Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on January 24, 2008 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:
Gus Escher, Public Member (Chairing as Vice Chairman); Ulysses Lee, Public Member; Maryann Kralik, Designee of the Commissioner of Banking and Insurance; William Conroy, Designee of the Commissioner of Health and Senior Services; and, Barbara Waugh, Designee of the Commissioner of Human Services.

The following **Authority staff members** were in attendance:
Mark Hopkins, Dennis Hancock, Jim VanWart, Steve Fillebrown, Lou George, Bill McLaughlin, Suzanne Walton, Carole Conover, Lou George, Michael Ittleson, Joe Vas (Authority intern), and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:
Randal Schulz, D. Davis, Catholic Health East; Bob Glenning, Hackensack University Medical Center; Jeffrey Goodwin, Jeffrey Kelly, Carl Alberto, Warren Hospital; John Kelly, Wilentz, Goldman & Spitzer, P.A.; Kari Fazio, Wachovia; David Kostinas, DICA; Victor Radina, Citigroup; Jack Robinson, Cindy Johnson, St. Joseph's Healthcare System; Howard Eichenbaum, Gluck Walrath; John Brodsky, Fairmount Capital; Wayne Ziemann, JH Cohn; Nelson Luria, Sonal Bose, Bear Stearns; Cheryl Cohen, Pantheon Capital; Trish Grober, *The Express-Times* newspaper; Gary Walsh, Windels Marx Lane & Mittendorf; Sharon Price-Cates, Governor's Authorities Unit; and, Cliff Rones, Deputy Attorney General.

CALL TO ORDER

Mr. Escher called the meeting to order at 10:01 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 24, 2007 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.

APPROVAL OF MINUTES

December 18, 2007 Authority Meeting

Minutes for the Authority's December 18, 2007 Authority meeting were distributed for review and approval. Ms. Kralik offered a motion to approve the minutes; Mr. Lee seconded. Mr. Escher voted yes, Mr. Lee voted yes, Ms. Kralik voted yes, Mr. Conroy abstained, and Ms. Waugh abstained. Because the December meeting was attended by six Members, the minutes require four votes for approval. The votes recorded will carry over and the minutes will be presented for approval at the following meeting.

TEFRA HEARING & CONTINGENT BOND SALE
Hackensack University Medical Center

Mr. Escher announced that, as required by the Tax Reform Act of 1986, the following portion of today's meeting will be considered a public hearing in connection with a proposed transaction on behalf of Hackensack University Medical Center ("HUMC").

Project Manager Lou George introduced Bob Glenning, Executive Vice President and Chief Financial Officer at HUMC. He indicated that staff was working on a transaction for HUMC and today he'd like to request consideration of a contingent sale of bonds in an amount not to exceed $150 million.

The proceeds of the bonds together with hospital equity will be used to finance the costs of: constructing and equipping an approximately 155,000 square foot cancer center; constructing 1,000 space parking garage; purchasing various items of capital equipment; funding capitalized interest; funding a debt service reserve fund for the Series 2008 Bonds and for a prior issue of the Authority bonds if required; and paying the related costs of issuance including any bond insurance premium.

Mr. George reported that the Series 2008 bonds will be sold as a public offering of fixed rate bonds. HUMC has received an insurance commitment from Assured Guaranty. While it is highly likely that the transaction will be insured, due to the current market volatility, credit spreads may narrow to the point where insurance may not be cost effective. Therefore, within the approving Series Resolution, there is language to authorize an Authorized Officer of the Authority to approve the transaction on an insured or uninsured basis at the time that the Preliminary Official Statement is distributed.

Based upon a recent number run, the bond size will be in an amount of approximately $96 million that, together with an equity contribution of $50 million, will result in a project size totaling $146 million. Mr. George reminded the Members that HUMC considered refundings as part of this transaction, but, again because of the market volatility, HUMC decided to hold-off and come back at a later date when the markets become more settled.

Staff had been advised that HUMC will maintain its current rating of "A-" rating from Fitch, but there is some question on whether or not HUMC will maintain its "A3" rating from Moody's. Staff will not have confirmation on the Moody's rating until next week. However, the working group is certain HUMC will maintain an investment grade rating. Mr. Escher clarified that investment grade is "BBB-" or better.

HUMC received the necessary zoning approvals for the project and the appeal period has expired. However, because they are within a Redevelopment Area, HUMC must also enter into a Developer's Agreement with the City of Hackensack before it can obtain a building permit. Staff agreed to bring this transaction before the Members for approval with the caveat that there will be no distribution of the Preliminary Official Statement until the Developer's Agreement has been executed.

Mr. George then introduced bond counsel Gary Walsh, Esq., of Windels Marx Lane & Mittendorf, LLP to provide an overview of the Series Resolution.

SERIES RESOLUTION

Mr. Walsh stated that the Series Resolution authorizes the issuance of the tax-exempt Series 2008 Bonds in an aggregate principal amount, exclusive of original discount, not in excess of $150,000,000, at an interest cost not to exceed 7.5% and an Underwriter's Discount not to exceed \$7.00 per \$1,000 of Series 2008 Bonds. The Series 2008 bonds will have a final maturity date of no later than July 1, 2048 and the Redemption price on the Bonds will not exceed 105%. The Series 2008 Bonds are payable from payments to be made by HUMC under a Loan Agreement together with investment income held by the Trustee. The obligation to repay the loan will be evidenced by a Note issued pursuant to a Master Trust Indenture and Supplemental Indenture, which Note will be secured by a pledge of gross receipts and a mortgage from the members of the obligated group.

In addition, the Series Resolution approves the form of and authorizes the execution of a Bond Purchase Contract prior to close of business on April 23, 2008. The Series Resolution also approves the distribution of and "deemed final" nature of the Preliminary Official Statement, the form of the Bonds, Official Statement, Loan Agreement and Bond Purchase Contract. The Series Resolution also appoints The Bank of New York as Trustee, Bond Registrar, and Paying Agent for the Series 2008 Bonds. In addition, it authorizes the Authorized Officers to execute and deliver such other documents and to take such other action as may be necessary or appropriate to effectuate the execution and delivery of the Loan Agreement, the Bond Purchase Contract and the issuance and sale of the Series 2008 Bonds.

As previously stated by Mr. George, the Series Resolution also has language regarding the ability to determine going forward on an uninsured basis, and also language regarding the execution of the Developer's Agreement prior to the distribution of the Preliminary Official Statement.

With respect to the Loan Agreement, because of the possibility of an insured or uninsured transaction, bracketed language was included in the Agreement having to do with the Authority's cash transfer test. This language will be included in the Agreement only if the transaction is uninsured or the insurer requests that it remains. In addition bracketed language addressing the proposed derivative policy was also included and will only be used if the transaction is uninsured and the Members adopt the proposed policy at this meeting.

