



New Jersey Health Care Facilities Financing Authority
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2019 Annual Report

Improving

New Jersey's

Health Care

Infrastructure

New Jersey Health Care Facilities Financing Authority

New Jersey Health Care Facilities Financing Authority

Mission Statement

Created by an act of the New Jersey Legislature in 1972, the New Jersey Health Care Facilities Financing Authority's mission is:

“To ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State.”

The Authority's mission was expanded in 2000 to include:

“... provid[ing] assistance in the restructuring of the health care system of the State.”



Groundbreaking for the new Valley Hospital on November 1, 2019.

The Authority fulfills its statutory purpose primarily by issuing tax-exempt and taxable bonds for health care organizations throughout the State, including hospitals, skilled nursing facilities, assisted living facilities, continuing care retirement communities, visiting nurse associations, hospices and blood banks. The Authority also collects and analyzes data on health care organizations and funds studies on the provision of health care services.



History of the NJHCFFA

The New Jersey Health Care Facilities Financing Authority is the primary issuer of municipal bonds for New Jersey's health care organizations. Created in 1972 by an Act of the Legislature to provide not-for-profit health care providers with access to low-cost capital, the Authority's statutory powers were expanded in 2000 to include financing for all health care organizations or components thereof.

Since its inception, the Authority has issued over \$24.5 billion in bonds on behalf of roughly 185 health care organizations throughout the state. Over the past 14 years, the Authority ranks as the 72nd largest issuer of municipal bonds in the country and the 2nd largest solely health care issuer in the country. While the majority of its financings have been for acute care hospitals, the Authority can also provide capital for nursing homes, assisted living facilities, specialty hospitals, home health agencies, mobile intensive care units, outpatient centers, rehabilitation centers, homes for multi-handicapped individuals, health maintenance organizations (HMOs), continuing care retirement communities (CCRCs), management service organizations, blood banks, hospices, day care facilities and any related organizations.

The Authority currently has financings outstanding for approximately 70% of the State's hospitals or hospital systems.

Total Authority Financings 1973 - 2019

1973 ~ \$ 12,950,000	1983 ~ \$382,288,200	1993 ~ \$ 497,295,000	2003 ~ \$ 684,800,000	2013 ~ \$ 937,123,243
1974 ~ \$141,970,000	1984 ~ \$200,184,027	1994 ~ \$ 789,204,390	2004 ~ \$ 506,700,000	2014 ~ \$ 434,103,000
1975 ~ \$ 5,400,000	1985 ~ \$933,336,287	1995 ~ \$ 56,305,200	2005 ~ \$ 414,650,000	2015 ~ \$ 513,384,950
1976 ~ \$ 32,375,000	1986 ~ \$ 79,985,000	1996 ~ \$ 162,385,000	2006 ~ \$ 813,674,654	2016 ~ \$1,828,447,500
1977 ~ \$ 95,893,000	1987 ~ \$414,336,984	1997 ~ \$ 475,395,000	2007 ~ \$ 849,066,000	2017 ~ \$1,200,700,000
1978 ~ \$109,410,000	1988 ~ \$324,685,000	1998 ~ \$1,390,732,857	2008 ~ \$1,272,380,000	2018 ~ \$ 23,000,000
1979 ~ \$182,117,200	1989 ~ \$279,034,283	1999 ~ \$ 536,745,442	2009 ~ \$ 830,840,000	2019 ~ \$ 841,000,000
1980 ~ \$137,762,500	1990 ~ \$612,185,000	2000 ~ \$ 412,263,588	2010 ~ \$ 916,972,666	
1981 ~ \$329,223,913	1991 ~ \$531,859,333	2001 ~ \$ 474,775,000	2011 ~ \$ 987,865,000	
1982 ~ \$580,381,998	1992 ~ \$329,703,375	2002 ~ \$ 529,082,005	2012 ~ \$ 488,800,148	

Authority Staff

Office of the Executive Director

Mark E. Hopkins, Executive Director

Cindy Kline, Executive Assistant/Office Manager

Robin Piotrowski, PHR, CPS, Human Resources Manager & Ethics Liaison Officer

John Johnson, Network Administrator

Chris Kniesler, Communications Specialist

Maria Kinney, Office Management Assistant

Division of Research, Investor Relations and Compliance

Frank Troy, CPA, Director of Research, Investor Relations and Compliance

Taryn Rommell, Assistant Director of Research, Investor Relations and Compliance

Neetu Thukral, Compliance Manager & Tax Compliance Officer

Nino McDonald, Database Analyst

Tracey D. Cameron, Administrative Assistant

Division of Project Management

William McLaughlin, Director of Project Management

Edwin Fuentes, Project Manager & Assistant Information Technology Specialist

Tracey D. Cameron, Administrative Assistant

Division of Operations, Finance and Special Projects

Ron Marmelstein, Director of Operations, Finance and Special Projects

Alpa Patel, Controller

Bernard J. Miller, Jr., Construction Compliance Officer

Jessica Lucas, Account Administrator

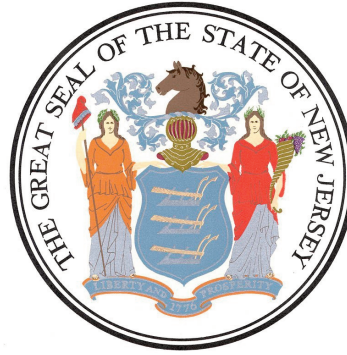
Michael Solidum, Account Administrator

Ellen Lieber, Accountant II

Diane Johnson, Senior Assistant Account Administrator

Taryn Brzdek, Assistant Account Administrator & Custodian of the Record

Carole Conover, Executive Assistant/Office Manager & Custodian of the Record retired on January 1, 2020, after almost 21 years of service with the Authority.



