Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on February 23, 2006 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:
Fred M. Jacobs, M.D. (Chairman), Commissioner of Health and Senior Services; Moshe Cohen, Ph.D., Public Member; Freida Phillips, designee of the Commissioner of Human Services; and, Maryann Kralik, designee of the Commissioner of Banking and Insurance.

The following **Authority staff members** were in attendance:
Mark Hopkins, Dennis Hancock, Jim Van Wart, Steve Fillebrown, Susan Tonry, Michael Ittleson, Suzanne Walton, Ron Marmelstein, Lou George, Carole Conover, Bill McLaughlin, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:
Edward Tetelman, Department of Health and Senior Services; Karen Lumpp, Atlantic Health System; Jack Swire, Kari Fazio, Wachovia Bank; Clifford T. Rones, Deputy Attorney General; and, Lisa Thornton, Governor's Authorities Unit.

CALL TO ORDER

Dr. Jacobs 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 26, 2005 Authority meeting. In accordance with the provisions of 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,* far enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

APPROVAL OF MINUTES

January 26, 2006 Authority Meeting

The minutes for the Authority's January 26, 2006 meeting were distributed for review and approval. Ms. Phillips offered a motion to approve the minutes; Ms. Kralik seconded. Dr. Jacobs voted yes, Dr. Cohen voted yes, Ms. Phillips voted yes, and Ms. Kralik voted yes. The motion carried and the minutes were approved.

INFORMATIONAL PRESENTATION

Atlantic Health System

Lou George began by introducing Karen Lumpp, Corporate Director of Special Projects at Atlantic Health System ("AHS"). He then stated that AHS operates three divisions commonly referred to as Morristown, Overlook, and Mountainside. The proposed AHS bond issue will provide proceeds to be used at the Morristown and Overlook facilities. The project at **Morristown** involves:

- construction of a five-story, 250,000 square foot facility;
- construction on top of an existing structure consisting of three patient floors, totaling approximately 100,000 square feet;
- construction of a "chiller plant" to provide cooling capacity and emergency power for portions of the campus;
- construction of a five-story, 1165-space parking garage;
- expansion of an existing parking deck creating an additional 106 parking spaces; and
- expansion and renovations to the hospital's main lobby.

The project may also include the acquisition of equipment and furnishing for the newly constructed and renovated areas. Upon completion of the Morristown project, the hospital expects to have a net increase of 60 licensed beds.

The project at **Overlook** relates to hardware and software for a disaster recovery system. In addition, proceeds will be used to pay capitalized interest, any reserve funds that might be required, and the related costs of issuance.

The total project cost will be in the area of $200 million. Proceeds from the bond issue will fund $150 million of the project and AHS will provide equity for the remaining $50 million.

The financing structure will involve one series of auction rate bonds with two lots of $75 million each. The bonds are expected to be issued as weekly auction rate securities. The payment of principal and interest on the bonds will be insured through a commercial bond insurance policy from Ambac. In addition, AHS has entered into a swap agreement that will take effect upon delivery of the bonds wherein they will pay a fixed rate of interest at 3.55% and receive a variable rate of interest equivalent to 68% of the London Interbank Offered Rate (LIBOR). Ambac has also insured the swap and any resulting termination payments. As with most auction rate securities, conversion to several other modes is available upon tender of the bonds. Optional modes include daily, weekly, commercial paper or term rates.

Mr. George stated that staff anticipates requesting approval for a contingent bond sale at the March Authority meeting and selling the bonds on or about May 2nd. He then turned the floor over to Steve Fillebrown to review AHS financial and utilization data, as well as financial projections through 2010 prepared by AHS management.

According to Mr. Fillebrown, the projections show that the transaction is financially viable, offering very strong numbers throughout the forecast period. Projections show an operating margin ranging from 1.4% to 2.8%, a profit margin ranging from 3.3% to 4.7%, cash-on-hand ranging from 186 to 234 days, and a maximum annual debt service coverage ratio of 4.5 to 6+, reflecting the system's predominantly variable rate portfolio.

Mr. Fillebrown then presented the projections' assumptions. In terms of volume, the projections assume little to no growth in admissions and assume no volume increase with the completion of the project. Outpatient services are projected to increase by less than 2% per year while deliveries and Emergency Department visits are forecast to grow by 2.5% per year. In terms of reimbursement, it projects: a 1.5% increase in Medicare, a cut in 2007 followed by stable reimbursement for Medicaid, and generally a 5.0% increase in managed care. These three average out to a 4 to 5% increase in reimbursement per year projected.