Mr. Escher noted that the Derivative Policy will be proposed for the Authority's approval later in the meeting. Mr. Hancock noted that, if the bonds are insured, the decision would be up to the insurer whether or not to include the policy's language in the bond documents. Mr. George added that the insurance commitment already contains language similar to the Authority's proposed policy with respect to derivative products.

Mr. Rones clarified that if the insurer does not require the inclusion of the Authority's policy, the language will not be included. Mr. Hancock stated that the derivative policy that will be proposed for the Members' approval at this meeting only requires application to unenhanced/uninsured public transactions. If the Members would like to change that requirement at the time of the policy's approval so that the policy is applied to all Authority transactions regardless of their enhancement, the Members would need to specify that when the policy is being voted upon. If it is approved as is presented, however, the policy would not apply to insured transactions.

Mr. Conroy noted a significant amount of borrowing activity at HUMC since 1997. Mr. Hopkins stated that HUMC is a very quickly growing hospital, which would explain the several bond issues on its behalf in recent years. Mr. Glenning agreed, stating that HUMC's cancer services have doubled since 2001 which has lead HUMC to "burst at the seams" in volume. It continues to experience crowding as outpatient and other services operate consistently at 90% occupancy.

Mr. Escher asked the Members' pleasure with respect to the adoption of the Series Resolution. Mr. Lee moved that the document be approved. Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-89

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Series Resolution entitled, "A RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, HACKENSACK UNIVERSITY MEDICAL CENTER OBLIGATED GROUP ISSUE, SERIES 2008."

Mr. Hopkins then reminded the Members that the Authority's policy states, "The Authority reserves the right to select firm(s), from its qualified list, to serve as co-managing underwriter(s) for its financings. Co-manager(s) will be selected by the Authority, based on demonstrated ability to distribute New Jersey securities of comparable credit quality, sufficient capital to participate in underwriting the issue, and borrower preference(s)."

Bear Stearns and Merrill Lynch are the co-senior managing underwriters for the HUMC bonds. HUMC requested that Bank of America, UBS and Credit Suisse also be considered as co-managers for the bonds. Credit Suisse is not currently on the Authority's list of qualified co-managers so it cannot serve as such on this transaction. Still, for a financing of this type and size, the Authority staff recommends three co-managers. To complement the co-senior managing underwriters and the requested eligible co-managers, staff recommends adding NW Capital as co-manager.

Because the three co-managers recommended by staff are on the Authority's qualified list, demonstrated an ability to distribute New Jersey securities of comparable credit quality, have sufficient capital to participate in underwriting the issue, and reflect the borrower's preference, Mr. Hopkins asked on behalf of staff for the Members' consideration of the appointment of Bank of America, UBS and NW Capital as co-managers for the bonds. Ms. Kralik moved to approve the recommended appointments. Ms. Waugh seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-90

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby appoints Bank of America, UBS and NW Capital to serve as co-managers for the Hackensack University Medical Center transaction.

Mr. Escher wished HUMC luck with the sale and then closed the public hearing required by the Tax Reform Act of 1986 on their behalf. Mr. Glenning stood and thanked the Authority for their work and approval of this transaction.

CONTINGENT BOND SALE

Warren Hospital

Bill McLaughlin introduced Jeffrey Goodwin, President and Chief Executive Officer, Jeffrey Kelly, Chief Operating Officer and Carl Alberto, Vice President and Chief Financial Officer, all from Warren Hospital. Following the introduction, Mr. McLaughlin reminded the

Members that today he would be requesting approval of a contingent sale of bonds on behalf of Warren Hospital.

Mr. McLaughlin stated that the Authority had previously approved a contingent sale of bonds on behalf of Warren Hospital during its October 2007 meeting; the approved resolution was valid only if the purchase contract was signed no later than January 23, 2008 and also called for the issuance, by the Authority, of a taxable series of bonds. The resolution further required the satisfaction of two conditions prior to marketing the issue. These conditions were the execution of a settlement agreement with the Department of Justice concerning Medicare outlier payments and the payment of all delinquent payroll taxes.

Although the stipulated conditions had been satisfied during early December, the Hospital's Board of Trustees created a delay in marketing the bonds after it requested additional information from its management and advisors. During this delay, Warren Hospital's underwriter advised the hospital that a potential lender had been identified for a taxable loan and line of credit. This lender was not interested in purchasing bonds, but would provide the funding through a commercial financing package, which includes a $5 million line of credit and an $11.5 million term loan. Since the taxable debt would not be issued by the Authority and the purchase contract could not be completed before the required date, the hospital asked for the Authority to consider a new Series Resolution, which is presented for approval today.

Mr. McLaughlin further stated that Warren Hospital's Board of Trustees authorized the new financing structure and further authorized management to retain the services of a consultant to aid the hospital in maximizing its revenues and bottom line. It is expected that the consultant will be hired within a month and a report provided shortly thereafter. The Board's Resolution indicated a desire to work with Authority staff when reviewing the consultant's report. There were no material changes to the financial projections that had been presented at the October 2007 meeting.

The proceeds of the Series 2008A bonds will be used to: refund the Authority's Radian insured Series 1995 bonds; to refund the Authority's Series 2002 Private Placement with Commerce Bank, N.A.; to refinance a term loan with Commerce Bank, N.A.; to reimburse the hospital for capital expenditures; to fund capital expenditures; to fund the Debt Service Reserve; and to pay related costs of issuance. The taxable loan and the Authority's bonds will close simultaneously with the transactions receiving parity positions under the Master Trust Indenture ("MTI"). Additionally, the line of credit available is expected to replace an existing line of credit and be secured by accounts receivables.

Mr. McLaughlin then turned the presentation over to bond counsel John Kelly of Wilentz, Goldman & Spitzer, P.A. to present the Bond Resolution pertaining to this transaction.

BOND RESOLUTION

Mr. Kelly stated that the Bond Resolution authorizes the issuance of tax-exempt Series 2008A Bonds in an aggregate principal amount not in excess of $37,000,000. The Series 2008A Bonds will bear interest at a fixed rate to maturity and will be issued at a true interest cost not exceeding 8.00%. The Series 2008A Bonds will have a final maturity date of no later than July 1, 2038 and will be subject to redemption prior to maturity as set forth therein, provided, that the redemption price will be no greater than 103%.

The Series 2008A Bonds will be secured by payments made by the Warren Hospital Obligated Group under a Loan Agreement, as evidenced and secured by a Note issued pursuant to the provisions of a MTI and the First Supplemental Indenture and by a Mortgage and Security Agreement on certain property pledged by the Warren Hospital Obligated Group. In addition, certain funds and accounts established pursuant to the Trust Agreement under which the Series 2007A Bonds are to be issued will serve as additional security.