New Jersey Health Care Facilities Financing Authority

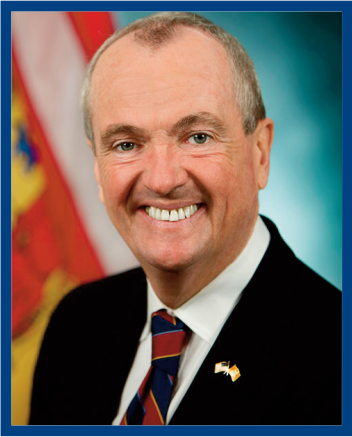
2019 Annual Report

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Improving New Jersey's health care infrastructure.

Governor's Message



Governor Phil Murphy

I believe that health care is a right and not a privilege. As our State population rapidly approaches nine million, our administration continues its commitment to ensuring that more residents have access to quality and affordable health care.

Our state's health care systems have undergone tremendous transformation over the last decade, especially with the passage and implementation of the federal Affordable Care Act (ACA) in 2010, and we continue to see changes as our systems respond to innovations in the health care field and the evolving needs of our residents. Our administration continues to make critical investments in our health care system, through supporting coverage for uninsured and low income individuals through Federally Qualified Health Centers, direct charity care assistance to hospitals, and funding for the NJ Family Care program – which offers coverage for more than 1.6 million residents – to key programmatic investments in primary and preventative care, combatting the opioid epidemic, and improving access to behavioral health care.

The New Jersey Health Care Facilities Financing Authority is an essential partner in our work to reach more residents with quality and affordable health care. True to its mission, “to ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State,” the Authority is the source for tax-free municipal bonds for New Jersey's health care organizations. The Authority's low-cost financing has enabled hospitals and health systems statewide to build and renovate facilities or consolidate debt at a lower rate to complete mergers or free up money for vital projects.

During 2019, the Authority adopted new, more flexible financing policies to meet the changing needs of both its borrowers and national municipal bond market. These new policies are allowing our hospitals, health systems and other health care providers to more quickly and efficiently obtain the funding required to remain national leaders in the industry. As a result, the Authority issued more than \$840 million in bonds on behalf of four health care systems in 2019, saving them over \$46.4 million in present value interest costs. Moreover, the Authority's recent borrowers include institutions that address long-neglected health care needs – a substance abuse rehabilitation center, a federally qualified health center, and a low-income assisted living facility.

The Authority will continue to be an important partner to help finance future construction, renovation, and equipment needs for our health care partners. Its work will ensure that we are well positioned as a state to meet the needs of our residents, and their right to affordable, world-class health care.

Authority Financing Programs

Stand-Alone Bond Financings

The Authority's most frequently used financing option includes publicly offered bond issues and private placement of bonds or notes. Bond issues can be structured with fixed or variable interest rates and with or without credit enhancement or ratings.

Master Leasing Program

The Master Leasing Program is designed to meet the unique needs of New Jersey's health care systems, although stand-alone facilities may also participate. In the case of a System, the various members of the System can access tax-exempt equipment leases through a pre-arranged master lease financing. The Authority approves the System for a total dollar amount, and the System's members enter into leases for up to a 10-year period, aggregated up to the pre-approved dollar amount. If the System would like more than one equipment lessor, it can enter into a master lease agreement with each separate lessor/equipment vendor.

Capital Asset Program ("CAP")

The Capital Asset Program ("CAP") is a revolving loan program designed to take advantage of bonds issued prior to the 1986 changes in the tax laws. Loans under the program are continuously repaid, making fresh funds available for other health care organizations in need of capital. The Authority recently engaged a new "AA"-rated letter of credit provider for the CAP.

The FQHC Direct Loan Program

The NJHCFFA has increased the scope of the FQHC Direct Loan Program to include providing direct loans to qualified FQHCs. The loans are made directly from the Authority's fund balance and are at a low variable monthly interest rate. Documents are standardized and require only one meeting for approval.

Equipment Revenue Note Program

The Equipment Revenue Note Program ("ERN") is designed to offer both an easy and efficient method of financing and refinancing equipment, with standardized documentation.

