Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on January 26, 2017, on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

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

Jim Foley, Designee of the Commissioner of Health (Chairing); Maryann Kralik, Designee of the Commissioner of the Department of Banking and Insurance; Jessica Feehan, Designee of the Commissioner of Human Services; and, via telephone, Dr. Munr Kazmir, Vice Chair and Suzette Rodriguez, Public Member.

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

Mark Hopkins, Ron Marmelstein, Frank Troy, Bill McLaughlin, Carole Conover, Edwin Fuentes; Marji McAvoy, Ellen Lieber, Taryn Rommell, Jessica Lucas, Debra Coons, Diane Johnson, Neetu "Nikki" Thukral, Nino McDonald, Michael Solidum, Bernie Miller and Chris Kniesler.

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

Cliff Rones, Attorney General's Office; Labinot Berlajolli, Governor's Authority's Unit; Bob Palermo, Vice President of Finance, Hackensack Meridian Health; and Brian Carter, Wells Fargo Securities

## 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 26, 2016 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 the fact that the Vice Chair was participating by telephone, that a Chair pro tem be named. Ms. Feehan nominated Jim Foley to serve as Chair pro tem for the January 26, 2017 meeting and Dr. Kazmir seconded. Mr. Hopkins called for a vote. Mr. Foley abstained. Dr. Kazmir, Ms. Kralik, Ms. Feehan and Ms. Rodriguez voted in the affirmative and the motion carried.

1. **APPROVAL OF MINUTES**
    a. **December 15, 2016 Authority Meeting**

Minutes for the December 15, 2016 Authority meeting were distributed for review and approval prior to the meeting. Mr. Foley asked for a motion to approve the minutes. Dr. Kazmir made the motion. Ms. Feehan seconded. Mr. Foley asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the minutes were approved.

    b. **January 10, 2017 Special Authority Meeting**

Minutes for the January 10, 2017 Special Authority meeting were distributed for review and approval prior to the meeting. Mr. Foley asked for a motion to approve the minutes. Dr. Kazmir made the motion. Ms. Kralik seconded. Mr. Foley asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the minutes were approved.

2. **NEGOTIATED SALE REQUEST**
    **Hackensack Meridian Health**

Mr. Foley called upon Edwin Fuentes to provide the Members with the details of the negotiated sale request by Hackensack Meridian Health. He reminded the Members that they were only voting on the use of a negotiated sale, not the actual sale of bonds.

Mr. Fuentes began by introducing Bob Palermo, Vice President of Finance for Hackensack Meridian Health.

Mr. Fuentes informed the Members that Hackensack Meridian Health ("the System") is a not for profit healthcare system located in New Jersey. It was formed in July of 2016 by the consolidation of Hackensack University Health Network and Meridian Health System. The System provides inpatient, outpatient, and emergency care services for a number of communities throughout the state of New Jersey.

According to Mr. Fuentes, Hackensack Meridian Health has signed a Memorandum of Understanding with the Authority to undertake a tax-exempt public offering of approximately $680 million of bonds. The proceeds of the proposed transaction will be used to: 1) refund all or a portion of certain outstanding Authority issued bonds; 2) refinance an acquisition financing bridge loan with Bank of America Merrill Lynch; 3) reimburse the Network for certain prior expenses related to its HOPE Tower construction project; 4) fund a debt service reserve fund, if required; 5) fund a capitalized interest account, if necessary; and 6) pay the related costs of issuance.

Mr. Fuentes stated that the System is currently rated A+ by Standard & Poor's. Per the combined annual financial information representing both legacy institutions for the periods ending June 30, 2016, Days Cash on Hand rose from 178.61 days in 2014 to 197.1 days in 2015, which is materially stronger than the 2015 Statewide Median of 57.08 days. The System's Operating Margin for the years 2014 and 2015 was stable at 6.14% and 6.86%, respectively. Debt Service Coverage Ratio at year end 2015 was solid at 3.74 times.

Mr. Fuentes reported that the legacy organizations of Hackensack Meridian Health Network and its affiliates have seventeen (17) outstanding debt obligations through this Authority, originally issued in an aggregate par amount of approximately $1.457 billion, of which approximately $1.1 billion remains outstanding as of January 1, 2017.

