AUTHORITY NOTE$

New Jersey hcffa

New Jersey Health Care Facilities Financing Authority November 1996

BORROWERS CAN NOW SELECT BANKERS

In a recent move to provide more borrower involvement in the financing process, the Authority modified its policy and procedures related to the selection of professionals for its bond sales. For the first time in the 24-year history of the Authority, borrowers are now permitted to select a senior managing underwriter, financial advisor or private placement agent for their bond financings. The professionals may be selected by the borrowers from among a pool of firms qualified by the Authority to provide such services. Borrowers will be required to utilize a competitive process in making their selections and to make such competitive process public as required by Executive Order #26. If the borrower prefers, the amended policy also allows the Authority to select a senior managing underwriter, financial advisor or private placement agent utilizing a competitive process. The Authority maintains the right to assign co-senior managers and co-managers to negotiated transactions.

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TARGET CITIES PROGRAM OFF THE GROUND

The Authority has authorized the development of a program to aid community healthcare providers to finance capital projects located in Asbury Park, Camden, Elizabeth and Trenton. In doing so, the Authority has authorized the use of $2 million of its reserves as credit support for this program. Following a formal Request for Proposals ("RFP") process, Summit Bank was selected to develop a loan program with the Authority.

The program will make loans to eligible borrowers in amounts ranging from $100,000 to $1,000,000 for real and personal property. Both fixed and variable interest rates will be available to borrowers; the variable rate at 75% of prime rate for tax-exempt loans, and prime rate minus 1/2% for taxable loans. Fixed rates will be determined based on the term of the loan with a maximum of 10 years on a 25-year amortization. The Authority will deposit a partial guaranty of up to 40% of each loan in the Bank's business money market account at each loan closing. The Authority has structured its guaranty as a revolving collateral fund. As debt service payments on the loans are made, the guaranty monies provided by the Authority will be reduced, thereby freeing up the monies for new loan guaranties.

Interested parties in this financing program should contact Dennis P. Hancock, Director of Project Management at the Authority's offices 609-292-8585.

FINANCING PROCESS SHORTENED

With the adoption of the new policy on selection of professionals in connection with a bond sale, the Authority has also reduced the time-frame to complete a financing through the agency. A summary of the financing process is as follows:

- Borrower initiates the process by notifying staff of its capital needs or refinancing request and provides general background information;
- Borrower signs Memorandum of Understanding in connection with a financing and submits along with check for one-half of first year annual fee;
- If a negotiated sale is preferred, borrower requests Authority to undertake this type of financing and provides the necessary justification (as listed in the Authority's policy and procedures). If a negotiated sale is approved, borrower may select (with as much or as little assistance from the Authority as is desired) a senior managing underwriter from the Authority's qualified list. Written evidence of a competitive process is provided to the Authority.
- If a competitive sale is preferred, borrower may select a financial advisor using the same procedure as is used for the selection of senior managing underwriter above.

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AUTHORITY NOTE$ has been developed to communicate directly with those who are involved in the financing of New Jersey's health care institutions. It will be published periodically, as needed, to convey changes in Authority policy and practices, tax law and regulations, and to suggest ways to decrease capital expenses and increase revenues. The Authority welcomes your input, ideas and suggestions.

BORROWERS CAN NOW SELECT BANKERS

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As part of the modified policy, a Request for Qualifications to serve as senior managers, financial advisors, private placement agents, and co-managers was distributed to 111 firms throughout the country. Of the 57 statements of qualifications received, the Authority approved a list of 53 qualified firms, 31 of which have a presence in New Jersey, five of which are minority-owned, and five of which are woman-owned firms.

The Authority further determined that it will evaluate Statements of Qualifications from firms interested in being added to the qualified list on a continual basis. This procedure will encourage interested firms to apply for qualification at any time and to provide borrowers with a broad-based group of professionals from which to choose. Since the original list was developed earlier this year, the Authority has added three more firms to its qualified lists to serve as senior manager, financial advisor, placement agent, and/or co-manager.

BOND RATINGS REVIEW PROCESS

The rating services are independent agencies that perform credit evaluations and analyze risk associated with the organization for which debt is being issued. The rating assigned to an issue reflects the creditworthiness of the obligor, specifically its ability to make timely principal and interest payments on its debt.

An issue is rated by the rating service(s) prior to the sale of bonds. The debt rating process, consisting of an in-depth review and evaluation of the obligor, can take from four to six weeks for a new issue and three to five weeks for a second time issue. The rating services generally maintain ratings on issues until the bonds mature. However, the rating(s) can change and can also be withdrawn if there is a shift in financial condition or security or if information is not made available as required (see article in NOTEWORTHY section on page 4 regarding S&P).

The Rating Agency Relations Committee of the National Council of Health Facilities Financing Authorities, of which Steve Fillebrown, Director of Research and Investor Relations at the Authority is Chairman, has been meeting with the rating service agencies on a continual basis to discuss a number of issues involving the rating and review process including fee structures. The Committee's efforts are aimed at developing a coordinated and efficient system resulting in a much smoother review process for both the borrowers and the rating services.