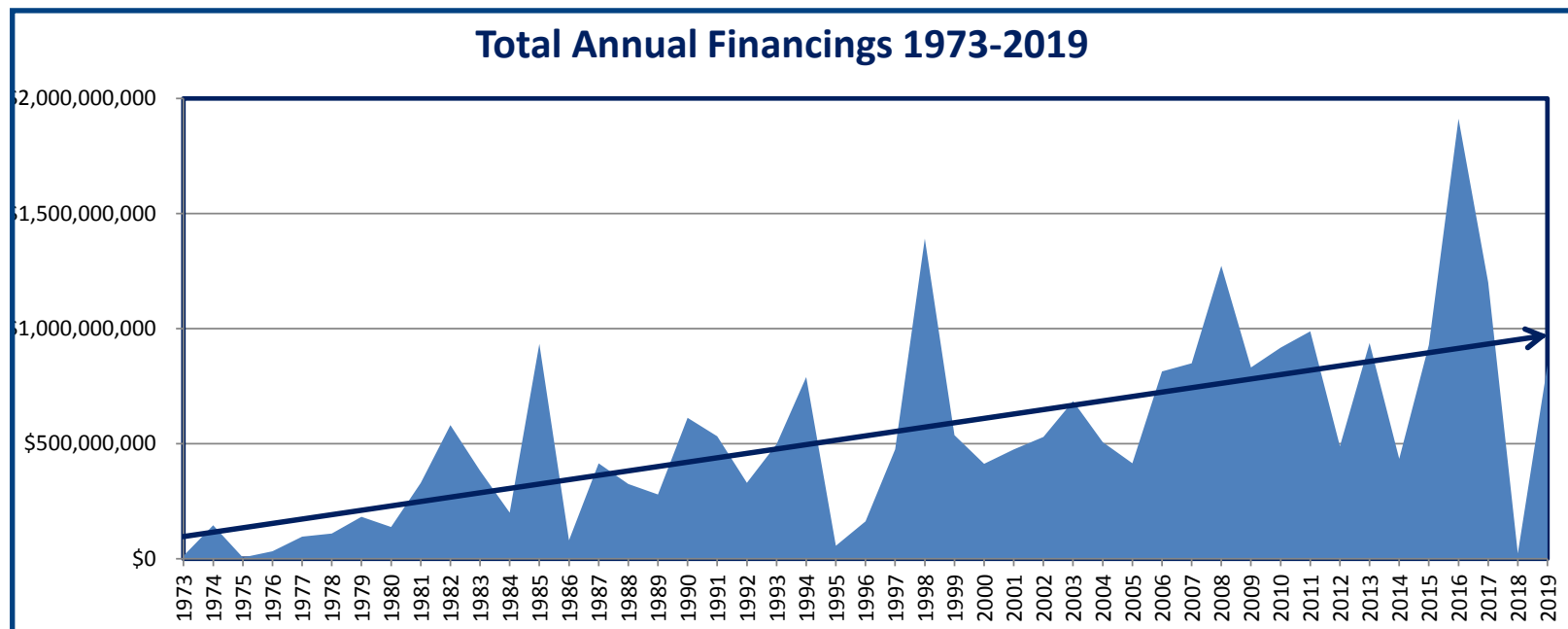
COMP Program

The Variable Rate Composite Program ("COMP") is designed to lower the costs of issuance for smaller borrowings. Under the program, bonds can be marketed for several borrowers at once, yet each borrower is only responsible for its own series of bonds. The standardization of documents and simultaneous marketing of the bonds reduces the costs of issuance for access to capital markets.

The Authority is actively researching and seeking ideas for new financing products to address the rapidly changing health care environment.

Authority Total Financings 1973 - 2019

In the Authority's 46 years, the volume of annual financings continues to trend upwards, despite periods of recession and economic downturns.



Message from the Chair

A key component of the Department's oversight of health care facilities is examining hospitals' financial viability. The Department collects data that serve as indicators of financial stress and monitors this data regularly. However, due to the evolving dynamics of the health care system, it has become imperative that the Department expands the collection of data to have a clear picture of a hospital's finances.

Governor Murphy recently enacted three new laws P.L.2019, c. 349, c.512, and c.513 that will enhance the financial oversight of all New Jersey hospitals.

The changes include expanding the data that hospitals must report to the state on a monthly basis to include average daily census, operating margin and operating margin adjusted to account for related party payments. This will provide a snapshot of key indicators of financial health on a monthly basis. The new law also acknowledges the local public officials' role in working to maintain and strengthen the financial health of hospitals. The Commissioner of Health is given the authority to contact local officials if data indicates financial stress, and in cases in which the state chooses to appoint a monitor, requires the notification of local officials.

These new changes will assist the Department in tracking hospitals with up-to-date monthly data and more detailed and comprehensive information collected on an annual basis. Specifically, the new law requires all non-profit hospitals to post on its website the IRS Form 990 or if the hospital does not file a Form 990 with the IRS then the hospital must post all information, schedules and documentation that would be required to be filed for Form 990.

Additionally, all hospitals are required to give the Department at least 90 days' notice prior to enacting an agreement for the sale or lease of the land on which the hospital is located. This notification must include a copy of the agreement, the names of all parties included and the intended use of proceeds from the sale or lease of land or property.

The bill also requires for-profit hospitals to provide and post on the hospital's website an array of data that outlines business transactions and ownership. Specifically, they must report: each business transaction with an interested person that exceeds \$10,000; a chart that identifies all related organizations; transactions over \$10,000 and ownership outside the U.S; a list of investors and joint ventures between the hospital owners and its investors; the percentage of profit or stock ownership held by each of the officers, directors, physicians, and key employees of the hospital in the joint venture; management company information; amounts paid to any affiliates for management or consulting services; description and copy of any trust ownership; a list of properties on which the hospital has claimed tax abatement; and use of surplus revenue.

The Department will be publishing regulations more thoroughly detailing and defining the new laws' requirements in the coming months. We are hopeful that through this enhanced transparency, vital information that affects access to health care for all New Jersey residents will be available to the state and the public. Through greater oversight, the Department can strengthen the stability of our health care system.

Improving New Jersey's health care infrastructure.



Executive Director's Report

I believe that 2019 was a very significant year in the Authority's history.

The Authority experienced a major rebound in bond issuance over the previous year, provided funds through two of our other financing programs and took the initiative to amend our policies and streamline our procedures in order to provide better service to our borrowers. We truly helped create our own success and, in doing so, helped improve New Jersey's health care infrastructure.



The Authority provided \$841 million in bond financing in 2019 to four (4) separate borrowers. The financings included \$485,762,000 in new money bonds and \$355,238,000 in refunding bonds. The weighted average all-in-true interest cost on the \$841 million in bonds issued in 2019 was 2.65%. When equated to comparable taxable rates (which are estimated to be 3.733%), the issuance of the \$485,762,000 in new money tax-exempt bonds saved Authority borrowers about \$46,410,000 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 \$355,238,000 in refunding bonds issued in 2019 saved Authority borrowers over \$57,450,000 on a present value basis compared to the bonds that were refunded. The \$485,762,000 of new money bonds were issued to finance capital projects at the following health care organizations: RWJBarnabas Health, Valley Health System and Virtua Health. The \$355,238,000 in refunding bonds were issued to refund outstanding bonds for RWJBarnabas Health, Shore Memorial Hospital and Virtua Health, freeing up cash for new projects.