The Bond Resolution approves the form of and authorizes the execution of a Bond Purchase Contract for each Series of Bonds prior to close of business on April 23, 2008. The Bond Resolution also approves the form of the Series 2008A Bonds, Preliminary Official Statement, Official Statement, Trust Agreement and the Loan Agreement. The Bond Resolution appoints The Bank of New York as Bond Trustee, Bond Registrar and Paying Agent for the Series 2008A Bonds. In addition, it authorizes the Authorized Officers to execute and deliver such other documents, including a Letter of Instructions to effectuate the refunding of the Authority's outstanding Revenue Bonds, Warren Hospital Obligated Group Issue, Series 1995 and Series 2002, and to take such other action as may be necessary or appropriate to effectuate the execution and delivery of the Bond Purchase Contract, the Loan Agreement and the Trust Agreement and the issuance and sale of the Series 2008A bonds.

Mr. Rones asked Mr. Kelly to reiterate what is being replaced by the taxable loan from the transaction approved in 2007, noting that the taxable loan will be secured on parity with the MTI. Mr. Kelly stated that the Series B Bonds portion is being replaced by a taxable loan with a maximum issuance of $11.5 million and it will be secured by a note under the MTI. Mr. Escher asked what the noted "BBB" rating was in reference to, and Mr. McLaughlin replied that it referred to the Authority's transfer of cash requirement. Mr. McLaughlin added that the bonds proposed for issuance in this transaction would be unrated.

Mr. Conroy asked for clarification on the future capital expense portion of the issue relating to medical equipment and renovations. Carl Alberto stated that approximately $2 million would be used for 2008 facility renovations, including the addition of a gamma camera for nuclear medicine use as well as plumbing upgrades that are expected to cost approximately $800,000.

Mr. Hancock noted that, should the Members approve the Derivative Policy that is up for adoption later in the meeting, the policy would apply to the proposed Warren Hospital transaction, since the bonds would be unrated, and the language required by the policy would be included in the Warren Hospital bond documents.

Mr. Conroy reminded the Members that the Department of Health and Senior Services is currently in discussion with Warren Hospital regarding a request to close its obstetric services. Mr. Hopkins noted that Warren Hospital's projections for the project included both the scenario that the obstetrics department remain open and the scenario that it close. Mr. Conroy was pleased that it had been mentioned and discussed.

Mr. Escher asked the Members' pleasure with respect to the adoption of the Bond Resolution. Mr. Lee moved that the document be approved. Mr. Escher seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-91

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Bond Resolution entitled, "A RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, WARREN HOSPITAL OBLIGATED GROUP ISSUE, SERIES 2008A."

Mr. Escher noted that Warren Hospital requested an expedited review of these minutes. Ms. Kralik moved to authorize the Assistant Secretary to execute a certified copy of minutes from this portion of today's meeting to be forwarded to the Governor for his advanced consideration of these actions. Ms. Waugh seconded. The vote was unanimous and the motion carried.

Mr. Goodwin stood and thanked the Authority Members and staff for all their hard work on this transaction.

INFORMATIONAL PRESENTATION & PROJECTIONS
St. Joseph's Hospital & Medical Center

Mr. George began by introducing Jack Robinson, Chief Financial Officer, and Cindy Johnson, Administrative Director of Business Development & Decision Support at St. Joseph's Healthcare System, Inc. ("St. Joesph's"). He reported that the Authority is structuring a $245 million financing on behalf of St. Joseph's that will result in: the construction of a new 4-story critical care building, renovations to the lobby and ground floor, the relocation of outpatient clinics to another building on the Paterson campus, and renovations and expansion to two operating rooms and the critical care unit at the Wayne campus. In addition, proceeds will be used to refund existing outstanding indebtedness, provide capitalized interest during the construction and renovation period, fund a debt service reserve fund and pay the related costs of issuance.

The new money component is approximately $177 million and the refunding totals approximately $68 million. It is anticipated that this will be a fixed rate transaction issued on the credit of St. Joesph's. Mr. George noted that St. Joseph's met with the rating services and is providing them with updated and ongoing information. The rating determinations will not be announced until later in February. If there is no rating by the time staff requests approval for a contingent bond sale, staff will include a requirement within the documents that St. Joseph's has an investment grade rating.

Based upon financial considerations, St. Joseph's is considering the inclusion of all its Parent subsidiaries in the obligated group except for the captive insurance company.

Mr. George noted that St. Joseph's prepared projections to support its ability to pay debt service associated with the project, and he asked Steve Fillebrown to review these projections for the Members. Mr. Fillebrown stated that the projection period covers 2008 through 2013 and the projections are based upon the obligated group consisting of both St. Joseph's Paterson and Wayne facilities, both hospital foundations, and the home health care organization Visiting Health Services of New Jersey.

The projections throughout the period show: cash on hand growing from 76 days to 115; days in accounts receivables remaining steady at 43 days; days in accounts payable decreasing from 66 days to 61; operating margins ranging from 1.9% to 2.3%; the profit margin growing from 1.9% to 2.3%; and a debt service coverage ratio ranging from 2.08 to 3.21 times coverage (growing over the projection period). In short, financial indicators predict solid financial performance with steady growth throughout the projection period.

Mr. Fillebrown then reported on the assumptions upon which the projections were based, including the expectation that the project comes on line in 2011.

Other key assumptions include, in terms of **volume**:

- inpatient admissions increasing 1.2% to 1.8% between 2008 and 2010; then jumping to 2.4% in 2010 before dropping back to a change of 1.8% in 2013 as volume levels off

- outpatient visits increasing approximately 1.2% for the first three years, growing by 2.8% in 2011, then leveling back to 1.9% in 2013
- length of stay remaining at 5.45 for the entire projection period

He noted that these assumptions do not take into account possible closure of Barnert Hospital.

In terms of **expenses**, assumptions include:

- total expenses (excluding interest and depreciation) increasing 3.6 to 5.2% during the projection period
- salaries per full-time employee increasing 3.9% per year
- fringe benefits remaining at 18.9% of salaries throughout the projection period

In terms of **revenues**, the projections assume that:

- total revenues increase 3.8% to 5.8% during the projection period; the highest increase in 2011
- Medicare and Medicaid increases are expected to be 3% per year reflecting current regulations
- managed care increases by 3.5% each year
- payor mix is projected to remain consistent with current levels

Mr. Fillebrown stated that, overall, these assumptions are considered conservative and reflect performance consistent with prior years.

At this point, Jack Robinson and Cindy Johnson presented more detail on the project for the Members' information. Ms. Johnson reported that the master facility project began in 2005 with an assessment of the Paterson and Wayne hospital campuses, as well as all outpatient sites.

The assessment identified the need for St. Joseph's to reorganize and expand key clinical services, decompress the volume of visitors coming through the main hospital building by centralizing and relocating clinic services offsite, improve ground floor access to services, and upgrade patient care units to meet current patient needs. At St. Joseph's Wayne Hospital the plan identified the need to upgrade surgical and critical care services as well as patient care units.

St. Joseph's then established a full detailed facility plan for each campus and selected the following projects as first priority based on departmental demand, hospital strategic direction and operational impact. The project is organized into four major initiatives, three impacting the Paterson facility and one impacting the Wayne facility.