As a result of the Committee's discussions with the rating services, Standard & Poor's Corporation ("S&P") provided notice to the Authority that its annual review process would begin in the fall. This advance notice permitted the Authority to advise its borrowers of the expected review dates and S&P's schedule for completion of the annual review.

In addition, all 23 borrowers whose bonds are rated by S&P were contacted by the rating service and requested to complete a questionnaire and return it with a copy of the borrower's 1995 audit by October 31. S&P has advised that they have received this information from all 23 borrowers and anticipates that the rating review process will be completed by December 31, 1996 at which time S&P will advise each borrower of its rating.

The Authority's role in the review process is to provide guidance to the borrower in the preparation and presentation of material so that its current financial and operational condition can be accurately assessed by the rating services. And, because the Authority monitors healthcare issues on a statewide basis, we are able to help the rating agencies evaluate the hospital-specific information within the context of the environment in which the borrowers are operating.

Please call Steve Fillebrown, Director, Research and Investor Relations at 609-292-8585 if you have any questions about the rating process.

NOTEWORTHY

The Authority adopted a new policy governing annual audits of borrower compliance with bond covenants. In lieu of requiring an auditor's certificate, the Authority will now accept a certificate of borrower management. This new policy again will provide savings to the borrowers. The Authority will continue to prepare a draft certificate for borrower management's certification on compliance with the terms of the loan documents including the review of loan covenants and the computation of financial covenants. By having each borrower certify that they are in compliance, the Authority will be provided a similar level of comfort to that which has been given in prior years by the accountants.

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BOARD MEETING SCHEDULE FOR 1996-1997

November 21, 1996	March 27, 1997
December 19, 1996	April 24, 1997
January 30, 1997	May 29, 1997
February 27, 1997	(Annual Meeting)

Meetings are held at 10:00 a.m. in the Authority's office, Station Plaza, Building 4, 22 South Clinton Avenue, Trenton, NJ.

FINANCING PROCESS SHORTENED

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- Attorney General's Office assigns a bond counsel firm from a pool of previously qualified law firms;
- Feasibility studies are only required in limited circumstances and can be reviewed by either the Finance Committee or the Board.
- TEFRA hearings are generally held at Board meetings.
- A contingent sale will be held at a Board meeting for a public offering; an actual sale for a private placement.

The Authority has adopted the new policy in an effort to be more responsive to its borrowers' needs and to assist them by providing an expedited financing process. In the interest of accommodating our borrowers in as timely a manner as possible and in an effort to enhance the efficiency of its new process, the Authority is asking that borrower requests which require Board action be submitted for review 10 days prior to a Board meeting. The Authority meets on a monthly basis (see meeting schedule on page 2) and Authority staff will be happy to work with you in order to meet time schedules.

AUTHORITY APPOINTS NEW BOND TRUSTEES

The Authority recently appointed six financial institutions to serve as trustee for its bond issues. The list was developed following the distribution of a Request for Qualifications to 19 banks which had either previously served as a trustee or had responded to an advertisement in *The Bond Buyer*. As a result of this process, an adjusted trustee fee schedule reflecting a reduction in both initial and annual trustee fees, was approved by the Authority. The new schedule is as follows:

- Initial/Acceptance Fee reduced to .75 basis points of the original principal amount of issue, with a minimum fee of $1,500 and a maximum fee of $7,500;
- Annual Fee reduced to 1.0 basis point of the original principal amount of issue, with a minimum fee of $1,500 and a maximum fee of $8,000;
- A flat acceptance fee and annual fee of $500 for escrows;
- A flat fee of $500 per year for services rendered as registrar, transfer and paying agent.

Appointed to the Authority's approved list of trustees are: The Bank of New York, (NJ); Commerce Bank, N.A.; First Union National Bank, N.A.; PNC Bank, N.A.; Summit Bank; and U.S. Trust Company of New Jersey.

MOODY'S EXPANDS RATING SCALE

Moody's Investors Service recently announced the expansion of its rating scale, increasing the number of possible bond credit ratings from 14 to 19. The new ratings will be applied to issues in the health care, higher education and other not-for-profit sectors. The two new symbols, numerical modifiers 2 and 3, will be added to Moody's existing Aa, A, Baa, Ba and B rating symbols. The numerical modifier 1, added to Moody's rating scale in 1981, ranks at the high end of that specific rating category and indicates that the security meets Moody's criteria for a particular rating. Whereas the numerical modifier 2 indicates that the security is in the mid-range of its category, modifier 3 indicates that the issue is in the low end of its generic category.