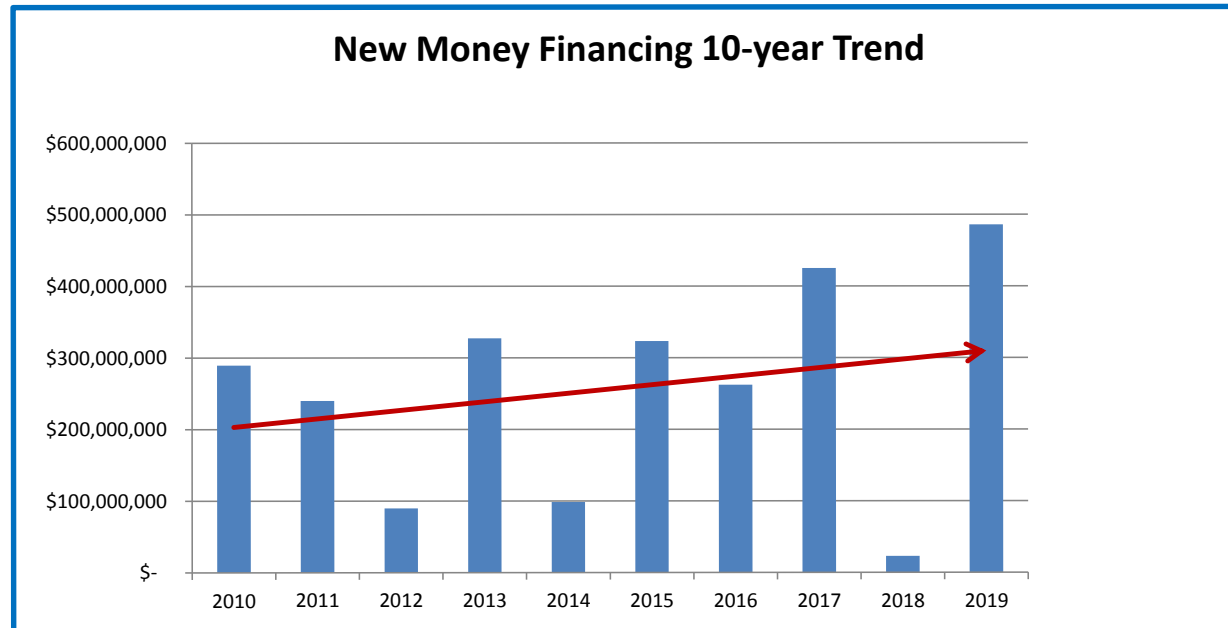
There were two new financings through the Capital Asset Program in 2019: Hackensack Meridian Health in the amount of \$27 million for medical and computer equipment and John Brooks Recovery Center for \$11.8 million for construction. The loans under the Capital Asset Program averaged an interest rate of 2.85% for calendar year 2019. The Authority also issued an FQHC loan to Neighborhood Health Services Corporation.

At the Authority's February 2019 meeting, in response to discussions with borrowers, as well as changes to the federal tax laws and market conditions, the Members approved several policy changes. Then in June, the Authority hosted its first-ever Hospital CFO/Bond Analyst Roundtable. With that feedback, the Authority approved a second phase of policy changes for publicly issued bonds in September.

Armed with our new policies and procedures, we are well-positioned to build off the momentum of 2019. I believe that with our new flexibility, the Authority will make our tax-exempt bonds more attractive to borrowers and enable us to continue to contribute to improving New Jersey's health care infrastructure.

New Money Financing Comes Back Strong!

After an off year in 2018, the Authority's new money financings made a strong comeback in 2019. The \$485,762,000 in new money bonds represented 57.76% of the total financings for the year.



Capital Asset Program Loans

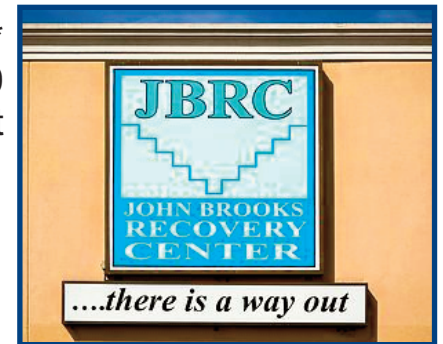
Hackensack Meridian *Health*



On May 21, 2019, the Authority closed on a Capital Asset Program* loan for Hackensack Meridian *Health*. The loan, in the amount of \$27,000,000, will be used to reimburse the Borrower for major moveable medical and computer equipment at JFK Medical Center, HMM Hospital Corporation, Jersey Shore University Medical Center, and Hackensack University Medical Center.

John Brooks Recovery Center

On August 20, 2019, the Authority closed on an \$11,800,000 Capital Asset Program* loan to partially finance the costs associated with the construction of a new 55,000 square foot, 120-bed, in-patient substance abuse rehabilitation facility located at Hamilton Business Park, in Mays Landing, New Jersey.



* Capital Asset Program Loans are made from the pooled revolving proceeds of the Authority's Capital Asset Program Series 1985 A and B bonds. TD Bank, NA, who is the letter of credit provider for the bonds, approved the loans.