For most expenses, AHS projects a 4.0% rate of inflation, however, total expenses are projected to increase by approximately 5% per year due to volume increases. The benefits remain constant at approximately 23% of salaries and the full-time employees are projected to rise with volume, keeping the staffing per bed consistent. Mr. Fillebrown stated that the projections put forth by AHS are in the mid-range of conservatism.

Mr. Tetelman noted that there is a 10,000 patient admission difference between the Authority's APOLLO data and the projections presented by AHS. Mr. Fillebrown and Karen Lumpp both noted that the APOLLO data does not include newborns, rehabilitation patients and skilled nursing facility patients, which are included in the data offered by AHS. Mr. Tetelman then noted that the AHS bad debt shows a projected increase of $4 million in 2007, to which Mr. Fillebrown noted that bad debt is projected at a constant percentage of gross revenues throughout the projection period.

Dr. Cohen then asked about the poor financial margins demonstrated by AHS in 2003, to which Mr. Fillebrown stated that, at that time, AHS was in the process of winding down services offered at its Passaic General Hospital, preparing to sell the facility. The low margins are a reflection of several one-time items related to that sale process, which was a positive move for AHS, on the whole. Ms. Lumpp added that, in order to get an accurate picture of the system's financial stability at that time, one would have to look at the continuing operations data.

There were no further questions. No action was requested at this time, as this presentation was for informational purposes only.

NEGOTIATED SALE REQUEST

Virtua Health, Inc.

Mark Hopkins reported that Virtua Health, Inc. ("Virtua") signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing, the proceeds of which will be used to finance an Information Technology Digitization Project at Virtua's hospital campuses, information technology support sites, and certain other company locations. Virtua is seeking to finance a total of approximately $35,000,000 through the Authority to cover costs of issuance and other costs. Because the project consists primarily of equipment, the maturity of the bonds is expected to approximate seven years.

Virtua Health, Inc. is a not for profit organization that operates a regional health care network including: Virtua – Memorial Hospital of Burlington County, a 383-licensed-bed acute care hospital in Mount Holly which provides medical, surgical, cardiac, obstetrical, gynecological, oncological, pediatric, emergency and ambulatory care; Virtua-West Jersey Health System, a 571-licensed-bed health system that operates three general acute care hospitals (located in Berlin, Marlton and Voorhees) which provide medical, surgical, cardiac, obstetrical, gynecological, pediatric, emergency and ambulatory care; and, a facility in Camden that primarily provides urgent care and outpatient services.

The Authority issued $158,670,000 in bonds for Virtua in 1998, $119,165,000 of which remained outstanding as of December 31, 2005. These bonds are expected to remain outstanding.

According to the consolidated audited financial statements provided with the Memorandum of Understanding, Virtua generated excess revenues over expenses of approximately $37.7 million for the year ended 12/31/2004 and $13.2 million for the year ended 12/31/2003. Unaudited information for the eleven months ended 11/30/05 show excess revenues over expenses of approximately $11.1 million, continuing its recent history of positive results of operations.

Virtua asks that the Authority permit the use of a negotiated private placement sale based on its expected use of variable rate debt. Because Executive Order #26 considers variable rate debt to be a justification for the use of a negotiated private placement sale, staff recommended approving the use of a negotiated private placement sale and forwarding a copy of the justification in its support to the State Treasurer.

Ms. Phillips offered a motion to approve the use of a negotiated private placement sale and the forwarding of a copy of the justification in support of the resolution to the State Treasurer. Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. FF-55

(attached)

Mr. Hopkins noted that, after performing a competitive process, Virtua has selected Wachovia Bank to serve as the lead bank purchaser of the bonds. Additionally, Virtua has researched several law firms from the Authority's qualified list and has requested that the firm of Gluck, Walrath & Lanciano be selected to serve as bond counsel. Virtua's request will be forwarded to the Attorney General's Office for approval.

MODIFICATION TO THE QUALIFIED BANKERS LIST

Piper Jaffray & Co.

Mark Hopkins reminded the Members that, according to the Authority's policy, qualifications to serve the Authority as senior managing underwriter, placement agent, co-manager, financial advisor or remarketing agent will be evaluated on an ongoing basis as statements of qualifications are submitted. Pursuant to this policy, Authority staff met with representatives of Piper Jaffray & Co. ("PiperJaffray"), after which the Authority received a statement of qualifications from PiperJaffray requesting consideration for qualification as a senior managing underwriter, placement agent, co-manager and remarketing agent on Authority financings.