Mr. Fuentes said that Hackensack Meridian Health Network is requesting the use of a negotiated sale based on: (1) sale of a complex financing structure including those transactions that involve the simultaneous sale of more than one series with each series structured differently; (2) volatile market conditions; and (3) large issue size. These reasons are considered under the Authority's policy regarding Executive Order #26, to be a justification for the use of a negotiated sale. Mr. Fuentes then told the Members that staff recommends the consideration of the resolution approving the use of a negotiated public offering and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Fuentes concluded by saying that staff intends to conduct an Informational Presentation at the February 2017 meeting followed by a Contingent Bond Sale Presentation at the March 2017 meeting. He then said that he or Mr. Palermo would answer any questions from the Members. There were no questions.

Mr. Foley asked for a motion to approve the use of a negotiated sale on behalf of Hackensack Meridian Health. Dr. Kazmir made the motion. Ms. Feehan seconded. Mr. Foley asked if the Members had any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

**AB RESOLUTION NO. QQ-53**

**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."

*(attached)*

## 3. APPOINTMENT OF CO-MANAGERS
**<u>Hackensack Meridian Health</u>**

Mr. Foley called upon Bill McLaughlin to present the request for the appointment of Co-managers for the Hackensack Meridian transaction.

Mr. McLaughlin told the Members that Hackensack Meridian Health has notified the Authority that they have completed a competitive process and selected Bank of America Merrill Lynch to serve as their senior managing underwriter and Wells Fargo Securities as Co-Senior Managing Underwriter.

Mr. McLaughlin said that, given the expected $680 million par amount for this public series, staff is recommending the assignment of five co-managers. According to Mr. McLaughlin, under current Authority policy, co-managing underwriter assignments are awarded on a rotational basis that will consider the firms demonstrated ability to distribute New Jersey securities of comparable credit quality, capital sufficiency and borrower preference.

Mr. McLaughlin stated that staff supports the Borrower's recommended appointment of Morgan Stanley and PNC Capital Markets as co-managing underwriters and proposes adding JP Morgan, Goldman Sachs, Herbert J. Sims, Janney Montgomery Scott and Lancaster Pollard to the transaction as co-managing underwriters. 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.

Mr. McLaughlin offered to answer any questions from the Members.

Mr. Foley thanked Mr. McLaughlin for his presentation and asked if there were any comments or questions from the Authority Members. There were no questions.

Mr. Foley asked for a motion to approve the appointment of JP Morgan, Goldman Sachs, Herbert J. Sims, Janney Montgomery Scott, and Lancaster Pollard as Co-managers for the Hackensack Meridian Health transaction. Dr. Kazmir made the motion. Ms. Kralik seconded. Mr. Foley asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

### AB RESOLUTION NO. QQ-54

**NOW, THERFORE, BE IT RESOLVED,** that the Authority hereby approves the appointment of JP Morgan, Goldman Sachs, Herbert J. Sims, Janney Montgomery Scott, and Lancaster Pollard as Co-managers for the Hackensack Meridian Health transaction.

## 4. EXTENSION OF MEMORANDUM OF AGREEMENT TO PROVIDE FINANCIAL SERVICES TO THE NJ DEPARTMENT OF HUMAN SERVICES

Mr. Foley asked Frank Troy to present the resolution to extend the Memorandum of Agreement to provide financial services to the Department of Human Services to the Members.

Mr. Troy informed the Members that the Department of Human Services, Division of Aging Services (DHS) would like to extend the Memorandum of Agreement (MOA) signed in May 2014 between the Authority and DHS for three years to June 30, 2020. Mr. Troy explained that under the existing MOA, the Authority maintains an early warning system for long-term care facilities similar to the databases we have created for hospitals and for federally qualified health centers. He then referenced the draft resolution included in the Members' meeting packets.

According to Mr. Troy, the amendment is substantially similar in form and content to the 2014 agreement. The Authority's responsibilities under the MOA require staff to work with DHS to identify the appropriate financial elements and standardized reports; collect, input and review the data; provide DHS with an updated database within 90 days of the end of each quarter; and to meet with DHS staff to discuss and review information in the database. Mr. Troy reported that the Authority currently receives $6,600 per quarter for these services. This amount is adjusted for changes in salaries and other costs.