Federally Qualified Health Center Direct Loan Program

In 2018, the Authority expanded the Federally Qualified Health Center Direct Loan Program to include providing loans to existing FQHCs, no longer limiting the funding to start-ups. There was one new Federally Qualified Health Center loan for \$750,000 issued to the Neighborhood Health Services Corporation in Plainfield, NJ.

2019 NJHCFFA Governing Board Ex-officio Members



**Judith M. Persichilli, R.N., B.S.N., M.A.,
Chairperson**

(Serves during her tenure as Commissioner of the Department of Health.)



Carole Johnson, Member

(Serves during her tenure as Commissioner of the Department of Human Services.)



Marlene Caride, Member

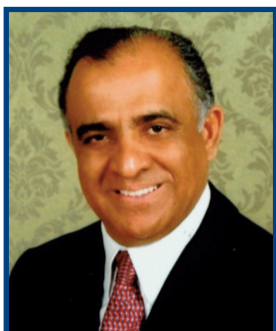
(Serves during her tenure as Commissioner of the Department of Banking and Insurance.)

Judith M. Persichilli, R.N., B.S.N., M.A., began serving as Acting Commissioner of Health on August 5, 2019 and was confirmed on January 9, 2020. Prior to leading the department, Ms. Persichilli served as the Acting Chief Executive Officer (CEO) of University Hospital in Newark. Ms. Persichilli was president emerita of CHE Trinity Health. She previously served as interim president and chief executive officer (CEO) of CHE Trinity Health and was also President and CEO of Catholic Health East. Prior to joining CHE's System, she served for eight years as CEO at St. Francis Medical Center in Trenton. Ms. Persichilli received her nursing diploma from the St. Francis Hospital School of Nursing, a Bachelor of Science in Nursing summa cum laude from Rutgers University, and a Master of Arts in Administration summa cum laude from Rider University.

On January 2, 2018 Governor-Elect Phil Murphy nominated Carole Johnson as Commissioner for the Department of Human Services, she was named Acting Commissioner on January 17, 2018. Ms. Johnson was confirmed by the Senate on March 26, 2018. She previously served in the Obama White House as senior health policy advisor and member of the Domestic Policy Council health team. The Commissioner also has served on Capitol Hill working for the U.S. Senate Special Committee on Aging and for members of the U.S. Senate Finance Committee and U.S. House of Representatives Ways and Means Committee. In addition, she managed health care workforce policy issues for the U.S. Department of Health and Human Services Health Resources and Services Administration. Ms. Johnson received a Master's degree in Government from the University of Virginia.

Marlene Caride was nominated by Governor Murphy on January 22, 2018 and confirmed by the Senate on June 6, 2018. Ms. Caride served in the New Jersey General Assembly since 2012, where she represented the 36th Legislative District. Ms. Caride served in the Assembly on the Commerce and Economic Development Committee (as Vice-Chair), the Financial Institutions and Insurance Committee, the Transportation and Independent Authorities Committee, the New Jersey Legislative Select Committee on Investigation and the Intergovernmental Relations Commission. Ms. Caride earned a bachelor's degree in Education from Fairleigh Dickinson University and was awarded a J.D. degree from the California Western School of Law. She is an attorney who is a partner in private practice with the firm of Gonzalez & Caride.

2019 NJHCFFA Public Members



Munir Kazmir, MD - Vice Chair
(Term expired 4/30/2019*)



Suzette T. Rodriguez, Esq. - Secretary/Treasurer
(Term expired 4/30/2012*)

Ex-officio Member Designees



Robin Ford, Executive Director ,
Office of Health Care Financing,
serves as the Designee for the
Commissioner of the
Department of Health.



Greg Lovell, Health Care Facilities
Coordinator, serves as the
Designee for the
Commissioner of the
Department of Human Services.



Manny Paulino, Aide to the
Commissioner, serves as the
Designee for the Commissioner of
the Department of Banking
and Insurance.

**Members continue to serve until reappointed or replaced.
The Authority currently has 2 Public Member vacancies.*

Improving New Jersey's health care infrastructure.

2019 Bond Issues

Valley Health System

On December 11, 2019, the Authority closed on \$356,410,000 of publicly issued tax-exempt bonds on behalf of Valley Health System. The proceeds of the Series 2019 bonds will be used to: partially fund the construction of a 372-bed, approximately 910,000 square foot replacement hospital to be located in Paramus, NJ and pay certain costs incurred in connection with the issuance and sale of the Series 2019 Bonds.



Rendering of the New Valley Hospital

The negotiated public offering was conducted by Morgan Stanley as senior managing underwriter. The transaction was structured with fixed-rate serial bonds maturing from 2020 to 2039 and fixed-rate term bonds maturing in 2044 and 2049. Yields on the Series 2019 serial bonds ranged from 1.12% for the 2020 maturity to 2.56% for the 2039 maturity. Yields for the fixed rate term bonds are as follows: for the term bond maturing on July 1, 2044, a yield to call of 2.71%; and for the term bond maturing on July 1, 2049, a yield to call of 3.15%.

The all-in-true interest cost for the bond issue was 2.93%.

Had the bonds been issued as taxable bonds it is estimated the interest rate would have approximated 3.80%. Valley Health System had an estimated savings of \$29,578,127 by using tax-exempt bonds.

Shore Memorial

On December 18, 2019, the Authority closed on \$49,075,000 of tax-exempt bonds on behalf of Shore Memorial Hospital. The sale was privately placed with BB&T Community Holdings Co. The proceeds of this transaction were used to: currently refund and redeem all of the Authority issued outstanding Series 2009, Series 2010, Series 2011, and Series 2013 Bonds; and pay the related costs of issuance.

