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# AUTHORITY NOTES

2016 SERIES A

WINTER

## Message from the Executive Director

During 2015, we witnessed many changes in the health care industry. The Affordable Care Act (ACA) unquestionably altered the entire



landscape of health care in America.

Normally changes involving government policy, regulation and oversight

occur very slowly and they usually are a reaction to the current industry trends or adapting to public needs. The ACA however, was quite the opposite. By usual government standards it came quickly. It came with intensity. It mandated all-encompassing changes. Moreover, it came whether you were ready or not.

In fact, it has been 50 years since America's health care system has undergone such dynamic changes. Not since 1965, when President Lyndon B. Johnson signed Medicare into law, as well as the amendments to the Social Security Act that created Medicaid, has a health initiative affected an entire nation in the manner by which the ACA has.

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## Will 2016 build off of 2015's rebound?

As 2016 begins, the usual cliché of the New Year holding great promise may actually be true, at least for the health care financing industry. The recent interest rate hike by the Federal Reserve (the Fed) and the projected incremental increases slated throughout 2016, point to a rebounding economy. Despite turmoil in the overseas markets and a fluctuating stock market here in the U.S., the health care industry finished 2015 on solid footing and is well-positioned to maintain its trajectory of growth.

Due to the requirements of the Affordable Care Act (ACA) and the shift in the health care delivery needs of the public, all of the major economic indicators of the health care industry are pointing in the right direction. Nearly every health care system is identifying needs for new or improved facilities, more locations at which to deliver health care and planning on increasing their payrolls.

In Milwaukee, a local business journal reported last week that many area hospitals have shifted the bulk of their construction funds from building or expanding their existing hospitals to

building clinics and out-patient centers. In New Jersey, walk-in clinics and urgent care facilities are popping up everywhere. The simple fact is that growth is happening in health care. It may not be the type of growth we are used to, but it is definitely growth.

Another indicator of growth and change is illustrated by the new employment trends. A study by the RN Work Project at New York University indicated that fewer newly licensed nurses are being employed in hospitals. Their study revealed an 11% decline in the hiring of new nurses by hospitals between 2005 and 2012. And, it appears that this is only the beginning. Currently, there is an emergent demand by care providers and insurers for case managers, field consultations, ambulatory care services and hospital follow-up visits in the home. As this trend continues, more and more new nurses will be employed outside of hospitals as opposed to working in the traditional hospital setting.

The Bureau of Labor Statistics also presents the industry in a positive light for the upcoming year. During 2015,

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In short, the ACA completely transformed the way we receive, deliver and pay for our health care services – now and in the future. More importantly, it added tens of millions of people to the pool of eligible patients.

As the most densely populated state in the nation, New Jersey was forced to act swiftly and comprehensively. As a result, the changing face of America's health care is happening right here in our home state.

In New Jersey, the ACA enabled 500,000 residents to qualify for health coverage under the expanded Medicaid program. In addition, according to the US Department of Health and Human Services, over 250,000 people signed up for health insurance through the federal health insurance exchange. All of a sudden, New Jersey had over three-quarters of a million additional residents with health insurance.

In theory, it would amount to 750,000 more annual check-ups and over 10,400 more potential visits annually per hospital in New Jersey. With such numbers, the possibilities are definitely staggering. The newly covered individuals would definitely strain an already stressed health care system.

Adding more patients to the system is only one of the significant changes brought about by the ACA. New Jersey's disproportional population distribution within the state, combined with the state's cultural diversity, obligated our health care providers to revise how their services are delivered to the patients.

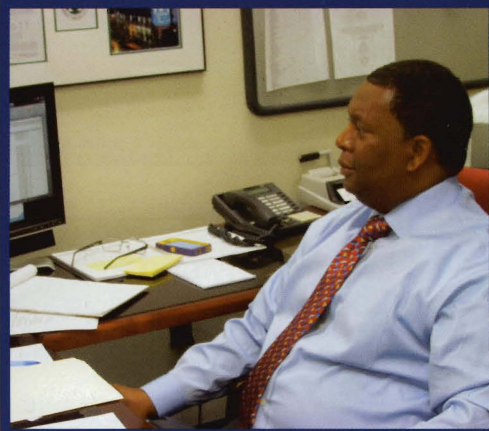
Developing trends indicate that urban residents prefer going to neighborhood clinics rather than waiting in hospital emergency rooms or calling for an appointment with a doctor. Rural patients are also finding that it is easier to access a clinic than a hospital.

New Jersey hospitals are also leading the nation in mergers and acquisitions, with additional mergers in the planning stages. We will soon be home to several "mega" health systems comprised of as many as 11 hospitals. It is believed that under the ACA, these multi-facility systems can save money on procurement, negotiate more favorable reimbursement rates with the insurance companies and expand their talent base. The ultimate goal, however, is to provide population health - keeping patients healthier with preventative, comprehensive and cost-effective health care. In the same vein, a number of New Jersey's hospitals are collaborating with other hospitals to enhance their specialty medical care, improve treatment regimens and expand the number of services they can provide to patients.

