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new jersey health care facilities financing authority / annual report 2009



The Big Picture

People see many different things when they look at a hospital or health care facility. Some people see just a building. Others may see an employer, a place to volunteer, or a place to go to for information and seminars.

But to most people, a hospital or other health care facility is more than just a building, but rather a place that brings strong emotional associations. It's the place where a child was born, where an elderly parent was cared for during a final illness, where a friend who is a cancer survivor shares her story with a support group, or where a spouse had a lifesaving operation. Life-changing events happen every day within the four walls of our state's health care facilities.

However, the contributions of New Jersey's health care facilities extend far beyond the services delivered behind the bricks and mortar. The bigger picture is that our state's health care facilities are economic engines that provide stability and growth to the state and the communities in which they operate -- even when the economic recession is affecting their own financial stability.

Unfold this page to learn more about the economic impact of our health care facilities community. The picture behind the numbers show the multitude of ways these facilities are helping individuals and their communities.

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Message from the Governor

Governor Christopher J. Christie

New Jersey's healthcare facilities provide some of the highest quality of care in the nation and contribute greatly to our state's economy and quality of life. New Jersey's 72 acute care hospitals serve our more than 8 million residents each year and employ more than 145,000 full and part-time workers. Hundreds of nursing homes, assisted-living centers, and specialized healthcare facilities bolster our economy and better the health and welfare of our residents.



My Administration is demonstrating our commitment to the state's healthcare institutions by increasing funding for charity care by lifting the assessment cap to allow the state to receive tens of millions of dollars in additional federal matching funds to support hospitals here in New Jersey. Despite the unprecedented financial challenges we are facing, maximizing opportunities to shore up our healthcare system is a priority in meeting the needs of our residents and strengthening our economy.

The tough financial choices we are making here in Trenton are also being made by healthcare facility administrators throughout the state. In the face

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of a rapidly changing healthcare environment, healthcare institutions are being asked to make the difficult decision of how to strike a balance between fully supporting the health and welfare needs of the community while managing costs to keep their institutions viable.

The New Jersey Health Care Facilities Financing Authority plays an important role in ensuring our healthcare institutions remain financially strong by providing access to low-cost financing options to help them grow and prosper in the marketplace. I applaud the efforts of the New Jersey Health Care Facilities Financing Authority in helping the Garden State and its residents meet the challenges of the changing state of health care.

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Message from the Chair

Department of Health and Senior Services
Commissioner Poonam Alaigh

Healthcare delivery continues to evolve nationally and in New Jersey. With the enactment of federal healthcare reform this March, we can expect to see even more changes in the healthcare system. The Department of Health and Senior Services is studying what this legislation will mean for our state; however I believe that one way real reform will occur is with the implementation of Health Information Technology.



One of my priorities as Commissioner is helping the state's providers make significant progress in using health information technology to deliver more personalized, high-quality patient care. The Department and HCFFA are working together to oversee an \$11.4 million federal grant that will establish regional Health Information Exchanges; initiatives that will put real-time information in the hands of doctors and other providers across different facilities. Additionally, the New Jersey Health IT Commission will issue a report this summer with recommendations about privacy and security in the context of information exchanges, and about implementation, outreach and training program of electronic health records.

Over the next year, we will continue to collaborate with HCFFA and our healthcare partners on initiatives, like HIT, that allow us to improve our healthcare delivery system so residents of our state can receive quality care that keeps them healthy.

Created by an act of the NJ Legislature in 1972,
the Authority's mission is:

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

The Authority fulfills its statutory purpose primarily by issuing tax exempt bonds for health care organizations throughout the State, including hospitals, skilled nursing facilities, assisted living facilities, continuing care retirement communities, visiting nurse associations and blood banks.

Message from the Director

Mark E. Hopkins

This past year has been a challenging year for participants at all levels in the financial markets. New Jersey's health care facilities were no exception. With sweeping health care reform initiatives underway, health care facilities will need to make further investments in construction and renovation to best serve the health care needs of Garden State residents. Maintaining access to low-cost capital is critical in helping to keep our health care providers functioning in a competitive and fast evolving environment.