Shore Memorial Hospital, Series 2019 bonds had an all-in-true interest cost of 2.781434% compared to a taxable rate of 3.37%. The present value savings was 2.047378% or \$1,012,624. The present value of a 1 basis point change was \$37,429. The estimated savings of the tax-exempt bonds compared to taxable bonds was \$2,208,311.



Shore Memorial Hospital

2019 Bond Issues

Virtua Health, Inc.

On April 4, 2019, the New Jersey Health Care Facilities Financing Authority issued \$205,435,000 of tax-exempt bonds on behalf of Virtua Health, Inc. The proceeds of the transaction were used to currently refund the Authority's Series 2009A bonds and pay the related costs of issuance. The bonds were privately placed with TD Bank, N.A.



The all-in-true interest cost for the bond issue was 3.299107%. Had the bonds been issued as taxable bonds it is estimated the interest rate would have been 4.33%. As a result of issuing tax-exempt bonds through the New Jersey Health Care Facilities Financing Authority, Virtua Health realized a present value savings of \$56,438,214 or 24.526091% over the refunded bonds. The estimated savings of the tax-exempt bonds versus taxable bonds was \$10,960,529.83. The present value of a 1 basis point change for the issuance was \$245,567.

RWJBarnabas Health

On October 30, 2019, the New Jersey Health Care Facilities Financing Authority issued \$230,080,000 of tax-exempt bonds on behalf of RWJBarnabas Health. The proceeds of the Series 2019A and Series 2019B bonds will be used to: currently refund, redeem and/or legally defease all or a portion of the following outstanding bonds: Revenue and Refunding Bonds, Barnabas Health Issue, Series 2011B, Revenue Bonds, Robert Wood Johnson University Hospital Issue, Series 2014B, Variable Rate Revenue Bonds, RWJHealth Care Corp. at Hamilton Obligated Group Issue, Series 2002, and Refunding Bonds, RWJBarnabas Health Obligated Group Issue, Series 2017B; finance and/or reimburse the Borrower for the costs of planning, development, acquisition, construction, equipping, expansion, furnishing and renovation of all or a portion of the various capital projects of the Borrower and its affiliates; and pay certain costs incurred in connection with the issuance and sale of the Series 2019 Bonds. The bonds were priced on October 24, 2019, with Citigroup as the Senior Managing Underwriter.



The new Pediatric Emergency Department at RWJUH.

The transaction was structured with two series of bonds. Series 2019A is structured as fixed rate serial bonds maturing from 2020 to 2029. Series 2019B is structured as three variable rate term bonds initially sold in the fixed rate mode maturing in 2042, 2043 and 2045. Each of the term bonds has a mandatory purchase date prior to maturity at which time bonds may be reissued or retired.

The all-in-true interest cost for the bond issue was 1.63% with a weighted average maturity of 18.89 years.

Improving New Jersey's health care infrastructure.

Building (*and Bonding*) New Jersey's Health Care Infrastructure

Infrastructure:

The basic physical and organizational structures and facilities needed for the operation of a society or enterprise.

The term “infrastructure” generally brings to mind highways, bridges and utilities. However, the advancements made in health care since the beginning of the 21st Century have necessitated the development of a parallel infrastructure dedicated to health care.

While New Jersey has reduced its number of acute care hospitals to 71, the upsurge in specialty medicine, the advancements in medical technology and the enlarged patient base required a more expansive and modern infrastructure. Despite having fewer acute care hospitals, New Jersey's health care infrastructure has exploded. New Jersey now has 23 FQHCs with 177 locations, 220 hospital-based acute care centers and 750 assorted ambulatory care facilities for services like MRI imagery, radiation, dialysis, same-day surgery, etc.

The Authority has played an important role in building New Jersey's new health care infrastructure. Over the past 10 years it has had 65 bond issues totaling over \$8.1 billion dollars. Some of these funds were used to construct new facilities, upgrade and renovate buildings as well as purchase equipment and information technology, including electronic health records systems. Health care organizations also refunded older bonds to take advantage of the lower interest rates and to free up cash for essential building projects, purchase modern medical equipment and to upgrade their technological capabilities.

Keeping pace with the rapidly changing needs of New Jersey's health care in 2015, the Authority issued bonds for building a hospice. More recently, bonds were issued on behalf of an assisted living residence for low-income seniors and a Capital Asset Program loan was granted for a residential addiction and detox facility. Of equal importance, the Authority refunded bonds to enable merging hospitals and systems to consolidate their debt and lower their debt service costs, thereby freeing up capital for other projects.

The Authority has always played a critical role in building and improving New Jersey's expanding and evolving health care infrastructure. And, due to the recent policy changes implemented from June's Hospital CFO and Bond Analyst Roundtable, the Authority is well-positioned to react quickly and effectively to the changing needs of New Jersey's health care providers; because, as we learned from the film *Field of Dreams*, ***“If you build it, they will come.”***

Improving New Jersey's health care infrastructure.

NJHCFFA Hosts Hospital CFO and Bond Analyst Roundtable

The past decade was literally a rollercoaster ride for the health care industry. The implementation of the Affordable Care Act set off a flurry of activity with health care executives scrambling to create strategies to comply with the law, improve health care delivery services and increase public access to health care, all while maintaining profitability. From the Authority's perspective, low interest rates and tax law changes directly impacted the benefits of tax-free municipal bonds. It soon became obvious that the Authority had to adapt to the changing times in order to continue to be a viable source of funding for the required infrastructure improvements.

In our unceasing pursuit of ensuring that nonprofit hospitals and health care organizations continue to have access to the lower cost of capital available through tax-exempt bonds, the New Jersey Health Care Facilities Financing Authority responded to comments from our borrowers and bondholders by modernizing and improving some Authority policies. Trying to balance the inherent competing interests of borrowers and bondholders, the Authority adjusted its required ratios, loan payment schedule, captive insurance requirements and triggering events. This followed the 2018 reduction of the Authority meetings required to approve the issuance of bonds.