Mr. Troy concluded by saying that staff recommends approval of the amendment in substantially final form with such changes as the Office of the Attorney General may advise.

Mr. Troy offered to answer any questions from the Members.

Mr. Foley thanked Mr. Troy for his presentation and asked if there were any comments or questions from the Authority Members. There were no questions.

Mr. Foley asked for a motion to approve the extending of the Memorandum of Agreement with the Department of Human Services to provide financial data services. Dr. Kazmir made the motion. Ms. Feehan seconded. Mr. Foley asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution passed.

**AB RESOLUTION NO. QQ-55**

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby approves the Memorandum of Agreement to provide financial data services to the Department of Human Services.

## 5. 2017 DEBT MANAGEMENT PLAN

Mr. Foley asked Bill McLaughlin to present the Authority's Debt Management Plan to the Members.

Mr. McLaughlin reminded the Members that, under Executive Order no. 26 (Whitman), the Authority is required to prepare an annual Debt Management Plan and submit it to the Treasurer. Mr. McLaughlin stated that the Authority's Plan for 2017 reflects financings which were completed during 2016 and identifies four bond financings that are anticipated for 2017, along with a description of each project, the anticipated date of sale and issue size, security, ratings and a proposed method of sale.

In addition, Mr. McLaughlin reported that the Debt Management Plan anticipates the Authority entering into additional leases with Barnabas Health under their existing master lease program up to the remaining balance of $28.6 million in the coming year. Mr. McLaughlin also noted that the proposed plan excludes Capital Asset Program (CAP) loans, since these transactions do not involve the issuance of new debt.

Mr. McLaughlin reminded the Members that, as in prior years, the total volume for 2017 is subject to change, depending upon market conditions and borrowers' preferences. He then asked the Members to approve of the proposed plan and authorization to submit it to the Treasurer.

Mr. Foley thanked Mr. McLaughlin for his presentation and asked if there were any comments or questions from the Authority Members. There were no questions.

Mr. Foley asked for a motion to approve the 2017 Debt Management Plan and submit it to the Treasurer. Dr. Kazmir made the motion. Ms. Feehan seconded. Mr. Foley asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

### AB RESOLUTION NO. QQ-56

**WHEREAS,** the Members of the Authority have reviewed the memorandum dated January 18, 2017 regarding the 2017 Debt Management Plan.

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves a motion to adopt the proposed 2017 Debt Management Plan and submit it to the Treasurer in accordance with the requirements of Executive Order No. 26.

*(attached)*

## 6. APPROVAL OF EXPENSES

Mr. Foley 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. Kralik seconded the motion. Mr. Foley asked if the Members had any questions on the motion. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

**AB RESOLUTION NO. QQ-57**

**WHEREAS,** the Members of the Authority have reviewed the memoranda dated January 18, 2017 summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $80,813.00 and $39,660.19 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

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

Mr. Foley asked Executive Director Hopkins to present his Executive Director's report.

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 City and Philadelphia regions, rounded to the nearest million. In September 2016, the Authority Members readjusted the Authority's fee structure and eliminated the fee cap for annual fees and increased the fee cap for initial fees to apply to up to $100,000,000 of each financing. At that time the Authority Members also approved postponing any adjustment of the fee cap for initial fees until January of 2018. However, for the Authority Members' information, for the twelve month period ending December 31, 2016 the CPI-U in the New York City region increased 1.0773% and in the Philadelphia region increased 0.5872%, for an average increase of 0.8424%.

2. The Authority provided over $1.91 billion in financing in 2016 to nine (9) separate borrowers. As a result, the Authority ranked as the 32nd largest issuer of municipal bonds in the nation and the second largest in New Jersey during 2016. The financings included $269,949,473 in new money bonds and $1,614,027 in refunding bonds. There was one $27 million financing for Englewood Hospital and Medical Center through the Master Lease Program in 2016. There were no new Federally Qualified Health Center loans or new financings through the Capital Asset Program in 2016. The average all-in true interest cost on the $1,884,417,500 in bonds issued in 2016 was 3.526%. Compared to taxable rates, the issuance of the $269,949,473 in new money tax-exempt bonds saved Authority borrowers about $20.1 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 $1,614,468,027 in refunding bonds saved Authority borrowers over $185.7 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 2.85% for calendar year 2016.