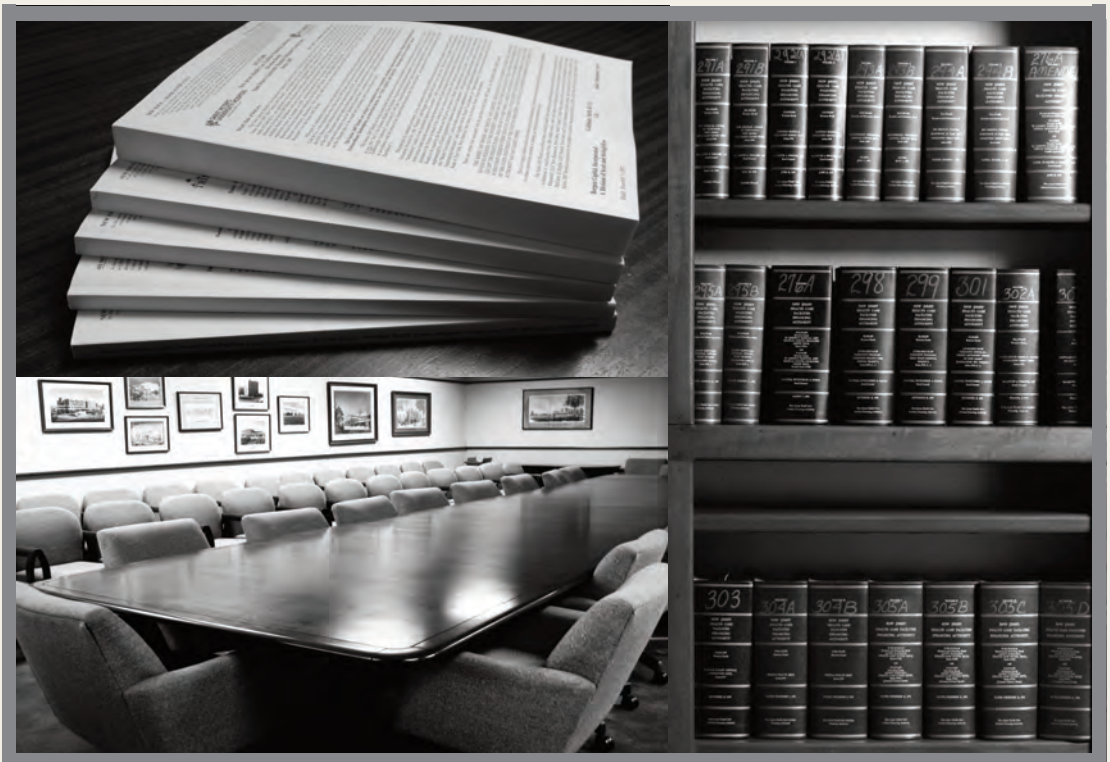


Throughout the ups and downs of the market and the effects of the evolution of health care reform, the New Jersey Health Care Facilities Financing Authority is unwavering in our dedication to support the changing needs of our borrowers and bondholders. We continue to develop new products, fine-tune current products, and streamline procedures in order to foster flexibility and promote lower rates.

One of the new investments health care organizations will have to make under health care reform is in health care information technology. The Authority has taken on the role of administering the Federal grant of \$11.4 million to establish regional Health Information Exchanges that was funded through the American Recovery and Reinvestment Act of 2009. The Authority stands ready to provide additional funding for health information technology through its lending programs, including the Capital Assets Program, Equipment Revenue Notes and traditional bond issuance.

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I am proud of our board and staff who work with perseverance and integrity to serve the needs of our stakeholders and who continue to learn and grow during these challenging economic times. Much of the Authority's success can be attributed to the effective working relationships between our dedicated staff and those who work in the health care and finance fields. The Authority remains committed to being a partner ensuring the financial strength of New Jersey's health care facilities of this state and the communities they serve.



Members of the Authority - Ex-Officio Members

POONAM ALAIGH, MD, MSHCPM, FACP

Chairperson

(serves during her tenure as Commissioner of the Department of Health and Senior Services)

Dr. Alaigh was sworn in as Commissioner of the New Jersey Department of Health and Senior Services on March 22, 2010. Before joining the Department of Health & Senior Services, Dr. Alaigh was serving as executive medical director for Horizon Blue Cross Blue Shield where she was responsible for quality, care management, medical policy, clinical outcome study and member advocacy. Previously, Dr. Alaigh served as national medical director for GlaxoSmithKline, where she worked to improve health care technology use, reduce health care disparities and improve access to care for the uninsured. She also worked at the Veterans Administration Hospital in Lyons and as an assistant professor at the University of Medicine and Dentistry of New Jersey-Robert Wood Johnson Medical School in New Brunswick.