Using an aerial view image, Ms. Johnson then began explaining the projects for the Paterson facility. Phase I involves relocating the clinic and its associated enabling projects. Doing so involves a complete a build-out on the second floor of the 275 Hospital Plaza Building to allow for the provision of all primary and subspecialty care clinic services in one centralized location. 275 Hospital Plaza, which is located across the street from the main hospital, currently houses the hospital's dialysis program on the first floor. The project will initially build-out approximately 50% of the second floor and a small portion of the first to accommodate the pediatric and adult subspecialty clinics currently operated in the hospital, as well as the Feeding and Swallowing Center located in the 100 Hospital Plaza building.

The demolition and relocation project for the first phase of work at Paterson involves demolishing the Johnson Building and 100 Hospital Plaza to accommodate the new Critical Care Building. At the 100 Hospital Plaza facility, residents in the residential apartments will be relocated to existing hospital apartments or private apartments in the community. The Feeding and Swallowing Center will be relocated to the 275 Hospital in order to incorporate it more closely with St. Joseph's pediatric subspecialty practices and develop a birth defects center. At the Johnson Building, the on-call rooms/library and QA/risk management/legal services will be relocated to the Xavier building of the Hospital on the fourth and sixth floors.

Ms. Johnson reported that Phase 2 of the Paterson project involves the building of a four-story critical care building with a helicopter pad on the roof. Using renderings of the new facility, she stated that the ground floor will expand the existing Emergency Department to accommodate 75 bays and dedicated areas for trauma, pediatric and adult emergency services. She noted that the Emergency Department has a capacity of 50,000 patients annually and it received 75,000 last year after a large October surge in volume. The first floor will house the hospital's main surgical suite with twelve new operating rooms and support services. The second and third floors will house 56 critical care beds and associated support services including a dedicated ICU pharmacy satellite station.

Mr. Robinson described Phase III at Paterson as the reorganization of the facility's ground floor to improve patient access to hospital services. The project will reorient the main entrance to the south end of the campus to unused space between the Regan and Seton Buildings. The reorientation is designed to improve traffic congestion at the hospital's front door, as well as eliminate current overcrowding in the lobby and reception area.

As part of the reorientation project, St. Joseph's will also renovate the vacated emergency room lobby to establish an outpatient entrance, including registration and a blood draw lab adjacent to the existing radiology services for ease of outpatient access.

Other Phase III projects at St. Joseph's Paterson facility include: the replacement of the auditorium and board room, which will be demolished as part of the Johnson Building; the relocation of the physician lounge to the old main hospital entrance; the creation of a new chapel entrance; renovation of corridors between main and outpatient lobbies; and upgrades to the facility's elevators. Mr. Robinson noted that the auditorium is heavily used by the teaching program.

Mr. Robinson then described the project at the Wayne facility which will focus in on the operating rooms and the intensive care unit (ICU)/continuing care unit (CCU) areas. The operating room project will include the expansion of two of the hospital's four surgical operating rooms to 600 square feet each, as well as the creation of needed surgical support space required to accommodate today's surgical and orthopedic services. In addition, the entire operating room suite will receive an HVAC upgrade to improve air handling and circulation issues. The priority project will be the renovation of the hospital's 8-bed ICU and the 8-bed CCU to create a 16-bed ICU/ CCU unit. This unit will provide the hospital with the cross unit access for improved quality of care and staff efficiency.

Mr. Conroy asked about the expected completion date for the project, to which Ms. Johnson stated that final completion is expected in 2012. Mr. Robinson noted that the Emergency Department is expected to be completed in 2011.

Mr. Escher asked if the projections considered the possibility of Barnert Hospital closing its doors, to which Mr. Robinson stated that St. Joseph's has been in discussion with Barnert and was pleased to learn that Barnert has a similar payor mix, making it an easier volume for St. Joseph's to absorb in terms of consistency. However, neither the projections presented nor the project design included numbers reflective of the closing of Barnert's facility. He added that the numbers also did not include the recent surge of volume in the Emergency Department, simply because the surge was unexpected and started occurring in October after the projections were compiled.

There were no further questions, and because this presentation was for informational purposes only, no action was required by the Authority. Mr. Escher thanked the St. Joseph's representatives for their presentation.

INFORMATIONAL UPDATE
Virtua Health

Mr. George reminded the Members that Virtua plans to build a new hospital on Route 73 in Voorhees to replace their current Voorhees facility. In April of 2007, the Authority approved the use of a negotiated sale for financing the planned relocation. Virtua initially wanted to break ground on the project in November or December of 2007, however, staff advised Virtua that the Authority would require all approvals to be in place prior to approving a contingent bond sale.

Virtua subsequently provided a timetable outlining the receipt of the various approvals. The Authority agreed to allow for a contingent sale without all of the approvals subject to the inclusion of extraordinary redemption provisions in the bonds. This required language adds costs to bonds, and as a result, Virtua has been less aggressive in moving forward with the transaction while awaiting receipt of the approvals.

According to Mr. George, some of these approvals are taking longer than initially anticipated. In the interim, Virtua is considering a forward swap to take effect this coming fall and is negotiating insurance provisions for this swap and for the bond transaction itself. Staff anticipates presenting to the Members later this year to ask for a contingent bond sale on behalf of Virtua, but at this time the schedule is still a moving target.

This presentation was for informational purposes only; no action was required.

NEGOTIATED SALE REQUESTS
A. Saint Michael's Medical Center

Mark Hopkins began by introducing Randal Schulz, Vice President of Capital Strategy & Management for Catholic Health East ("CHE"). CHE is forming a new affiliated not-for-profit entity named St. Michaels Medical Center, Inc. ("St. Michael's") to acquire the following three Newark hospitals from Cathedral Healthcare System: St. Michael's Medical Center, St. James Hospital and Columbus Hospital.

CHE is a Pennsylvania nonprofit corporation which controls, directly or indirectly, various affiliates that, together with CHE, constitute the CHE Health System. The affiliates own and operate or manage health care facilities and provide health care and related services in eleven states, including general acute care hospitals, long-term care facilities, skilled nursing facilities and behavioral health facilities with a total of approximately 12,100 beds and 1,900 living units for the elderly. In New Jersey, CHE owns Lourdes Medical Center of Burlington County, located in Willingboro, Our Lady of Lourdes Medical Center located in Camden, and St. Francis Medical Center, located in Trenton.

St. Michael's is expected to acquire the three Cathedral hospitals during the second quarter of 2008. Shortly after St. Michael's acquires these hospitals, it expects to transition St. James Hospital to provide non-acute care health care services and to close the Columbus Hospital.

St. Michael's has signed a Memorandum of Understanding with the Authority to undertake a financing plan which will provide proceeds to: acquire the Cathedral Hospitals; refinance outstanding debt of the Cathedral Hospitals; finance capital improvements and transition costs at the St. Michael's and St. James facilities; and pay related costs of issuance. The total amount of bonds expected to be issued on behalf of St. Michael's for this project is $253 million.