PiperJaffray, a publicly traded investment banking and brokerage firm founded in 1895, has 104 branch offices in 23 states. Since January 1, 2003, PiperJaffray has served as a senior manager on 101 health care transactions, placement agent on 4, co-manager on 19 and remarketing agent on 20 transactions, for a total of over $3.3 billion in health care transactions. In the last year, PiperJaffray served as senior manager for a $9,600,000 New Jersey transaction and as co-manager on a New Jersey financing totaling over $953 million. As of September 30, 2005, PiperJaffray had total capital of over $914 million and equity capital of over $734 million. PiperJaffray's capital base permits an underwriting capacity in excess of $1 billion. Excess net capital stood at nearly $281 million as of September 30, 2005.

Based on the evaluation of PiperJaffray's statement of qualifications, in compliance with the Authority's request for qualifications originally distributed on March 15, 2004, staff recommends including PiperJaffray on the Authority's list of qualified senior managing underwriters, placement agents, co-managers, and remarketing agents.

Mr. Hopkins noted that, if PiperJaffray is approved, the firm will be notified of its qualifications after expiration of the Governor's veto period. Subsequently, PiperJaffray will be asked to certify, on a quarterly basis, that there has been no material change in its financial condition since the submittal of its statement of qualifications to the Authority.

Mr. Hopkins asked the Members to vote in support of the recommendation with regard to the qualification of Piper Jaffray & Co. to serve as a senior managing underwriter, placement agent, co-manager and remarketing agent on Authority financings. Ms. Phillips moved to approve the requested qualifications; Dr. Cohen seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. FF-56

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves adding the firm Piper Jaffray & Co. to its list of qualified bankers to serve in the capacities of Senior Manager, Co-Manager, Placement Agent and Remarketing Agent.

AUTHORITY EXPENSES

Dr. Jacobs referred to a summary of Authority expenses and invoices. Ms. Phillips offered a motion to approve the bills and to authorize their payment; Dr. Cohen seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. FF-57

WHEREAS, the Authority has reviewed memoranda dated February 23, 2006, summarizing all expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of $843,295.22, $55,284.16 and $53,262.97 respectively, and has found such expenses to be appropriate;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

STAFF REPORTS

Dr. Jacobs referenced staff reports that were distributed for review, including the Project Development Summary, Interest Rate Trends Graph, Cash Flow Statement, and Legislative Advisory. Mr. Fillebrown then presented staff's findings with respect to the Authority's Third Quarter APOLLO Report. The APOLLO database includes 66 hospitals or hospital systems, covering 100% of the acute care hospitals in New Jersey.

The following trends were apparent in the data. The median operating margin dropped for the third straight quarter, falling to .42%. The median profit margin, although down from year-end 2004, did increase from the second quarter, rising to 1.22%. Both measures are higher than third quarter 2004, however, most hospitals benefited from Medicare and charity care reimbursement increases that took effect in the fourth quarter of 2004. No similar boosts are apparent in fourth quarter 2005.

Liquidity measures were essentially stable; median days cash on hand increased by one day to 77, receivables rose by two days to 53, and payables dropped by two days to 60. Leverage ratios showed little change, with debt to capitalization remaining at 46% and debt to fixed assets up by 1% to 78.

As was noted in the second quarter APOLLO review, it appears that the boost provided by increased charity care and Medicare reimbursement that started in late 2004 has been overtaken by other factors. While volume declines, wage pressures and medical denials remain a concern for hospitals, no one issue stands out as the cause for the slow downward drift and staff is not aware of any major industry trend that would explain the decline. Fortunately, charity care for state fiscal year 2006, which was slated for a $50 million decrease, was funded at 2005 levels so hospitals are not facing decreases in that funding source for the time being.

Mr. Fillebrown stated that the pronounced differences in financial performance between the various peer groups that were noted in the second quarter have continued in the third quarter. Never before in APOLLO's history have the correlations been so strong within the hospital peer groups. Financial performance is closely correlated with factors such as location (hospitals in the southern half of the state perform financially stronger than those in the Northern), bed size (the more beds, the better the financial performance) and income status (the higher the per capita income of the patient base, the better the financial results).

Mr. Fillebrown noted that the difference between the northern and southern hospitals in the state may be related to volume decline, which has impacted the northern hospitals far greater than those in the southern part of New Jersey. Preliminary analysis suggests that the differences among the other peer groups have yet to be determined. They are not explained by variations in bad debt expense, cost per admission or staffing levels. Given that the disparities in financial performance have been consistent for several periods, staff will examine whether factors such as volume trends and charity care reimbursement explain the differences.