   The $269,949,473 of new money bonds were issued to finance projects at the following health care organizations: Atlantic Health System, Princeton Healthcare System, RWJ Barnabas Health, St. Joseph's Healthcare System and Trinitas Regional Medical Center. The $1,614,468,027 in refunding bonds were issued to refund outstanding bonds for Atlantic Health System, Holy Name Medical Center, Inspira Health Network, Meridian Health System, Princeton Healthcare System, RWJ Barnabas Health, St. Joseph's Healthcare System and Trinitas Regional Medical Center.

   According to the unaudited year-end numbers, the Authority's 2016 expenses came in at $4,152,006, which was 6.96% higher than budget and 24.91% above 2015 expenses (largely due to expensing the $922,824 contribution into the Retiree Medical Benefits Trust which had not been budgeted in 2016 or previous years). The Authority's revenues came in at $4,248,009 which was 0.30% over budget and 0.18% above 2015 income. The Authority's receipts over disbursements came in at $96,002, which is $257,309 under budget and $820,236 less than 2015.

3. Authority Members should have received two disclosure forms to be filled out by Wednesday, February 1st. The "Personal and Business Relationships Disclosure Form" is required pursuant to New Jersey Statute 52:34-10.11 for anyone, including Authority Members and Staff, involved in the procurement process. The "Annual Outside Activity Questionnaire" is required pursuant to the State's Uniform Code of Ethics. Please feel free to consult Robin Piotrowski, the Authority's Human Resources Manager and Ethics Liaison Officer, if you have any questions.

4. Hospital & Other News

   a. Ryan Jensen, the CEO of The Memorial Hospital of Salem, resigned in mid-December in order to take a position as CEO of Desert Springs Hospital in

Las Vegas. Mr. Jensen had been CEO at Memorial since May of 2014. Memorial is under agreement to be sold to Prime Healthcare Foundation, pending regulatory review.

b. Richard Miller, CEO of Virtua Health, has announced that he will retire at the end of the year. Mr. Miller has been at Virtua for over 30 years, the last 21 as CEO. The Virtua board will be conducting a nationwide search for a successor.

c. John Gantner has been named as Executive Vice President and Chief Integration Officer of RWJ Barnabas Health. He has over 25 years of hospital executive experience including serving as Executive Vice President and Treasurer at Robert Wood Johnson University Hospital in New Brunswick, Executive Vice President at Meridian Health System and CFO at BayCare Health System in Florida. RWJBarnabas also informed the Authority that Brian Reilly, formerly the CFO, is no longer with the system and John Doll has been appointed Interim CFO.

d. Hackensack Meridian Health has named Robert Glenning as its President of Financial Services and CFO. Mr. Glenning was previously the Executive Vice President and CFO of legacy Hackensack University Health Network.

e. Englewood Hospital and Medical Center was in the news recently for the discovery of lead in some of its water. Englewood took immediate action to provide bottled and tank water. The cause of the lead was quickly identified and measures are being taken to correct it.

f. RWJBarnabas Health and the Children's Hospital of Pennsylvania have signed a letter of intent to explore working together to establish a pediatric health care delivery system to improve access to quality and efficient pediatric health in Central and Northern New Jersey.

g. Deborah Heart and Lung Center has been named one of the country's 50 Top Cardiovascular Hospitals by Truven Health Analytics.

h. At a public hearing last week, State regulators were urged to approve the sale of The Memorial Hospital of Salem, currently owned by the large for-profit Community Health Systems, to Prime Healthcare Foundation, a nonprofit affiliate of Prime Healthcare Services, which owns St. Clare's, St. Mary's and St. Michael's in New Jersey. The public hearing will be followed by the presentation of recommendations, prepared by Department of Health staff to the State Health Planning Board which will then submit its recommendations to the Commissioner of Health for a final decision.

i. Hackensack University Medical Center is planning a 300,000 square-foot addition to its Hackensack campus. The proposed new tower would house private patient rooms and new operating rooms.

j. According to a report issued by the New Jersey Hospital Association, New Jersey hospitals and health systems contributed $22.7 billion to the economy on 2015.

