP-52

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the appointment of Morgan Stanley as the co-senior managing Underwriter and Bank of America Merrill Lynch, Siebert Brandford Shank and Raymond James as co-managers for the Inspira Health Network transaction.

3. APPOINTMENT OF ASSISTANT SECRETARY

Ms. Gibson informed the Members that, with Steve Fillebrown's pending retirement, an Assistant Secretary to the Authority must be appointed. Ms. Gibson said that Mr. Hopkins is recommending Ron Marmelstein, Director of Operations, Finance and Special Projects for the position.

Ms. Gibson asked for a motion to accept the recommendation of appointing Ron Marmelstein as Assistant Secretary. Dr. Kazmir made the motion. Ms. Feehan seconded. The vote was unanimous and the motion passed.

AB RESOLUTION NO. PP-53

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby appoints Ron Marmelstein to replace Steve Fillebrown as Assistant Secretary for the Authority.

4. RESOLUTION OF APPRECIATION FOR STEVE FILLEBROWN

Ms. Gibson announced that, after 30 years, Steve Fillebrown was retiring from the Authority.

Mr. Hopkins then read a Resolution of Appreciation for the Members' consideration and presented it to Mr. Fillebrown.

Ms. Gibson expressed her heartfelt thanks to Mr. Fillebrown on behalf of the Department of Health. Ms. Gibson said that he has been a great colleague and expert for the Department and will be missed. Ms. Charters expressed her gratitude to Mr. Fillebrown for his commitment to the Board and his allegiance to the health care sector. She also thanked him for his excellence in analysis and research as well as his professional ethics.

Ms. Gibson asked for a motion to approve the Resolution of Appreciation for Steve Fillebrown. Dr. Kazmir made the motion. Ms. Feehan seconded. The vote was unanimous and the motion passed.

Mr. Fillebrown thanked the Members and said that he owed a lot to the many people who helped him along the way. He said that the resolution really meant a lot to him.

AB RESOLUTION NO. PP-54

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts the resolution entitled “RESOLUTION OF APPRECIATION FOR STEPHEN M. FILLEBROWN” for his thirty years of service at the Authority and thanks him for his many contributions.

5. AUTHORITY 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. Rodriguez seconded the motion. All Members voted in the affirmative and the motion carried.

AB RESOLUTION NO. PP-55

WHEREAS, the Members of the Authority have reviewed the memoranda dated March 16, 2016, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of \$2,000.00 and \$ 381,816.39 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. Gibson thanked Staff for the Project Development Summary, Cash Flow Statement 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. Authority Members and Senior Staff are reminded that they are required to file Financial Disclosure Statements with the State Ethics Commission by no later than May 15, 2016. 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 the Members have any questions about the process please call Mr. Hopkins or Robin Piotrowski, the Authority's Ethics Liaison Officer.
2. Hospital & Other News
 - a. On March 7, the Commissioner of Health approved the Certificate of Need for Prime Healthcare's acquisition of St. Michael's Medical Center. The Attorney General's office has recommended approval of the transfer under the State's CHAPA regulations. A State Superior Court Judge is scheduled to make the final decision on CHAPA on April 7. We expect the transfer to take place on or around April 18. As of December 31, 2015, there was \$223.88 million in bonds outstanding and Prime has offered a \$62.2 million purchase which is subject to some adjustments. It should be noted that approximately \$5 million of the purchase price is subject to a priority lien on a St. Michael's parking lot that was not subject to the Authority's mortgage and which was used to secure the Debtor-in-Possession loan, which allowed the hospital to continue operations through the bankruptcy, and thus not all the proceeds of the sale will go to the Authority. Also, the unsecured creditors' committee claims that funds in St. Michael's deposit accounts were not properly perfected by the Authority and thus is eligible to be divided up among the unsecured creditors, of which the Authority is a substantial creditor. The Authority is weighing its options on how to reach the highest recovery under both its secured claim and its unsecured claim.
 - b. On March 1, Palisades Medical Center officially became a part of the Hackensack University Health Network and has been renamed HackensackUMC Palisades. Palisades became an affiliate of Hackensack in 2012, but will now be fully integrated into the network.
 - c. The Federal Trade Commission has issued a ruling that it will not block the pending merger of Hackensack University Health Network and Meridian Health. The merger is currently being reviewed by the New Jersey Attorney General's office for CHAPA approval.
 - d. On March 16, the Superior Court approved the CHAPA application of Hackettstown Regional Medical Center to become part of Atlantic Health System. The transaction is expected to be finalized shortly.