A board certified internist with a specialty in vascular diseases, Dr. Alaigh is licensed to practice in New Jersey and New York and is certified as a Diplomate in Internal Medicine. She earned her medical degree from the State University of New York (SUNY) at Stony Brook. She received a Master of Science in Healthcare Policy and Management from SUNY. She is certified as a Black Belt in Six Sigma.

She also is a founding member of the South Asian Total Healthcare Initiative, which was created in 2009 to develop a research-based data resource on South Asian health, to improve the delivery of culturally competent care, and to address health disparities and empower the South Asian community.

JENNIFER VELEZ, ESQ.

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

Jennifer Velez was sworn in as Commissioner of the Department of Human Services (DHS) in June, 2007 and was re-nominated by Governor Chris Christie and reconfirmed on March 22, 2010. Prior to her nomination by Governor Jon S. Corzine, Ms. Velez served as Deputy Commissioner for Family and Community Services at DHS, during which she oversaw the divisions that administer the Department's largest programs and was responsible for two-thirds of the Department's \$9.4 billion budget. She was also involved in making recommendations for the Commissioner on all aspects of the Department's responsibilities.



Prior to joining the DHS Office, Ms. Velez served as New Jersey's First Assistant Child Advocate beginning with that position's creation in September 2003. From 1998 until 2003, Velez served Governor James E. McGreevey, Acting Governor Donald DiFrancesco and Governor Christine Todd Whitman as Senior Associate Counsel and Assembly Liaison in the Office of Governor's Counsel, where she was primarily responsible for advising on DHS-focused legislation and regulation.

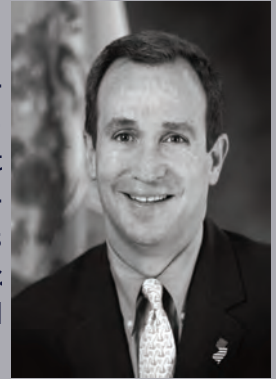
Before entering public service, Ms. Velez was in private practice at the law firm of Pitney, Hardin, Kipp & Szuch in Florham Park. She received her law degree from Rutgers School of Law and her undergraduate degree in Economics from Drew University. Ms. Velez lives in Summit with her husband and two children.

THOMAS B. CONSIDINE

(serves during his tenure as Commissioner of the Department of Banking and Insurance)

Thomas B. Considine was nominated by Governor Chris Christie to serve as Commissioner, New Jersey Department of Banking and Insurance on January 15, 2010 and confirmed by the Senate on March 22, 2010.

Prior to his appointment, he worked at MetLife, Inc., a global financial services company, for nearly 17 years beginning in 1993 where he served most recently as Vice President & Government Relation Counsel, managing a staff of attorneys, public policy analysts and other professionals. He also served on a Legal Affairs Diversity Subcommittee at MetLife. Prior to joining MetLife, Mr. Considine served as a litigation associate at Connell, Foley and Geiser.



Recognized as a leader in the insurance industry, Mr. Considine has held various industry-related posts including a seat on the Board of Directors of the National Organization of Life and Health Insurance Guaranty Associations and a role as a founding appointee to the NJ Department of Banking & Insurance Financial Services Advisory Board.

While in college, Mr. Considine served as an intern on the Washington staff of Representative Frank Guarini. He received both his J.D. cum laude and his B.S. magna cum laude from Seton Hall University, where he later served on the Alumni Board of Directors.

Public Members

GUSTAV E. ESCHER, III

Vice Chairman

(term of office expired April 30, 2010; continues to serve until reappointed or a replacement is approved.)



Mr. Escher is a Managing Director at Bergen Capital, a division of Scott & Stringfellow, an East Coast regional Investment Bank with over 46 offices from New York to Georgia. He previously served as Vice President of New Jersey Public Finance at PNC Bank located in East Brunswick. Prior to joining PNC, Mr. Escher was affiliated with several leading investment banks and commercial banks and provided financial advisory services in both the housing and governmental sectors. He also held executive positions at several consulting firms, a State financing agency, and a local governmental unit.