The industry is rapidly changing and, as usual, New Jersey is at the forefront of initiative and innovation.

Here at the Authority we have been assisting our hospitals, clinics and hospices to adapt to their increased patient volume and their changing delivery systems. So far this year we have helped our providers to finance new construction projects, make property and parking garage acquisitions as well as purchase new equipment. We have also issued bonds for renovations, expansions and upgrades to existing facilities.

## ***Congratulations!***



**Bill McLaughlin, the Assistant Director of Project Management, recently celebrated his 15th anniversary working at the Authority.**

## ***Thank you, Bill!***

As the patient volume grows, so does the need for space and services.

A large portion of the Authority's business, however, remains in the refunding of existing bonds. Our low-interest rates and tax-exempt status have helped a number of institutions lower their debt payments and better manage their debt. In this way we also help them free up capital for purchases, renovations and expansions.

The Authority is working hard to help New Jersey's health care providers keep pace with the rapidly changing industry. We offer a variety of financing options that can help you stay current with the ACA, competitive in the industry and comprehensive in your treatment.

We are here to assist you with your capital needs and save you money.

***- Mark E. Hopkins***



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the average monthly increase in health care positions was nearly 40,000 new hires per month. This figure was over 150% more than the average of 26,000 per month in 2014. Moreover, the total 2015 increase of 474,000 health care positions led all employment categories in annual job growth. In addition, the latest data for December 2015 reported 39,400 new health care jobs for the month. In other words, health care employment finished 2015 as strongly as it began and ended with no sign of tapering off.

The health care industry's response to the expansion of health care services and the growing labor force can also be seen in its financial activity. Throughout the nation, 2014 was very sluggish financially for the health care industry.

However, just as with the other economic indices, health care financing in 2015 also demonstrated signs of optimism. Borrowing was up as the interest rates remained low.

In a recent *Modern Healthcare* article, Melanie Evans reported that hospitals borrowed 50% more from long-term investors in 2015 than in 2014. According to the health care financial advisers, HFA Partners, hospitals sold investors \$18 billion in fixed-rate municipal bonds in 2015. This is a very positive trend when compared to 2014, in which hospitals borrowed only \$12 billion.

Evans believes that the lack of borrowing in 2014 helped to keep municipal bond interest rates low in 2015. According to Evans, it was the low rates, plus all of the speculation about the Fed raising interest rates during 2015 that prompted many hospitals to "capitalize on cheap debt." The low interest rates were definitely the major attraction to hospitals and systems. The not-for-profit hospitals, in particular, saw the potential savings from refinancing. This trend was reflected in the activities at the New Jersey Health Care Facilities Financing Authority, where nearly 36% of the Authority's bond issuances in 2015 were for refunding.

Corporate strategies also played a role in the refunding movement. New Jersey saw a number of hospitals and systems initiate mergers, acquisitions and collaborations. Several entities took advantage of our tax-free bonds and low interest rates to consolidate their debt, reduce their debt payments and free up capital for needed projects. Others saw the low cost of borrowing as an opportunity to plan new construction projects. As a result, in 2015, the Authority saw a 16.5% increase in the volume of bonds issued over 2014.

The 25 basis point interest rate hike in December was significant as it was the first increase by the Fed since December 2008. The Fed also expects to gradually increase interest rates throughout the year until the rate is

2%. This is a sign of confidence in an improving economy. Additionally, as the commercial interest rates rise, the Authority's lower rate, tax-free bonds will appear even more attractive to borrowers.

During 2015, the health care industry experienced an economic rebound. The uncertainties surrounding the implementation of the ACA in 2014 became realities that enabled the CEOs, CFOs and COOs to strategize and plot the future courses of their organizations. The result was a dynamic year of expansion and innovation that drove all of the health care industry's economic indicators into positive territory. The growth of 2015 also established a new paradigm for health care in terms of management, delivery and objectives. Best of all, indicators are very encouraging as we move forward.

No one can predict the future, but 2016 begins with a firm foundation on which the new health care model will continue to grow. §

### **Emergency Generator Bill is Law**

On December 9, 2015, Governor Christie signed S854 into law. The law requires health care facilities, such as nursing homes and assisted living facilities to be generator-ready in the event of an emergency. The NJHCFFA has been working with industry organizations to structure a financing program for generators. Details will be announced shortly. §

## FINANCING NOTES

### **Hackensack University Medical Center**

On August 12, 2015, the Authority closed on \$84,000,000 of bonds issued on behalf of Hackensack University Medical Center (HUMC) Obligated Group. HUMC is a not-for-profit 501(c)(3) corporation located in Hackensack, New Jersey. It operates a 900-bed general acute care, teaching hospital that provides secondary, tertiary and quaternary levels of care on both inpatient and outpatient basis.

The proceeds from the bonds were used to fund the acquisition costs of a Medical Arts Building, an adjacent parking garage and an existing ground lease for the real estate upon which these facilities are located; and, to pay the related costs of issuance.



The Series 2015A Bonds were privately placed with TD Bank, N.A. with an interest rate of 2.38%, which represents a present value savings of nearly \$8.2 million over the first 10 years of the bonds as compared to taxable financing.