Dr. Jacobs then turned the floor over to Mr. Hopkins for his Executive Director's Report. Mr. Hopkins reported on the following items:

1. Based on experience, efficiency and cost as bond counsel on other matters involving the Capital Asset Program, staff is recommending the appointment of McManimon & Scotland to serve as bond counsel for the purpose of extending JPMorgan's service as the Letter of Credit provider for the Capital Asset Program. Staff will send the request for this appointment to the Attorney General's office.
2. After a competitive process, Southern Ocean County Hospital, which received the Authority's approval to have a negotiated sale of its approximately $21.2 million in refunding bonds at the Authority's November 2005 meeting, has selected Wachovia Securities as senior managing underwriter for the transaction.
3. Buck Consultants completed the actuarial valuation of the Authority's post-retirement health care liability on February 21, 2006. The valuation concluded that the accrued liability as of January 1, 2006 was $2,760,222. Staff is currently evaluating options for recording and funding this liability and expects to work with the Finance Committee and report back to the full Authority at the March Authority meeting.
4. The Authority currently maintains approximately $2.6 million invested in the New Jersey Cash Management Fund. The Authority has a policy to limit the amount in that fund to $1 million and to invest amounts beyond $1 million in outside investments. In light of the actuarial valuation of the post-retirement health care liability, staff would like to temporarily maintain a balance in the New Jersey Cash Management Fund in excess of $1 million until the Authority Members have determined how they would like to handle the unfunded liability. By way of background, the Authority's other investments are laddered securities, which are generally earning less interest than the New Jersey Cash Management Fund.

5. Steve Fillebrown celebrates his 20^{th} year at the Authority this month.

As there was no further business to be addressed, Ms. Phillips moved to adjourn the meeting, Dr. Cohen seconded. The vote was unanimous and the motion was carried at 10:29 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 ON FEBRUARY 23, 2006.

Dennis P. Hancock
Assistant Secretary

AB RESOLUTION NO. FF-55

RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY PRIVATE PLACEMENT TRANSACTION PURSUANT TO EXECUTIVE ORDER NO. 26

Virtua Health Inc.

WHEREAS, the New Jersey Health Care Facilities Financing Authority (the "Authority") was duly created and now exists under the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c. 29, N.J.S.A. 26:2I-1 et seq., as amended (the "Act"), for the purpose of ensuring that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State; and,

WHEREAS, the Authority issues its bonds from time to time for the achievement of its authorized purposes; and

WHEREAS, on October 25, 1994, the Governor issued Executive Order No. 26 which sets forth procedures by which an issuer may determine the method of sale of bonds or notes; and,

WHEREAS, on December 8, 1994, the Authority adopted Section 2 of its policy which was developed to implement Executive Order No. 26, which requires an Authority resolution to pursue a negotiated sale of bonds; and,

WHEREAS, on March 28, 1996, the Authority amended its policy related to Executive Order No. 26; and,

WHEREAS, the Authority's policy states that a negotiated sale of bonds will be conducted if it is determined by the Authority that it would better serve the requirements of a particular financing; and,

WHEREAS, a negotiated transaction would be permitted in circumstances including, but not limited to, the sale of bonds for a complex or poor credit; the development of a complex financing structure, including those transactions that involve the simultaneous sale of more than one series with each series structured differently; volatile market conditions; large issue size; programs or financial techniques that are new to investors; or, for variable rate transactions; and,

WHEREAS, Virtua Health Inc. has entered into a Memorandum of Understanding with the Authority to pursue a revenue bond financing (the "Financing"); and,

WHEREAS, Virtua Health Inc. is considering the issuance of variable rate bonds for all or a portion of the Financing; and,

WHEREAS, Virtua Health Inc. has requested consideration of a determination that a negotiated private placement sale is the appropriate method of financing; and,

WHEREAS, the Authority's policy states that a private placement would be permitted if, based on a financial analysis, it would be less expensive on a present value basis to complete a private placement; or, if such other circumstances (i.e., credit considerations) would limit effectiveness or usefulness of a public sale; and,

WHEREAS, the Financing is expected to be less expensive on a present value basis if completed as a private placement; and,

WHEREAS, the Authority is desirous of being responsive to Virtua Health Inc.'s request; and,

WHEREAS, the aforementioned resolution and justification in support of such resolution must be filed, within five days of its adoption, with the State Treasurer;

NOW, THEREFORE, BE IT RESOLVED, that, based upon the findings above, the Authority hereby determines that it would better serve the requirements of this Financing to conduct a negotiated private placement; and,

BE IT FURTHER RESOLVED, that the Executive Director is hereby directed and authorized to transmit a copy of this Resolution and justification in support of such resolution to the State Treasurer.