Mr. Escher received both his Masters degree in Architecture and Urban Planning and his Bachelor of Arts degree from Princeton University. He resides in Princeton, New Jersey.

ULYSSES LEE

Treasurer

(term of office expired April 30, 2008; continues to serve until reappointed or a replacement is approved.)

Ulysses Lee brings to the Authority extensive health care knowledge and field expertise in the areas of insurance, policy and finance. He is currently a Government Relations Counsel and HIPAA Privacy Officer for The Guardian Life Insurance Company of America. Prior to Guardian, he held various legal positions involving regulatory compliance and litigation. Mr. Lee is also a board member of the New Jersey Small Employer Health Coverage Program and the New Jersey Individual Health Coverage Program. Outside of New Jersey, he is involved in policy and finance as a board member of the District of Columbia Regulatory Trust Fund Bureau, which oversees the budget and operations of the D.C. Insurance, Securities and Banking Department, and the D.C. Life and Health Insurance Guaranty Association. He is also a board member of the New Hampshire Small Employer Health Reinsurance Pool.



Mr. Lee has an undergraduate degree from Rutgers University, a law degree from Howard University and a Masters in Public Health from Columbia University, with a concentration in Health Policy, Finance and Management. He currently resides in West Orange, New Jersey.

SUZETTE T. RODRIGUEZ, ESQ.

Secretary

(term of office expires April 30, 2013)

Suzette T. Rodriguez, Esq. is an associate at LeClairRyan in Newark, New Jersey. A member of the Labor and Employment Group, Ms. Rodriguez focuses on discrimination, harassment and retaliation. Prior to joining LeClairRyan, Ms. Rodriguez was an associate at Princeton's Wong Fleming, P.C., and served as a law clerk for the Honorable Travis L. Francis of the Superior Court of New Jersey, Chancery Division, and as a judicial extern for the Honorable Marina Corodemus, Superior Court of New Jersey, Civil Division-Mass Torts. Ms. Rodriguez is currently the President-Elect for the Hispanic Bar Association of New Jersey and the Deputy Regional President for the Hispanic National Bar Association. She also serves on the Advisory Board of the New Jersey Legal Education Empowerment Project (NJ LEEP). Having received her B.A. from Hunter College and her J.D. from Rutgers School of Law-Newark, she is a member of both the New York and New Jersey State Bar Associations. She currently resides in Perth Amboy.



*Ex-Officio Members
may designate long-
term representatives to
attend meetings and
vote on their behalf.
These are the designees
who served in 2009*



William Conroy
Health & Senior Services



Eileen Stokley
Human Services



Maryann Kralik
Banking & Insurance

About the Authority

The Authority, the State's primary issuer of municipal bonds for health care organizations, was created in 1972 by an act of the State Legislature for the purpose of ensuring that New Jersey's not-for-profit health care providers have access to low-cost capital. In 1998, the Authority's statutory powers were expanded to include financing for all health care organizations or components thereof.

While most of the Authority's financings have been for acute care hospitals, it also provides capital for nursing homes, assisted living facilities, home health agencies, mobile intensive care units, outpatient centers, rehabilitation centers, homes for disabled individuals and health maintenance organizations. Because of its expanded legislation, the Authority can also finance other types of health care organizations regardless of their tax status and can issue both federally tax-exempt and taxable bonds. The interest on all bonds issued by the Authority is exempt from New Jersey taxation. In its 37-year history, the Authority has issued **\$16,303,391,347.05** in bonds, helping over 170 health care organizations throughout the state gain access to low-cost capital.