- e. Prospect Medical Holdings completed its acquisition of East Orange General Hospital on March 1st. It also announced that Otis Story will serve as the hospital's President and CEO. Mr. Story was the COO of the University of Medicine and Dentistry of New Jersey from 1990 to 1996 and has served in numerous health care executive and consulting positions since, including at West Penn Allegheny Health System. East Orange entered bankruptcy in the fall despite having received both CHAPA and CN approvals for the sale to Prospect prior to the bankruptcy. The bankruptcy auction with Prospect as the successful bidder did not require a reopening of the CN process but did require further review under CHAPA.
- f. In ratings actions:
 - i. Moody's affirmed its "Ba1" rating on approximately \$158 million of bonds issued by the Authority on behalf of St. Peter's University Hospital with an outlook of stable.
 - ii. Moody's also affirmed its "Baa1" rating on approximately \$39 million of bonds issued by the Authority on behalf of CentraState Medical Center with an outlook of stable.
 - iii. Fitch has upgraded the implied general revenue rating on obligations issued on behalf of Children's Specialized Hospital from "BBB+" to "A-." With the rating upgrade, Fitch revised the outlook from positive to stable. The Authority has issued approximately \$40.6 million in bonds for Children's Specialized, all of which were privately placed and are not explicitly rated.
- g. Virtua Health has partnered with Aetna to create a new Accountable Care Organization in south Jersey to be called Aetna Whole Health Virtua Plan. The plan will also utilize Virtua Physician Partners, a clinically integrated network of community physicians affiliated with Virtua. The goal is to provide an affordable health insurance plan and improve health care outcomes.
- h. The legislature has held hearings on tiered health insurance plans like Horizon's Omnia, discussing improving transparency and updating regulations. Senate President Sweeney has announced he will not support legislation that interferes with Horizon's Omnia plan.
- i. The Camden Coalition of Healthcare Providers has received \$8.7 million in funding from AARP, The Atlantic Philanthropies and the Robert Wood Johnson Foundation to establish a national center to improve care for high-need patients who experience poor outcomes despite extreme patterns of hospitalizations or emergency care. Under the leadership of Dr. Jeffrey Brennen, the work of the Camden Coalition has proven extremely effective in

the Camden area and the goal of the national center is to spread that success to other parts of the country.

- j. Over a dozen towns have begun the process of assessing property taxes or suing nonprofit hospitals for property taxes since a judge ruled in favor of Morristown against Morristown Medical Center last year. A bill approved by both houses of the New Jersey legislature proposing to charge hospitals a “community service contribution” was pocket vetoed by the Governor at the end of the last legislative session. Competing bills proposing some compromise have been introduced in both the Senate and Assembly. On Friday, Governor Christie sought a compromise by proposing a two year moratorium on the collection of property taxes on nonprofit hospitals and the appointment of a nine-member commission to iron out a fair, long-term solution to the problem. The commission would be chaired by the Treasurer and consists of the Commissioner of Health, the Commissioner of Community Affairs, the Secretary of Higher Education, the Executive Director of the Authority, and four members appointed by the Governor with expertise in property taxes to include one recommended by the Senate President and one recommended by the Assembly Speaker and one who is the mayor of a municipality with a nonprofit hospital or institution of higher education and one who represents a nonprofit hospital or institution of higher education.
- k. The proposed Charity Care and Graduate Medical Education subsidies, by hospital, have been provided by the Department of Health. While the Governor’s budget reduces Charity Care subsidies by \$150 million it increases Graduate Medical Education subsidies by \$60.7 million and adds \$24.7 million for Hospital Mental Health Offset Payments. The provision of Charity Care by hospitals has fallen significantly since 2013 from \$1 billion to \$570 million in 2014. This is due to the increase in health insurance coverage under the Affordable Care Act, primarily from many more people being covered by the expansion of Medicaid and the individual mandate to purchase health insurance. As a result most New Jersey hospitals will see a reduction in Charity Care subsidies but have benefited from more insured patients at higher rates than Charity Care pays.
- l. Summit Medical Group plans to open a cancer center in Florham Park in partnership with MD Anderson Cancer Center. The facility is expected to be 130,000 square feet and to include surgical, radiation and medical oncology services along with imaging devices, a lab and a pharmacy. The location is next to the 100,000 foot building Summit Medical Group opened last summer. Summit Medical Group is the state’s largest multispecialty physician group.
- m. Inside Jersey has released its list of Top Hospitals for 2016. A copy of the article is being provided today.