k. The case against Horizon Blue Cross Blue Shield of New Jersey's OMNIA tiered network health plan can proceed, according to a New Jersey court. Three hospitals remain as plaintiffs in the suit: CentraState Medical Center, Holy Name Medical Center and Valley Hospital. Four of the original seven hospitals that brought the suit have since dropped out. As a result, executives of RWJBarnabas Health and Hackensack Meridian Health may be deposed about the criteria used to include hospitals in the preferred Tier One of OMNIA.

l. Health Republic, a co-op health insurer created in response to the Affordable Care Act, will be liquidated according to the Department of Banking and Insurance. Attempts at rehabilitation last year proved ineffective and the uncertainty of the future of the Affordable Care Act makes stabilization of the insurer impossible.

m. Other articles on New Jersey health care being provided today include: (i) continuing attempts to address out-of-network medical bills; (ii) new legislation to be introduced by Senator Sarlo to preserve the property tax exemption for hospitals while allowing property tax on profit-making business in hospitals; (iii) Health care predictions of several prominent New Jersey health care officials, including Commissioner Bennett; (iv) how independent hospitals are becoming increasingly rare in New Jersey; (v) a report of UnitedHealth Foundation that New Jersey ranks the ninth healthiest population in the nation; and (vi) the new role of hospitals and the trend to partner with organizations that can support missions of wellness and community health.

n. Other articles about national health care issues include: (i) a list the 54 largest health care systems in the country by number of hospitals, including multi-state systems with hospitals in New Jersey: Community Health Systems (2$^{nd}$); Trinity Health (6$^{th}$); Prime Healthcare Services (7$^{th}$); Prospect Medical Holdings (31$^{st}$) and systems with hospitals solely in New Jersey: Hackensack Meridian Health (45$^{th}$) and RWJBarnabas Health (50$^{th}$); (ii) a report that finds that the Affordable Care Act has reduced the number of preventable hospitalization of long-term care facility patients by 31% since 2010; (iii) a report of the American Hospital Association that found 2015 hospital uncompensated care costs dropped to the lowest level since it has been calculated the number in 1990; (iv) a Health Affairs study that found readmission rates from patients at skilled nursing facilities has fallen from 2007 to 2013 by double digits with even higher rates attained by hospitals participating in Medicare Accountable Care Organizations; (v) President Trump has nominated David Shulkin to be the Secretary of Veterans Affairs. Mr. Shulkin was formerly President of Morristown Medical Center before being appointed by President Obama to serve as the VA undersecretary for health; (vi) new Medicare bundled payment models will require hospitals to create high-quality and efficient post-acute care networks; (vii) a study published by the Annals of Internal Medicine indicates that Medicare's tactic of fining hospitals for excessive readmissions has resulted in significantly lower readmissions, particularly at hospitals that previously had high readmission rates; and (viii) a thorough Modern Healthcare article on the outlook for 2017 and "healthcare re-reform"; (ix) 50 things to know about the hospital industry in 2017 from Becker's Hospital Review.

o. In tax and regulatory news, an article is being included today on the efforts of a coalition of municipal bond participants to lobby the new administration to support continued use of tax-exempt bonds.

5. Authority News

   a. Mr. Hopkins introduced Michael Solidum to the Members. He is the Authority's new Account Administrator. Mr. Solidum worked for over eight years at Merrill Lynch as an Assistant Vice President in the Advisor Engagement and Acquisition group. Prior to that he held accounting positions at several organizations. Mr. Solidum earned a Bachelor of Science degree in Business Administration from Rowan College.

   b. Mr. Hopkins reported that Caren Franzini, the former CEO of the New Jersey Economic Development Authority, passed away yesterday after a short battle with cancer. She retired in 2012 after nearly 20 years leading the EDA. Mr. Hopkins said that he was fortunate enough to work with Caren on a few occasions. She was a tireless visionary for economic development in New Jersey. She was an excellent role model for anyone wanting to run a state authority efficiently and effectively but with compassion. Mr. Hopkins added that he never heard anyone utter a negative word about her. The State has lost a great advocate.

As there was no further business, following a motion by Dr. Kazmir and a second by Ms. Kralik, the Members voted unanimously to adjourn the meeting at 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 26, 2017.

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Carole A. Conover, Assistant Secretary