According to Mr. Hopkins, the bonds may be issued in several series and may include both tax-exempt and taxable bonds. All of the bonds are expected to be backed by the State through the Hospital Asset Transformation Program. The maturity of the bonds is yet to be determined.

The Authority issued $80 million of its bonds in 1998 and $15 million of its bonds in 2002 on behalf of Cathedral. As of September 30, 2007, $56 million and $5 million remained outstanding, respectively. The Authority issued $36 million of its bonds in 1991 on behalf of Columbus Hospital. As of September 30, 2007, $26 million remained outstanding. It is expected that all of these bonds will either be refunded through this financing or paid off from the proceeds of the acquisition.

As a newly formed entity, St. Michael's does not have any audited financial statements. Authority Members will be provided with projections for the project at the informational presentation expected to take place at the February meeting.

Mr. Hopkins reported that St. Michael's requested, and the Treasurer's Office of Public Finance concurs with the request, that the Authority permit the use of a negotiated sale for the bonds because the financing would involve: the sale of a complex or poor credit; volatile market conditions; and a large issue size. Since these are considered to be justifications for a negotiated sale under the Authority's policy regarding Executive Order #26, staff recommends the consideration of the resolution approving the use of a negotiated sale and the forwarding of a copy of the justification in support of that resolution to the State Treasurer.

Because these bonds will be backed by a contract with the State Treasurer under the Hospital Asset Transformation Program, the Treasurer's Office of Public Finance selected the senior managing underwriter, and for that role they selected Morgan Stanley. At the direction of the Office of Public Finance, the Attorney General's Office issued a Request for Proposals for bond counsel for this financing. McManimon and Scotland was selected from that process to serve as bond counsel.

Mr. Escher noted that CHE expects to purchase Columbus Hospital and then close it. He asked why they would buy a hospital only to close it. Mr. Schulz stated that, rather than closing the hospital, there is a possibility it may be sold, however, the agreement made between CHE and Cathedral required that all three hospitals be sold in order for the purchase of any of the hospitals to occur.

Ms. Kralik asked if CHE anticipates any difficulty in closing Columbus Hospital, to which Mr. Hopkins stated that CHE will have to go through all of the normal procedures and approvals for closing a hospital. Mr. Schulz conceded that, typically, once word gets out that a hospital is closing, conditions such as community relations and physician support and finances begin to deteriorate very quickly. For that reason, CHE hopes to move very quickly in order to minimize the financial impact of the closing and to best capture the volume of the closing facility in the remaining facilities.

Mr. Conroy stated that he had heard that the major stakeholders would be sitting down with the community, including the mayor, city council, and archdiocese, to discuss the situation and explain the need to reorganize to the community. Mr. Hopkins added that Columbus has experienced a long history, at least fifteen years or so, of struggling financially.

Mr. Conroy moved to adopt the resolution approving the pursuit of a negotiated sale on behalf of Saint Michael's, and the forwarding of a copy of the justification in support of said resolution to the State Treasurer. Ms. Waugh seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-92
(attached)

B. IJKG Opco, LLC and IJKG Propco, LLC

Mark Hopkins reported that IJKG Propco, LLC signed a Memorandum of Understanding with the Authority to undertake a financing to provide proceeds to: refinance the acquisition of Bayonne Medical Center, including paying off loans IJKG assumed from Bayonne Medical Center (one in the amount of $17.5 million from Kimco and one for $2.5 million from the Authority); finance capital improvements and equipment at Bayonne Medical Center; provide working capital and pay related costs of issuance. The total amount of bonds expected to be issued on behalf of IJKG for this project is $34 million.

Mr. Rones noted for the record that IJKG has not yet assumed the loans from Bayonne (issued by Kimco and the Authority), but that those loans will be assumed by IJKG upon closing on the sale of the hospital. Mr. Hopkins agreed and noted, if the loans are not assumed, these bonds will not be issued.

IJKG Propco, LLC is a New Jersey limited liability company formed to hold the real estate assets of Bayonne Medical Center. IJKG Propco, LLC and IJKG Opco, LLC, which was formed to operate the hospital, are subsidiaries of IJKG, LLC. IJKG, LLC was the winning bidder in the bankruptcy auction of Bayonne Medical Center.

IJKG completed the Certificate of Need process and the CHAPA process to acquire Bayonne Medical Center and the consummation of the sale is expected by the end of next week.

The bonds will be taxable bonds and may be issued in several series. The maturity of the bonds is yet to be determined.

Mr. Hopkins noted that, as a newly formed entity, IJKG Propco does not have any audited financial statements. Authority Members will be provided with projections for the project at the informational presentation expected to take place next month.

IJKG Propco has requested that the Authority permit the use of a negotiated sale for the bonds because the financing involves the sale of a complex or poor credit and volatile market conditions. Under the Authority's policy regarding Executive Order #26, these are considered to be justifications for the use of a negotiated sale. Therefore, staff recommends the consideration of the resolution approving the use of a negotiated sale and the forwarding of a copy of the justification in support of the resolution to the State Treasurer.

Mr. Hopkins reported that IJKG Propco has yet to select an underwriter or request consideration of a bond counsel.

Mr. Escher asked why the bonds would be taxable, to which Mr. Hopkins replied that IJKG is a for-profit entity, and therefore, tax-exempt bonds are not an option.

Ms. Waugh moved to adopt the resolution approving the pursuit of a negotiated sale on behalf of IJKG Propco, and the forwarding of a copy of the justification in support of said resolution to the State Treasurer. Mr. Conroy seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-93
(attached)

DERIVATIVE POLICY

Mr. Escher noted that last month, Dennis Hancock presented a set of proposed considerations regarding Authority borrowers' use of derivative products. At the December meeting, the Members asked that the vote be tabled for a month so that they could review the considerations in more depth. Mr. Escher added that the proposed considerations had also been included in the Members materials for the January meeting and then he asked if the Members had any further questions regarding the proposal at this time. There were none.

Mr. Hopkins commended Dennis Hancock for doing an exceptional job on a very difficult task of working with a variety of experts from various viewpoints to develop these considerations in rather unchartered territory. He noted that this is groundbreaking work and that very few of the other authorities nationwide have any sort of policy in place regarding derivatives.

Mr. Escher also commended Mr. Hancock for this work and stated that this is not a policy that the Authority can approve and forget about. It should be monitored going forward to make sure that it is an effective policy and does not cause any unexpected strife among the borrowers. Members and staff agreed.

Mr. Conroy asked if the policy needs to be codified, to which Mr. Hancock replied that the Authority has a number of covenants that it imposes without putting them into any regulatory form. Mr. Rones did not object.