- n. Senate President Sweeney has requested that New Jersey hospitals provide the legislature with 10 years of earnings and profit margins. When asked by the press, many hospitals appeared willing to comply. At the suggestion of Sister Pat Codey, representing the State's Catholic hospitals, Senator Sweeney later requested that all insurers provide the same information to the legislature. According to Senator Sweeney's letter, the information will be used to "identify cost drivers associated with our state's health care system. . . . [and] to examine whether our existing statutory framework is fostering an environment which produces high quality care at a fair cost to New Jersey consumers." The inquiry was triggered by the legislature's examination of tiered health insurance plans.
- o. New Jersey hospitals are expanding into population health by moving more services into communities. For instance, Inspira is providing support for all its affiliated primary care physicians to become a "patient centered medical home" for patients. It encourages the physician to track and monitor patients more closely and communicate more frequently in order to keep a patient healthy or prevent a patient's condition from deteriorating and necessitating a hospital visit. This has the added benefit of being more cost effective.
- p. Other articles about national health care issues include:
 - i. the rise of bad debt for hospitals nationally due largely to high deductible health plans, increased out-of-pocket medical expenses and more low income patients;
 - ii. CMS's final rule on the standards for health insurers selling coverage through the Affordable Care Act's exchanges;
 - iii. the Department of Health and Human Services early attainment of its goal of shifting 30% of Medicare payments to alternative payment methodologies based on quality;
 - iv. a survey revealing the top concerns of hospital executives;
 - v. the potential for investment losses and opportunities for nonprofit hospitals resulting from the volatile markets;
 - vi. a study from the American Journal of Managed Care that indicates the trend of hospitals acquiring physician practices has improved implementation of care plans for patients with chronic illness and other patient outcomes; and,
 - vii. a Northwestern study that indicates when hospitals merge within the same state but cover different local markets, prices increase 6% to 10%.

- q. In IRS news, the Tax-Exempt Bond Office has launched a program to resolve frequently disputed or burdensome tax issues outside of the audit process.

3. Authority News

- a. Mr. Hopkins took the opportunity to express his appreciation to Steve Fillebrown for his years of service. He said Steve's retirement was a great loss to the Authority and to the State of New Jersey. In addition, Mr. Hopkins said that he will personally miss Steve because he is a good friend, who was loyal to the Authority and could do anything that was asked of him. He added that he can't envision the Authority without him.
- b. The retirement dinner for Steve Fillebrown has been set for Thursday, March 31 at 6:00 p.m. at the Mercer Oaks Golf Course in Princeton Junction. Mr. Hopkins, Ron Marmelstein and Frank Troy have the details.

Mr. Hopkins informed the Members that he did not have any additional information regarding the St. Michael's sale and, therefore, he did not see a need for an Executive Session unless the Members had questions about the matter.

Ms. Gibson asked the Members if they had any questions to discuss in Executive Session. There were none.

Hearing no further business, following a motion by Dr. Kazmir 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
March 24, 2016.

Carole A. Conover, Assistant Secretary