NJHCFFA Financing Totals Through the Years:

1973 - \$12,950,000	1982 - \$580,381,998	1991 - \$531,859,333	2000 - \$412,263,588
1974 - \$141,970,000	1983 - \$382,288,200	1992 - \$329,703,375	2001 - \$474,775,000
1975 - \$5,400,000	1984 - \$200,164,027	1993 - \$497,295,000	2002 - \$529,082,005
1976 - \$32,375,000	1985 - \$933,336,287	1994 - \$789,204,390	2003 - \$684,800,000
1977 - \$95,893,000	1986 - \$79,985,000	1995 - \$56,305,200	2004 - \$506,700,000
1978 - \$109,410,000	1987 - \$414,336,984	1996 - \$162,385,000	2005 - \$414,650,000
1979 - \$182,117,200	1988 - \$324,685,000	1997 - \$475,395,000	2006 - \$813,674,654
1980 - \$137,762,500	1989 - \$279,034,283	1998 - \$1,390,732,857	2007 - \$849,066,000
1981 - \$329,223,913	1990 - \$612,185,000	1999 - \$536,745,442	2008 - \$1,272,380,000
2009 - \$830,840,000			

Authority Financing Options

The New Jersey Health Care Facilities Financing Authority provides health care organizations with access to capital through the issuance of low interest rate tax-exempt bonds. Offering a broad range of programs for the financing and refinancing of health care-related capital projects, equipment acquisition and working capital, the Authority provides funds through the following three types of bond issues:

A **negotiated sale** is permitted when the issue involves: the sale of complex or poor credits; complex financing structures (such as those that include the simultaneous sale of multiple series with varied structures); a large issue size; variable rate bonds; programs or financial techniques that are new to investors; or volatile market conditions. After the borrower selects an underwriter through a competitive process, the underwriter works with the financing team to establish contractual terms, obtain credit ratings and enhancement (if available and cost effective) and secure a repayment structure for the issue. The underwriter, along with any appointed co-managing underwriters, tests the interest rate levels and bond structure during a marketing phase. The bonds are then awarded to the underwriter or underwriting team following a negotiation of interest rates and fees.

A **private placement** is generally used for smaller issues that meet the criteria for a negotiated sale but are determined by a financial analysis to be less expensive on a present value basis if completed as a private placement. They are also used if various circumstances (i.e. credit considerations) would limit the effectiveness or usefulness of a public sale. To complete a private placement, the working group structures the financing, develops the necessary documents, and distributes the information to interested bond funds, banks and other knowledgeable investors.

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A competitive sale is generally used for transactions of up to \$50 million with solid credit and straightforward structures. To complete a competitive issue, a financial advisor is selected to work with members of the financing team to establish contractual terms, obtain credit ratings and enhancement (if available and cost effective) and secure a repayment structure for the issue. A notice of sale is then distributed through industry sources. Sealed bids are submitted and analyzed; the firm or group of firms with the best bid that meets the established criteria is awarded the bonds.

Authority Financing Programs

The Authority currently offers five different financing programs through which it may lend funds to New Jersey's health care organizations:

Stand-Alone Bond Financings are issues that can be structured with fixed or variable interest rates and with or without credit enhancement or ratings. A bond issue may be enhanced by private municipal bond insurance or a letter of credit if the benefits offset the additional cost of the premium. The FHA-insured mortgage program is another enhancement that can provide savings to borrowers. Additionally, bond issues can be sold with or without a rating from one or more of the three primary rating services.

The **Variable Rate Composite Program ("COMP")** is designed to lower the costs of issuance for smaller borrowings. Under the program, bonds are typically marketed for several borrowers at once, yet each borrower is only responsible for its own series of bonds. Borrowers must receive credit enhancement in the form of bond insurance or a letter of credit. The standardization of documents and simultaneous marketing of the bonds reduces the costs of issuance for access to capital markets.

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The **Capital Asset Program** (“CAP”) is designed to take advantage of the greater flexibility available to bonds issued prior to the 1986 changes in the tax laws. The bonds carry a low variable interest rate, and standardized documents keep costs of borrowing low. Loans under the program are continuously repaid, making fresh funds available for other health care organizations in need of capital.

The **Equipment Revenue Note Program** (“ERN”) offers an easy and efficient method of financing and refinancing equipment. Standardized documents and shortened approval periods give the program’s bonds a quicker turnaround time (typically 60 days or less), and lower Authority fees and pre-negotiated bond counsel fees reduce the borrower’s cost of issuance.