Mr. Conroy moved to approve the recommended derivative considerations, as presented by staff; Ms. Waugh seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-94

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the "Proposed Derivative Policy Considerations." *(attached)*

2008 DEBT MANAGEMENT PLAN

Dennis Hancock reminded those in attendance that Executive Order No. 26 (Whitman) requires the preparation of an annual Debt Management Plan and its submission to the Treasurer. The Authority's plan for 2008 reflects transactions that were completed during 2007 and identifies financings anticipated for 2008, along with a description of each project, the anticipated date of sale and issue size, security, ratings, and a proposed method of sale. The proposed plan excludes Capital Asset Program loans, since these transactions do not involve the issuance of new debt. He advised that, as in prior years, the total volume for 2008 was subject to change, depending upon market conditions and borrower preferences. Mr. Hancock noted that the plan that was distributed in advance of the meeting was created before the receipt of an MOU from CHE and IJKG. Mr. Hancock updated that plan and a new version had been placed in front of the Members today that included these additional projects; this is the version that would be submitted to the Treasurer.

Mr. Hancock also noted that, according to the Authority's forward calendar, it could issue as much as $2.5 billion in debt in 2008, which would be, by far, a new record of issuance for this Authority.

Mr. Escher noted the record breaking issuance potential and asked if the debt management plan considered the release of the report today from the *Commission on Rationalizing New Jersey's Health Care Resources*. Mr. Hancock stated that the Commission's report is not directly applicable to the debt management plan. He added, however, that the Bond Buyer recently indicated that 2008 is expected to be a very large year of issuance in the health care sector nationwide. He also stated that, while it may or may not affect the size of the Authority's bond issues, the Authority may expect to see an increase in activity as borrowers who have issued auction rate debt seek to convert to fixed rate or other forms of variable rate after some recent failed auctions in the bond community (none of which involved Authority bonds).

Mr. Conroy asked when the plan needs to be filed with the Treasurer, to which Mr. Hancock replied that the deadline is January 31, 2008. Ms. Waugh offered a motion to approve the plan and to forward it to the Treasurer. Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH - 95

NOW, THEREFORE, BE IT RESOLVED, that, as required by Executive Order No. 26, the Authority hereby approves a Debt Management Plan for 2008, as presented at this meeting, and authorizes its submission to the State Treasurer.

2008 BUDGET AMENDMENTS

A. Replacement Toyota Prius

Mark Hopkins reported that, on October 31, 2007, a 2005 Toyota Prius owned by the Authority and driven by Senior Project Manager Lou George was struck by a car driven by a person who failed to observe a stop sign. Lou sustained only minor injuries but the Authority's insurance company declared the car totaled. In December, the Authority received an insurance payment for the car in the amount of $19,204.

As background, at an Authority Meeting in the fall of 2006 the Authority Members agreed that, beginning in 2007, it would phase out staff's use of Authority vehicles over four years (except the vehicle for the Construction Manager and one pool vehicle for deliveries). It was agreed that those vehicles currently assigned to staff would be retained until that staff member retired or four years elapsed, whichever occurred first.

Because Mr. George is still entitled to an Authority vehicle, he is being reimbursed for the mileage accrued on his personal vehicle. Under the circumstances, it would be more cost efficient to replace the Toyota Prius so that Mr. George would have an Authority vehicle to drive. The Authority could purchase a 2008 Toyota Prius through the State contract at a cost of $20,349. It is estimated that it will take approximately 120 days to receive the replacement vehicle once it is ordered.

On behalf of staff, Mr. Hopkins recommended that the Members approve the purchase of a 2008 Toyota Prius to replace the totaled vehicle at a net cost of $1,145 and that the "Vehicles" line item in the Authority's 2008 Budget be increased by $20,349 to reflect the additional cost of the replacement vehicle. Mr. Conroy offered a motion to amend the 2008 budget to replace the Authority's recently totaled Toyota Prius; Mr. Lee seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-96

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the purchase of a 2008 Toyota Prius to replace the totaled vehicle at a net cost of $1,145, and

BE IT FURTHER RESOLVED, that the "Vehicles" line item in the Authority's 2008 Budget be increased by $20,349 to reflect the additional cost of the replacement vehicle.

B. Data Plan for Executive Director's Cell Phone to Receive Authority E-Mail

Mark Hopkins reported that, due to the frequency that he is out of the office attending bankruptcy hearings, hospital board meetings and other meetings, combined with the fact that the Authority has recently been involved in fast moving negotiations and unique transactions needing his input, and compounded by the increased expectancy of others that he has mobile access to e-mail, he recommends that the Authority provide him with mobile access to Authority e-mail.

In consultation with Gene Sullens, the Authority's Information Technology Specialist, Mr. Hopkins investigated the means by which he could have mobile access to Authority e-mails through his cell phone. The most cost efficient way of having access to e-mail through a cell phone would be through the purchase of a data plan from his wireless carrier, Verizon. The cost would be $44.99 per month, plus taxes and applicable fees for unlimited access to e-mails. This plan would provide virtually real time notification and access to his Authority e-mail.

He then requested that the Authority Members approve a data plan for his cell phone so that he can have mobile access to Authority e-mail and that the "Telephone" line item in the Authority's 2008 Budget be increased by $610 to reflect the additional cost of the data service.

Mr. Conroy asked if this should be a matter for the Members' consideration rather than a staff decision, to which Mr. Hopkins stated that, because the services will be provided on his personal cell phone, he felt it was important to get the Members' approval for the expense. Mr. Conroy offered a motion to amend the 2008 budget to permit the data cell phone plan, as recommended; Ms. Waugh seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-97

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves a data plan for the Executive Director's cell phone so that he or she can have mobile access to Authority e-mail; and,

BE IT FURTHER RESOLVED, that the "Telephone" line item in the Authority's 2008 Budget be increased by $610 to reflect the additional cost of the data service.

AUTHORITY EXPENSES

Mr. Escher referenced a summary of Authority expenses and invoices. Mr. Lee offered a motion to approve the bills and to authorize their payment; Ms. Waugh seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. HH-98

WHEREAS, the Authority has reviewed memoranda dated January 17, 2008, 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 $661,123.95, $24,732.48 and $69,815.19 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

Mr. Escher noted that copies of staff reports, including the Project Development Summary, Cash Flow Statement, Year-End Budget Report, and Legislative Advisory were distributed to the Members. Also included in today's reports is the discussion on Sub-Prime Mortgages prepared by staff at the request of the Members at the December meeting.

Mr. Hopkins then announced that Public Member Moshe Cohen had tendered his resignation as an Authority Member effective immediately. He gave no reason for his resignation, however, before his resignation, he did request that staff put together the report on how the sub-prime market crisis could affect the Authority. Mr. Hopkins commended Mr. Hancock's work on compiling this report and recommended that the Members review it when they get a chance and ask any questions they may have. Mr. Hancock noted that new information regarding the sub-prime rates and their effect hit the market on a daily basis. He added, though, that at this point it seems much of the market reaction awaits S&P's and Moody's respective responses to Ambac's rating.