### **Meridian Health System**

On November 2, 2015, the Authority closed on \$131,500,000 of bonds on behalf of Meridian Health System. Meridian Hospitals Corporation is comprised of Jersey Shore University Medical Center, Riverview Medical Center, Ocean Medical Center, Southern Ocean County Hospital, Bayshore Community Hospital, as well as the K. Hovnanian Children's Hospital.



The proceeds of the issuance were used to: finance the expansion of the Emergency Department at Ocean Medical Center; finance the expansion of the Catheterization Laboratory at Bayshore Community Hospital; finance the renovation/expansion of the Cardio/Neuro Intensive Care Unit at Jersey Shore University Medical Center; finance the acquisition of various capital equipment; fund a debt service reserve fund; and, pay the related costs of issuance.

The Series 2015A Bonds were privately placed with TD Bank N.A. and the financing was structured as a fixed-rate obligation. The interest rate for this transaction was 2.50%, which represents a present value savings of over \$11.8 million over the first 10 years of the bonds as compared to taxable financings.



# FINANCING NOTES

## **Samaritan Healthcare and Hospice, Inc.**

Samaritan Healthcare and Hospice, Inc. is an independent not-for-profit organization serving patients and families within a 2200 square-mile radius of its campus in Southern New Jersey that includes Atlantic, Burlington, Camden, Gloucester, and Mercer Counties.

On October 22, 2015, the Authority closed on \$7,864,000 of bonds on behalf of Samaritan Healthcare and Hospice. The proceeds of the bond sale will be used to construct a 30,000 square-foot Hospice Inpatient Center in Voorhees, NJ and pay the related costs of issuance. The building will be on the property Samaritan currently owns adjacent to the Virtua Campus .



The Series 2015A Bonds were privately placed with Wells Fargo, N.A. at an interest rate of 2.65%, which represents an \$886,630 present value savings compared to taxable bonds.

## **University Hospital**

On December 21, 2015, the Authority closed on \$254,975,000 of an Assured Guaranty insured public issue of tax-exempt bonds on behalf of University Hospital (University). University, an instrumentality of the State of New Jersey, is a 467-licensed bed acute care facility that has over 3,200 full-time employees.



The Assured Guaranty insured bonds were rated “A2/AA” by Moody’s and S&P, respectively. Additionally, the underlying credit rating for University was “BBB” from Fitch Ratings.

Approximately \$154 million of the proceeds were used to refund and/or redeem all of the Authority’s outstanding Revenue Bond Anticipation Notes, University Hospital Issue Series 2013A. Approximately \$100 million of the proceeds were used to finance a portion of the costs of various capital improvements to University Hospital’s existing acute care facility located in Newark: increase the number of operating and procedure rooms; upgrade the HVAC systems and facilities; enhance and expand the Cancer Program plus other work, materials and equipment needed; fund a Debt Service Reserve Fund; and, pay all or a portion of the costs of issuance.

Security for this transaction included a “lock box” feature in which payments made by the State to University Hospital are separated for use as debt service for the bonds.

Yields on the bonds ranged from 2.26% on the 2021 maturity to 4.14% on the 2046 maturity. The all-in total interest cost for the transaction was 4.87%. Indicative rates on a comparable taxable transaction would have resulted in total interest cost approximating 6.56%. Through the use of tax-exempt bonds, University Hospital was able to save on a present value basis of the yield to call, approximately \$51.4 million.

Morgan Stanley served as the senior underwriter for this transaction with Bank of America Merrill Lynch, Barclay’s, Citicorp and Wells Fargo Securities serving as co-managers.



# *The NJHCFFA Year in Review Year*

## **2015 Financings:**

**Barnabas Health - Master Lease Program - \$7,845,950**

**Lakewood Resource and Referral Center (CHEMED) -  
Federally Qualified Health Center Loan Program - \$1,500,000**

**Children's Specialized Hospital - \$27,200,000**

**Hackensack University Medical Center - \$84,000,000**

**Meridian Health - \$131,500,000**

**Samaritan Healthcare and Hospice - \$7,864,000**

**University Hospital - \$254,975,000**

*Will you be next?*

*Our tax-free bonds and low interest rates will save you millions!*



### **NJHCFFA MEMBERS**

#### **Ex-Officio Members**

**Cathleen D. Bennett**, Acting  
Commissioner of Health

**Elizabeth Connolly**, Acting  
Commissioner of Human Services

**Richard J. Badolato, Esq.**, Acting  
Commissioner of Banking & Insurance

#### **Public Members**

**Elisa A. Charters**, CCIM  
**Suzette T. Rodriguez, Esq.**  
**Munir Kazmir, M.D.**

*The Authority currently has one  
Public Member vacancy.*

### **NJHCFFA SENIOR STAFF**

**Mark E. Hopkins**  
Executive Director

**Stephen M. Fillebrown**  
Deputy Executive Director,  
Director of Research, Compliance & Project Management

**Ron Marmelstein**  
Director of Operations, Finance & Special Projects

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