To get additional input and feedback, the Authority held its first Roundtable of hospital CFOs and bond analysts on June 4th, 2019. The all-day event was attended by CFOs and other financial executives from 12 nonprofit New Jersey health care systems, representing over 50% of New Jersey nonprofit hospitals, and analysts from ten investment firms, representing over 25% of the Authority's outstanding bonds. Additionally, over the summer, senior staff from Authority met individually with several of the largest senior managing underwriters of New Jersey health care bonds.

Using the feedback from Roundtable, the Authority staff prepared a series of changes to Authority policies for approval at its September 26, 2019 meeting. The Authority subsequently approved all six (6) of the recommendations. The policy amendments apply to only publicly issued bonds and may be used as a starting point for negotiations for privately placed bonds or bonds that are directly purchased. Details of the policy changes can be found on pages 9 and 10.

2019 Mergers and Acquisitions

The hospital merger and acquisition frenzy that began with the implementation of the Affordable Care Act was alive and well in New Jersey during 2019.

On October 10, 2019, Trinitas Regional Medical Center in Elizabeth signed a letter of intent to join the RWJBarnabas Health system. Trinitas is a 554-bed hospital that serves as a “safety net” hospital for many inner-city residents who either lack private health insurance or rely upon Medicare or Medicaid. Last year, a Moody’s report noted that 68% of their patients are covered through Medicare or Medicaid. Trinitas is a Catholic teaching hospital that is sponsored by the Sisters of Charity of Saint Elizabeth and it will maintain its Catholic identity. Then, on October 22, RWJBarnabas Health entered into a letter of intent to acquire Christ Hospital in Jersey City and Hoboken University Medical Center from CarePoint, but not Bayonne Medical Center. This transaction is in the due diligence stage.

As one of New Jersey’s largest health care systems, RWJBarnabas is increasing its Central New Jersey footprint. When all approvals are received, they will have 14 acute care hospitals under their banner which currently includes: Clara Maass Medical Center in Belleville; Community Medical Center in Toms River; Jersey City Medical Center; Monmouth Medical Center in Long Branch, Monmouth Medical Center Southern Campus in Lakewood; Newark Beth Israel Medical Center in Newark; Robert Wood Johnson University Hospital in New Brunswick; RWJUH Somerset in Somerville; RWJUH Hamilton; RWJUH Rahway; and Saint Barnabas Medical Center in Livingston.

On October 15, 2019, Englewood Health and Hackensack Meridian Health announced that they had signed a definitive agreement to merge. Hackensack Meridian Health anticipates a \$400 million capital investment into the 352-bed teaching hospital. Once approved, Englewood Hospital and Medical Center will be the 13th acute care hospital in the Hackensack Meridian Health system. Currently, Hackensack Meridian Health’s hospitals are: Bayshore Medical Center, Holmdel; Hackensack University Medical Center, Hackensack; Hackensack University Medical Center Mountainside, Montclair; Hackensack University Medical Center at Pascack Valley, Westwood; Jersey Shore University Medical Center, Neptune; JFK Medical Center, Edison; Ocean Medical Center, Bricktown; Palisades Medical Center, North Bergen; Raritan Bay Medical Center, Old Bridge; Raritan Bay Medical Center, Perth Amboy; Riverview Medical Center, Red Bank; Southern Ocean Medical Center, Manahawkin.

Hackensack Meridian Health also announced an affiliation with St. Joseph’s Hospital in Paterson and Wayne.

New Jersey has a total of 71 acute care hospitals. Including the recent mergers, only 12 will remain independently operated.

Year after year, New Jersey's Hospitals and Health Systems are major contributors to our State's economy and communities!

- ⇒ There are a total of 113 total hospitals in New Jersey, including 71 acute care hospitals and specialty hospitals.
- ⇒ New Jersey hospitals employ more than 150,000 individuals and pay \$9 billion in annual salaries. Collectively, health care is the largest private sector employer in New Jersey and ranks second only to government as the state's largest employment sector.
- ⇒ New Jersey hospitals provide \$23.6 billion in jobs, spending and other economic benefits to the Garden State economy.
- ⇒ New Jersey hospitals provide about \$1.9 billion in free and discounted health care annually to the uninsured, senior citizens and those in financial need.
- ⇒ New Jersey hospitals care for more than 15 million patients each year.
- ⇒ N.J. hospital emergency departments provide care and comfort to 3.8 million individuals annually.
- ⇒ New Jersey hospitals provide \$2.8 billion in community benefits annually including health clinics, screenings, education and free and discounted care for the poor and uninsured.

(source - New Jersey Hospital Association)

New Policies Approved

At the September 26, 2019, Authority Meeting, the Authority Members voted to adopt six (6) policy amendments that will enable the Authority to be responsive to our borrowers and become more competitive with commercial lenders.

A. One Meeting Approval Process

Only one meeting may be required for approval of the issuance of bonds under the following conditions: (i) the Borrower contacts the Authority with a request for Bond Counsel with an adequate amount of time for appointment of bond counsel by the Attorney General's office and for bond counsel to perform any necessary due diligence and draft the necessary bond documents (we estimate this would be at least fifty (50) days prior to the Authority meeting at which the Borrower expects to request approval of a Contingent Bond Sale); (ii) TEFRA Notices and the TEFRA Hearing are timely completed in compliance with TEFRA at or before the Authority meeting at which the Borrower expects to request approval of a Contingent Bond Sale; (iii) the structure of the deal is finalized and the bond resolution is in final form ten (10) days before the Authority meeting and the bond documents are in substantially final form the day before the Authority meeting at which the Borrower expects to request approval of a Contingent Bond Sale; (iv) all necessary approvals, permits and licenses for the project to be financed are secured; (v) there is adequate time before issuance of the bonds to conduct a thorough and compliant due diligence process; and (vi) if the project involves construction, the construction contract has been duly executed by the date of the Contingent Bond Sale.