M. Douglas Watson, Jr., Managing Director, Moody's Public Finance Group, noted that "in this changed environment, investors will be better served by a rating system that can provide a sharper perception of tax-exempt credit quality". Moody's attributes the expanded scale to "requests by investors, the rise of mutual funds, and the deteriorating credit quality of public finance debt in the past several decades, as well as to the need to make finer risk distinctions between increasingly complex financial instruments". The ever-changing environment of the health care industry has necessitated not only closer oversight by investors and regulators but "greater distinction in credit quality by rating services".

The rating service is reviewing health care, higher education and other not-for-profit issues with outstanding ratings. Moody's anticipates that its review, which will result in the assignment of the 2 and 3 modifiers to the ratings, should be completed by mid-November. Those issues not affected by this review include those with ratings of Aaa, Aa1, A1, Baa1, Ba1, B1, Caa, Ca, and C.

UPDATE

Most of the major construction projects have been completed at Somerset Medical Center, Newark Beth Israel Medical Center, Hackensack University Medical Center and Jersey Shore Medical Center. Construction continues at JFK Medical Center in Edison and Raritan Bay Medical Center where major additions and renovations are in progress.

APOLLO...Except for a slight increase in profitability, second quarter interim financial statements for New Jersey hospitals have remained stable. This unchanged financial position is attributed to receipt of subsidy payments which were resumed in May.

FINANCING NOTES

A $30,920,000 bond issue was completed in March on behalf of ROBERT WOOD JOHNSON UNIVERSITY HOSPITAL. The 14-year competitively bid issue was sold to a syndicate led by PaineWebber and resulted in a true interest cost of 5.10%. The proceeds were used to refund the $32.2 million Series A bonds issued by the Authority in 1979. Although the bonds were rated A+/A1 by Standard & Poor's Corporation and Moody's Investors Service respectively, MBIA provided insurance for the issue resulting in AAA/Aaa ratings. Net present value savings realized on this transaction were 10.175% or $3.37 million.

In July, the Authority completed a $96,730,000 bond issue on behalf of ST. JOSEPH'S HOSPITAL AND MEDICAL CENTER. The financing consisted of a 30-year tax-exempt series ("Series 1996A") in the amount of $92,395,000 and a 15-year taxable series ("Series 1996B") in the amount of $4,335,000. The Series A and Series B bonds were sold at true interest costs of 6.0548% and 8.1674%, respectively. This financing represents the completion of the first taxable issue undertaken by the Authority. The proceeds were used to refund the FHA-insured bonds issued in 1986, refinance other outstanding debt, construct a cogeneration facility, renovate a building and fund the Hospital's 1996/1997 capital budget. The taxable issue provided the funds to purchase a 598-unit residential apartment building to house Medical Center employees. The issue was insured by Connie Lee Insurance Company and sold on a negotiated basis. The Medical Center realized present value savings of $11 million or 19.5% of its outstanding mortgage as a result of the refunding.

A $5,509,100 loan through the Capital Asset Program's Series E pool was provided to PASCACK VALLEY HOSPITAL in June. The proceeds will be used for renovations and equipment to establish cardiac catheterization services, renovations and equipment for radiology and angiography departments and renovations to the physical medicine area and the Hospital's lobby. Security for the loan consisted of a parity lien with the Series 1991 bonds. Pascack Valley Hospital will also receive an incentive payment from Morgan Guaranty Trust Company for use of the Series E pool.

JEWISH GERIATRIC HOME obtained a $1,547,543 loan in July from the Capital Asset Program's Series A-D pool. The proceeds were used to refinance an existing Authority bond issue and to finance approximately $700,000 in minor construction and renovations. Security for the loan consisted of a Fleet Bank, N.A. letter of credit.

NOTEWORTHY

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In anticipation of a project financing, borrowers are encouraged to have a Reimbursement Resolution adopted by the Board of Trustees if any monies will be expended for capital budget items prior to completion of a financing. This action will permit the reimbursement of these project expenses from bond proceeds at closing. For more information and a draft resolution, call Dennis P. Hancock, Director, Project Management at 609-292-8585.

In a recent article in *CREDITWEEK*, Standard & Poor's Corporation referenced New Jersey's charity care funding system. The rating service indicated that the new legislation itself will not influence changes to New Jersey's hospital bond ratings. The reason is that the subsidy is treated as a "short-term cash infusion rather than as an operating strength with expectations that it will decrease over time". The ratings do reflect the actions taken by the hospitals to lessen the need for charity care funds "for profitability". In an effort to address the charity care issue, a task force has been appointed by the Department of Health and Senior Services and is comprised of a broad representation of health care providers, insurors, purchasers, business and labor. The task force is charged with developing a method to incorporate managed care principles into the delivery of charity care. The Authority has been invited to participate in this initiative.

Standard & Poor's Corporation is warning that it will withdraw ratings from municipal bonds if borrowers fail to disclose timely information under the Securities and Exchange Commission's ("SEC") new secondary market disclosure rules. Although the Authority encourages disclosure by all of its borrowers, only those which have completed transactions since July 3, 1995 are required to comply with the new SEC guidelines.

New Jersey hcffa

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