The **Federally Qualified Healthcare Center Loan Program** (“FQHC Loan Program”) is designed to ease the burden of start-up costs for Federally Qualified Healthcare Centers (FQHC) which are community-based health centers designed to care for medically underserved low-income or indigent patients. By meeting strict federal standards, FQHCs receive some start-up funding from federal grants, charitable contributions and, occasionally, hospitals; however, they are often forced to seek the remainder of their financing needs through conventional bank loans, sometimes with interest rates in the double digits. Under FQHC Loan Program, these start-up costs could be financed at a monthly variable rate equal to the monthly interest rate paid by the New Jersey Cash Management Fund plus 200 basis points. The loan program will be a revolving pool. That is, as the principal and interest on each loan is repaid, those funds can be lent to another start-up FQHC.

THE YEAR IN REVIEW

Providing Access to Capital in Challenging Times

After several years of growth in health care finance which saw three consecutive years of Authority financings reaching over \$800,000,000 (a mark only passed twice before in our 37 year history) the first months of 2009 were very slow with only one bond issuance, which was under \$15 million. This significant decline in activity ended in May with the largest financing in the Authority's history, the issuance of \$564,645,000 for Virtua Health. With the Virtua financing and six other issuances in 2009, the Authority again surpassed the \$800,000,000 mark with a total issuance of \$830,840,000. The resurgence of activity in the bond market hopefully suggests a recovering economy.

Keeping Doors Open

Authority staff provided significant support this past year working with St. Mary's Hospital in Passaic to develop a reorganization plan after it declared bankruptcy. After almost a year in bankruptcy, St. Mary's Hospital received final approval of its reorganization plan by the bankruptcy court in February 2010. Under the plan, St. Mary's Hospital will pay a smaller annual payment but over a longer period of time, thereby repaying the full principal amount of the loan. This will enable the hospital to remain open and continue to provide important health care services to Passaic and the surrounding community. With the support of dedicated Authority staff members, St. Mary's Hospital is the only one, out of five New Jersey hospitals that declared bankruptcy since 2007, that has not had to close or sell its assets. In these and many other ways, the Authority remains committed to helping meet the needs of our borrowers to insure their continued success.

Providing New Funding Mechanisms

In September 2009, the Authority issued its first series of bank qualified bonds in its 37-year history. A Bank Qualified Bond is a tax-exempt bond for which a financial institution can deduct the associated purchasing or carrying costs. Issued on behalf of Shore Memorial Hospital in an amount of \$30 million, the bonds fell within the new criteria established for bank qualification created by the Federal Stimulus in the American Recovery and Reinvestment Act of 2009. In October 2009, the Authority also issued bankqualified bonds on behalf of Kennedy Health Facilities in the amount of \$16,340,000.

Under the Act, several changes were made to broaden what is considered a Bank Qualified Bond. This results in encouraging financial institutions to invest in tax-exempt bonds. Financial institutions are now permitted to deduct 80% of the cost of buying and carrying tax-exempt bonds and created a temporary 2% safe harbor (up to 2% of a financial institution's assets) allowing a financial institution to deduct the interest costs allocable to tax-exempt obligations issued in 2009 and 2010.

The term "Issuer" has been redefined as the entity using the bond proceeds (i.e., the borrower) and the annual limit on bonds being issued was raised from \$10 million to \$30 million. Thus, borrowers that participate in a pool or borrow through a conduit issuer issuing more than \$30 million in a calendar year will be entitled to bank qualification as long as the borrower's total tax-exempt financings are under \$30 million in the calendar year. As a result, financial institutions can purchase more bonds at lower costs than they would otherwise, with more borrowers benefitting from the resulting lower interest rates. The Act also eliminated the application of the Alternative Minimum Tax on all bonds issued in 2009 and 2010, including refunding of bonds that were initially issued after 2003.

Listening to Borrowers

Another way in which the Authority demonstrated its commitment to its borrowers, was the 2009 modification of our monitoring rights and derivatives policies. In February, the Authority was approached by a borrower with a concern regarding the Authority's derivatives policy, which had been recently enacted to protect bondholders who risk having their security siphoned by a mandatory posting of collateral in accordance with a swap agreement.

The borrower stated that derivatives can be an integral and effective part of the organization's financial strategy, and, in this volatile economy, it is imperative borrowers have access to such tools to manage their finances. The borrower made an important point: That limitations placed on derivatives makes the borrower a less attractive counterparty, which, in turn, makes using derivative products more expensive.