Mr. Hopkins then offered the following items in his Executive Director's Report:

1. The final report of the *Commission on Rationalizing New Jersey's Health Care Resources* is scheduled to be released today at a 1:00 p.m. press conference at Princeton University's Woodrow Wilson School. Mr. Hopkins and Mr. Fillebrown will attend the press conference.
2. In hospital news, Mr. Hopkins sadly reported that Paul Dabrowski, Chief Financial Officer of Trinitas Hospital, passed away suddenly on January 12. Mr. Hopkins described him as very knowledgeable and easy to work with.

   Jim DeRosa has been named Chief Financial Officer of Somerset Medical Center, replacing Brian O'Neil, and Joe Scott has been named Chief Executive Officer of Liberty Health Care, which runs Jersey City Medical Center, Meadowlands Hospital and Greenville Hospital. He replaces Steve Kirby.

   Mr. Hopkins noted that St. Mary's Hospital has not yet finalized an agreement to sell its Pennington Avenue Campus. A final agreement is pending a Phase II environmental report and a remediation plan, which is expected in the next three weeks. In the meantime, St. Mary's management is pursuing a bridge loan financing secured by the Pennington Avenue property. Cash flow statements show that, without the proceeds of a sale of Pennington Avenue or a bridge loan or some other extraordinary financial support, St. Mary's is likely to experience a liquidity crisis around mid-February.

   The State Health Planning Board is scheduled to hear Liberty Health Care's request to close Greenville Hospital again on February 7th. The State Health Planning Board previously postponed its recommendation of the closure request when Jersey City offered to give Greenville $1.5

million to keep it running for six months. Liberty Health turned down Jersey City's offer saying that it would be detrimental to the system as a whole and resubmitted its request to close Greenville Hospital.

Regarding the Barnert Bankruptcy, Mr. Hopkins reported that the Bankruptcy Court is scheduled to consider an accounts receivable line of credit for Barnert on Monday, January 28th. This line is expected to be between $2 and $3 million, which would allow the hospital to continue operations through April when Barnert hopes a sale of the hospital will be complete. Although the bankruptcy court has not identified a stalking horse bidder, at least one bidder has expressed a continued interest in purchasing Barnert. A bankruptcy auction is scheduled for January 28th.

Regarding the Bayonne Medical Center Bankruptcy, the purchase of Bayonne Medical Center by IJKG, LLC is progressing and is expected to close shortly. The purchaser is working out the final details of a settlement with OIG for the outlier liability of Bayonne, which will allow IJKG to assume Bayonne's provider number.

Regarding the Pascack Valley Hospital Bankruptcy, bidders for Pascack Valley Hospital have been working with Cushman & Wakefield, and the bankruptcy auction is scheduled to take place on February 4th with a hearing to approve the sale scheduled for February 19th.

2. In Authority and Staff News, the Authority issued over $866 million in bonds during 2007 on behalf of thirteen borrowers (three of which were CAP Loans totaling approximately $17 million).

Mr. Hopkins introduced the Authority's new intern, Eagleton Fellow, Joe Vas. He will be spending Mondays and Wednesdays at the Authority this spring. Mr. Vas is a joint J.D./M.B.A. candidate at Rutgers Camden who previously worked in the Office of Public Finance at the New Jersey Treasury Department. One of the projects he will be working on is a finance training module for hospital board members. He may also assist project management on some of the upcoming financings.

3. Relating to Authority Fees, Mr. Hopkins reported that, from December 2006 to December 2007 the Consumer Price Index for all Urban Consumers in the New York area increased 3.66% and in the Philadelphia area increased 3.51%. During the adoption of the 2007 budget it was agreed that the Authority would annually raise the cap upon which it collects its annual fee based on the increase in the average CPI-U of New York and Philadelphia rounded to the nearest million, This cap would also apply to the initial fee of 2.5 basis points approved during the discussions of the 2008 budget. Therefore, the maximum principal amount of bonds upon which the Authority will collect its initial fee and annual fee will increase from $82,000,000 to $85,000,000.

4. Mr. Hopkins reported that, due to the recent crisis in the financial markets, the volatility in interest rates and particularly the exposure of many of the bond insurers to the sub-prime mortgage crisis, (most notably ACA being downgraded from "A" to "CCC" by Standard & Poors and Ambac being downgraded from "AAA" to "AA" by Fitch), there have been several unsuccessful auctions of auction rate bonds. These failed

> auctions are likely to result in escalating interest rates on auction rate bonds. As a result, the Authority may soon receive requests from borrowers to convert auction rate bonds to fixed or other forms of variable rates. An additional effect the market may have on Authority borrowers who have entered into derivative instruments based on a LIBOR index may be in the negative because of the spread developing between municipal bond rates and the LIBOR rate.

Mr. Escher asked why several of the original Members of IJKG left the Bayonne project, to which Mr. Hopkins stated that it seemed to have been due to difficulty raising funds. Some of the organizations expected to be able to raise more funds from physicians than they were able to do. When Jim Lawler joined IJKG, however, he was able to raise significant funds from doctor investors.

Mr. Escher then asked if there were any Legislative Advisory matters worth noting. Mr. Hopkins stated that one piece that is proposed would require level debt service on any bond issued by a State Agency, however, it seems that this does not affect conduits and would, therefore, have no impact on the Authority. Mr. Fillebrown added that this piece of legislation also appears to have been "pre-filed" meaning that it was presented for approval in the past and failed and was then rolled forward again without any new support or momentum. Mr. Hopkins added that the State is also looking at limiting the use of derivative products but that, too, does not look like it will affect conduits. Mr. Fillebrown stated that, with these pieces of legislation, as well as others that may appear to be relevant to the Authority, the first step is to determine if it in fact applies to the Authority. This has yet to be confirmed by the Authority on these pieces of legislation. If it is later determined that it will apply to the Authority, staff will begin to organize the most effective way to provide comment on the legislation.

Before adjournment, Mr. Conroy called on the Authority to formally recognize Ed Tetelman for his long-time service with the Authority as Designee of the Commissioner of Health and Senior Services and Designee of the Commissioner of Human Services. Mr. Conroy stated that Heather Howard, the new Commissioner of Health and Senior Services, plans to attend the next Authority meeting, and that she felt that Mr. Conroy may be a more appropriate fit to serve as her Designee for this Authority simply because his line of work directly deals with hospital licensing. The department, however, is grateful to Mr. Tetelman for his dedicated service as Designee to this point.

As there was no further business to be addressed, Ms. Waugh moved to adjourn the meeting, Mr. Lee seconded. The vote was unanimous, and the motion carried at 11:35 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 JANUARY 24, 2007.