The one meeting will thus consist of a Negotiated Sale approval (if not seeking a Competitive Sale of the Bonds), an informational presentation by the Borrower (if the financing is not solely a refunding) and a Contingent Bond Sale approval.

B. Debt Service Coverage Ratio and Days Cash on Hand Requirements

Borrowers shall be required by the Authority to maintain at a minimum Debt Service Coverage Ratio and Days Cash on Hand as follows (more may be required as the market demands, based on the advice of the underwriter and/or the financial advisor). Note that where there is a choice, the Borrower must select the option that best suits it at the time of drafting the bond documents. Should the rating category on the bonds change while the bonds are outstanding, the Debt Service Coverage Ratio and Days Cash on Hand requirements will spring into the respective requirements for such rating category, effective the next quarterly reporting period after the quarter the rating change occurs. If the bonds are enhanced the rating category will be the higher of the bond enhancer or the Borrower.

New Policies Approved (continued)

The New Debt Service Coverage Ratio (DSCR) and Days Cash on Hand Requirements:

“AA/Aa”:	No Authority imposed requirement (but any market imposed requirements must be reported and certified by the Borrower to the Authority)		
“A”:	1.10 DSCR + 60 Days Cash on Hand	or	1.25 DSCR + 45 Days Cash on Hand
“BBB/Baa”:	1.25 DSCR + 60 Days Cash on Hand	or	1.50 DSCR + 45 Days Cash on Hand
Below Investment Grade or Unrated:	1.25 DSCR + 90 Days Cash on Hand	or	1.50 DSCR + 75 Days Cash on Hand

C. Investor Calls

Borrowers shall be required to hold quarterly investor calls if the Borrower falls within 10 Days Cash on Hand requirement or 0.10 of the Debt Service Coverage Ratio requirement for two consecutive quarters. Investor calls shall continue quarterly until the borrower returns to 10 days above the Cash on Hand Requirement or 0.10 above the Debt Service Ratio Requirement. Investor calls shall also be required following a 15% drop in Days Cash on Hand or a 15% drop in Debt Service Coverage Ratio from one quarter to the next or a 30% drop in Days Cash on Hand or a 30% drop in Debt Service Coverage Ratio over any four quarters. Investor calls under these circumstances will continue quarterly for four consecutive quarters (unless otherwise required by the paragraph above). Failure to hold an Investor Call will be considered to be non-compliance with the Debt Service Coverage Ratio and Days Cash on Hand requirements of the Loan Agreement and will require the Borrower to retain a consultant who shall produce a consultant’s report which must be adopted by the governing body of the Borrower in the same manner as is directed pursuant to Required Ratios section of the Loan Agreement.

D. Borrowers Prepare Quarterly Management Discussion & Analysis

Borrowers are encouraged to prepare a reasonably descriptive quarterly management discussion and analysis and post it on EMMA along with its quarterly financial statements. If a Borrower has triggered Investor Calls, it will be required to prepare a reasonably descriptive quarterly management discussion and analysis and post it on EMMA along with its quarterly financial statements. The

New Policies Approved (continued)

management discussion and analysis must include explanations of material variances from budget and/or prior year. Failure to provide a reasonably descriptive quarterly management discussion and analysis will be considered to be non-compliance with the Debt Service Coverage Ratio and Days Cash on Hand requirements of the Loan Agreement and will require the Borrower to retain a consultant who shall produce a consultant's report which must be adopted by the governing body of the Borrower in the same manner as is directed pursuant to Required Ratios section of the Loan Agreement.

E. Semi-Annual Construction Progress Reports

Within 185 days of the issuance of bonds, Borrowers must begin to provide semi-annual construction reports (could be a stage analysis, examples to be provided) on EMMA or hold semi-annual investor calls regarding construction on any individual construction project in excess of \$100 million for investment grade Borrowers, in excess of \$50 million for below-investment grade or unrated hospital borrowers and in excess of \$6 million for below-investment grade or unrated non-hospital borrowers (not to include renovations occurring within the footprint of existing buildings that do not take more than five (5) beds out of service). Such reports or calls shall continue until 95% of the Project is completed or a Certificate of Occupancy is received. Failure to provide a written construction progress report or hold an investor call on construction progress as described above will be subject to enforcement by the Authority, the Trustee or any Holder or beneficial owner of the bonds through an action for specific performance.

F. Title Insurance

Borrowers required to provide a mortgage must obtain title insurance from a company rated in at least the "A" category by any two or more of AM Best, Demotech, Fitch, Kroll, Moody's or S&P in an amount of 75% of the par amount of bonds for projects up to \$20 million, and in an amount equal to at least \$15 million for any project between \$20 million and \$75 million and at least 20% of the par amount of bonds for which more than \$75 million of bonds will be issued, up to a maximum of \$200 million in title insurance.

G. Borrowers Disclose Bios of Board Members Annually

A Borrower will be required to include in their primary market disclosure, and in annual updates on EMMA, the names, terms and brief relevant experience of all the members of its governing body and its Chief Executive Officer. Failure to provide the information above will be subject to enforcement by the Authority, the Trustee or any Holder or beneficial owner of the bonds through an action for specific performance.