Dennis Hancock
Assistant Secretary

AB RESOLUTION NO. HH-92

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

Saint Michael's Medical Center, Inc.
(also known as "Newco")

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, Saint Michael's Medical Center, Inc. has entered into a Memorandum of Understanding with the Authority to pursue a revenue bond financing (the "Financing"); and,

WHEREAS, Saint Michael's Medical Center, Inc. has requested that the Authority consider approving the pursuit of a negotiated sale; and,

WHEREAS, the Financing could be considered a complex or poor credit; and,

WHEREAS, the proposed issue size could be considered large; and,

WHEREAS, market conditions could be considered volatile; and,

WHEREAS, the Authority is desirous of being responsive to Saint Michael's Medical Center, 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 above findings, the Authority hereby determines that it would better serve the requirements of this Financing to conduct a negotiated sale; 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.

AB RESOLUTION NO. HH-93

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

IJKG Opco, LLC & IJKG Propco, LLC
(Referenced herein as "IJKG, LLC")

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, IJKG, LLC has entered into a Memorandum of Understanding with the Authority to pursue a revenue bond financing (the "Financing"); and,

WHEREAS, IJKG, LLC has requested that the Authority consider approving the pursuit of a negotiated sale; and,

WHEREAS, the Financing could be considered a complex or poor credit; and,

WHEREAS, market conditions could be considered volatile; and,

WHEREAS, the Authority is desirous of being responsive to IJKG, LLC'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 above findings, the Authority hereby determines that it would better serve the requirements of this Financing to conduct a negotiated sale; 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.

See AB RESOLUTION NO. HH-93

Proposed Derivative Policy Considerations

These policy guidelines are prepared for discussion purposes among members of the Derivatives Working Group and as a starting point for deliberation by the Members of the Authority:

The following covenants should be considered for inclusion in Authority Loan Agreements for unenhanced bond issues that are placed through the public markets. Any enhancer or other market requirements should be included in series resolutions or bond indentures.

Derivative Agreement means, without limitation,

(a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;

(b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices (including "basis swaps");

(c) any contract to exchange cash flows or payments or series of payments;

(d) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and

(e) any other type of contract or arrangement that the Borrower (or Obligated Group) entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment risk or to protect against any type of financial risk or uncertainty.

Derivative Contract Requirements

a) The Borrower (or Obligated Group) may enter into one or more Derivative Agreements where such Derivative Agreement is entered into for the purpose of hedging interest rate risk or to manage interest rate costs with respect to Indebtedness, whether then outstanding or expected to be issued or incurred for a defined project.

b) The Derivative Agreement shall not contain any leverage element or multiplier greater than 1.0x unless there is a matching hedge arrangement which effectively offsets the exposure from any such element or component, or unless such leverage is necessary solely to match one index against another to meet market conditions (e.g. 150% of BMA in exchange for 100% of LIBOR due to the market relationship of BMA to LIBOR in a taxable transaction).

c) At the time the Derivative Agreement is signed, the counterparty or its guarantor must have at least one rating for its long-term debt obligations in one of the two highest rating categories (without regard to numerical or other qualifiers) given by a nationally recognized rating agency.

d) The Borrower (or Obligated Group) must provide, within 15 calendar days of the execution of the Derivative Agreement, to the Trustee and the Authority, a copy of the Derivative Agreement, a copy of the Internal Revenue Service ID Certificate, if any, and an Officer's Certificate stating that, at the time of the execution of the Derivative Agreement, i) no Event of Default occurred or is continuing or will have occurred by reason of the execution of the Derivative Agreement, and ii) no event occurred and is continuing or will have occurred by reason of the execution of the Derivative Agreement which, with the passage of time or the giving of notice, would constitute an Event of Default.

e) The Borrower (or Obligated Group) may enter into a Derivative Agreement not covered under a) above only if the Borrower (or Obligated Group), at the time of execution can comply with b), c), and d) above, and, either 1) the Borrower (or Obligated Group) is itself rated in one of the top three rating categories (without regard to numerical or other qualifiers), or 2) is rated "investment grade" and provides to the Authority and the Trustee an Officer's Certificate that indicates that i) the Borrower's (or Obligated Group's) Debt Service Coverage Ratio, based upon the most recent Audited Financial Statements, was at least 1.5x, and ii) as of the date of execution of the Derivative Agreement the Borrower's (or Obligated Group's) Days Cash on Hand was equal to or exceeded 75 days.

Derivative Contract Security Provisions

The Borrower (or Obligated Group) may secure its obligations arising under a Derivative Agreement:

a) By a subordinate lien, or

b) By a lien for the equal and ratable benefit of all of the holders of Obligations, provided that, at the time of the execution of the Derivative Agreement, the Borrower (or Obligated Group) provides an Officer's Certificate, to the Trustee and the Authority, to the effect that either 1) based upon the most recent Audited Financial Statements, the Debt Service Coverage Ratio was at least 1.5x, and the Borrower (or Obligated Group) is rated in one of the top three rating categories (without regard to numerical or other qualifiers), or 2) based on the most recent Audited Financial Statements, the Debt Service Coverage Ratio was at least 1.5x, and the Borrower (or Obligated Group) is rated "investment grade", and as of the date of execution of the Derivative Agreement the Borrower's (or Obligated Group's) Days Cash on Hand was equal to or exceeded 75 days.

The Borrower (or Obligated Group) may agree to collateralize its obligations under the Derivative Agreement if, at the time of execution, the Borrower (or Obligated Group) provides to the Trustee and Authority, an Officer's Certificate to the effect that the Borrower (or Obligated Group) has made provisions in the Derivative Agreement that the Borrower (or Obligated Group) can only be required to provide collateral if, at the time such deposit would be required, the Borrower (or Obligated Group) can meet its Transfer of Assets test conditions with respect to any such required delivery of collateral, assuming the collateral deposit has been made.

Derivative Reporting Requirements

The Borrower (or Obligated Group) agrees to provide to the Authority

a) at the time of issuance of the Bonds, a listing of all Derivative Agreements outstanding and the "mark-to-market" value as of the last day of the most recent fiscal quarter,
b) at the closing on the Loan, a copy of the Borrower's (or Obligated Group's) Derivative Policy, if one exists, and
c) within 45 days of the end of each fiscal quarter of the Borrower (or Obligated Group), a description of any modifications to the Borrower's (or Obligated Group's) Derivative Policy.

Derivative Disclosure Requirements

The Borrower (or Obligated Group) must disclose through notes to Audited Financial Statements, Management Discussion or elsewhere in the official statement, the existence of outstanding Derivative Agreements and a general description thereof.

Other Issues

While a counterparty may be secured on a parity with bondholders (or noteholders) as to any mortgage or gross revenues pledge if the conditions above under "Derivative Contract Security Provisions" are met, under no circumstances shall the counterparty to a Derivative Agreement have voting power under the Bond Documents or Master Indenture. However, to the extent that a counterparty is secured on a parity with bondholders (or noteholders), it should be noted that in no event will a majority of bondholders (or noteholders) be able to vote, while a Derivative Agreement which provides such parity position is outstanding, to implement amendments to the Bond Documents or the Master Indenture that impair the parity security status or position of the counterparty.

For purposes of calculating Funds Available for Debt Service and/or Debt Service Requirements, net payments under Derivative Agreements may be considered.