While the Authority is sensitive to the delicate financial needs of its borrowers and does not want to limit the financial tools available to them, the Authority must balance its concern for the borrowers with concern for the bondholders. Authority staff therefore recommended a compromise, maintaining protections for the bondholders while addressing the needs of its borrowers. The Authority Members agreed to modify the covenant by increasing its days cash on hand limitation, thereby permitting the collateralization of derivative obligations if such collateralization is identified as a permitted encumbrance. In this case, it was determined that the borrower would maintain no less than 60 days cash on hand.

All Authority transactions going forward will benefit from these improvements made with the help of a concerned borrower. Staff continues to hear feedback on all of its policies, in the hopes that it can present the best financing options available.

Helping New Healthcare Centers Grow

In August 2009, the Authority introduced a new loan program that will ease the burden of start-up costs for Federally Qualified Healthcare Centers (FQHC). FQHCs are community-based health centers designed to care for medically underserved low-income or indigent patients. Being uninsured or underinsured, this population tends to wait for a health matter to become critical before receiving medical treatment, which is often provided in a hospital emergency room. When this happens, the patient's condition has been unnecessarily worsened due to a delay of action, the services are provided at a higher cost since they consume emergency resources, and the hospitals are often reimbursed very little, if at all, for the care provided.

Unfortunately, because start-up FQHCs cannot demonstrate an established financial track record, it can be difficult for these organizations to get cost-effective financing. By meeting strict federal standards, FQHCs receive some start-up funding from federal grants, charitable contributions and, occasionally, hospitals; however, they are often forced to seek the remainder of their financing needs through conventional bank loans, sometimes with interest rates in the double digits. Under the new Authority loan program, these start-up costs could be financed at a monthly variable rate equal to the monthly interest rate paid by the New Jersey Cash Management Fund plus 200 basis points.

Once in operation, FQHCs receive cost-based reimbursement for Medicaid patients and free malpractice coverage under the Federal Tort Claims Act, which is a significant saving for the provision of medical care.

The loan program will be a revolving pool. That is, as the principal and interest on each loan is repaid, those funds can be lent to another start-up FQHC.

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Christian Health Care Center

On February 20, 2009, the Authority issued \$14,970,000 of bonds on behalf of Christian Health Care Center (“CHCC”), which provides a continuum of elder care and mental health services in Wyckoff. Through this financing, CHCC refinanced approximately \$11.5 million of outstanding 1997 Authority bonds and funded approximately \$3 million worth of new construction and equipment. Proceeds were also used to reimburse CHCC for prior capital expenditures.

The bonds were issued as variable rate bonds with a rating of “A/A-1” by S&P based on a Valley National Bank letter of credit. The initial interest rate was 0.55% and is reset weekly. Final maturity of the bonds is July 1, 2038.

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Virtua Health

On May 14, 2009, the Authority closed the last portion of its largest financing project to date, totaling \$564,645,000 on behalf of Virtua, a non-profit multi-hospital health care system located in South Jersey. The proceeds of the issuance will be used to construct and equip a new hospital, with approximately 368 beds, to replace Virtua's current Voorhees facility.

The bonds were issued in several series to allow for credit enhancement from different providers and allow flexibility to respond to various market changes.

The Series A bonds, the largest portion of the financing totaling \$379,645,000 were issued as fixed rate securities, with \$295,000,000 of the bonds insured by Assured Guaranty and \$84,645,000 of bonds issued on the underlying credit of the hospital. These bonds have a final maturity date of July 1, 2038, and an all-in true interest cost of 5.82%.

The remaining \$185,000,000 bonds were issued as variable rate securities with two series (B & C) resetting their rates on a daily basis and two series (D & E) with rates that reset weekly. The daily variable rate bonds, supported by a JP Morgan Chase Bank letter of credit, were initially priced at an interest rate of 0.15%. The weekly variable rate bonds, backed by a TD Bank letter of credit, were priced at an interest rate of just .30% for the period May 14th through May 20th. The final maturity date of the variable rate debt is 2043.

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JFK Medical Center

On June 18, 2009, the Authority issued \$152,925,000 of bonds on behalf of The Community Hospital Group, Inc. (t/a JFK Medical Center) through the Hospital Asset Transformation Program ("HATP").

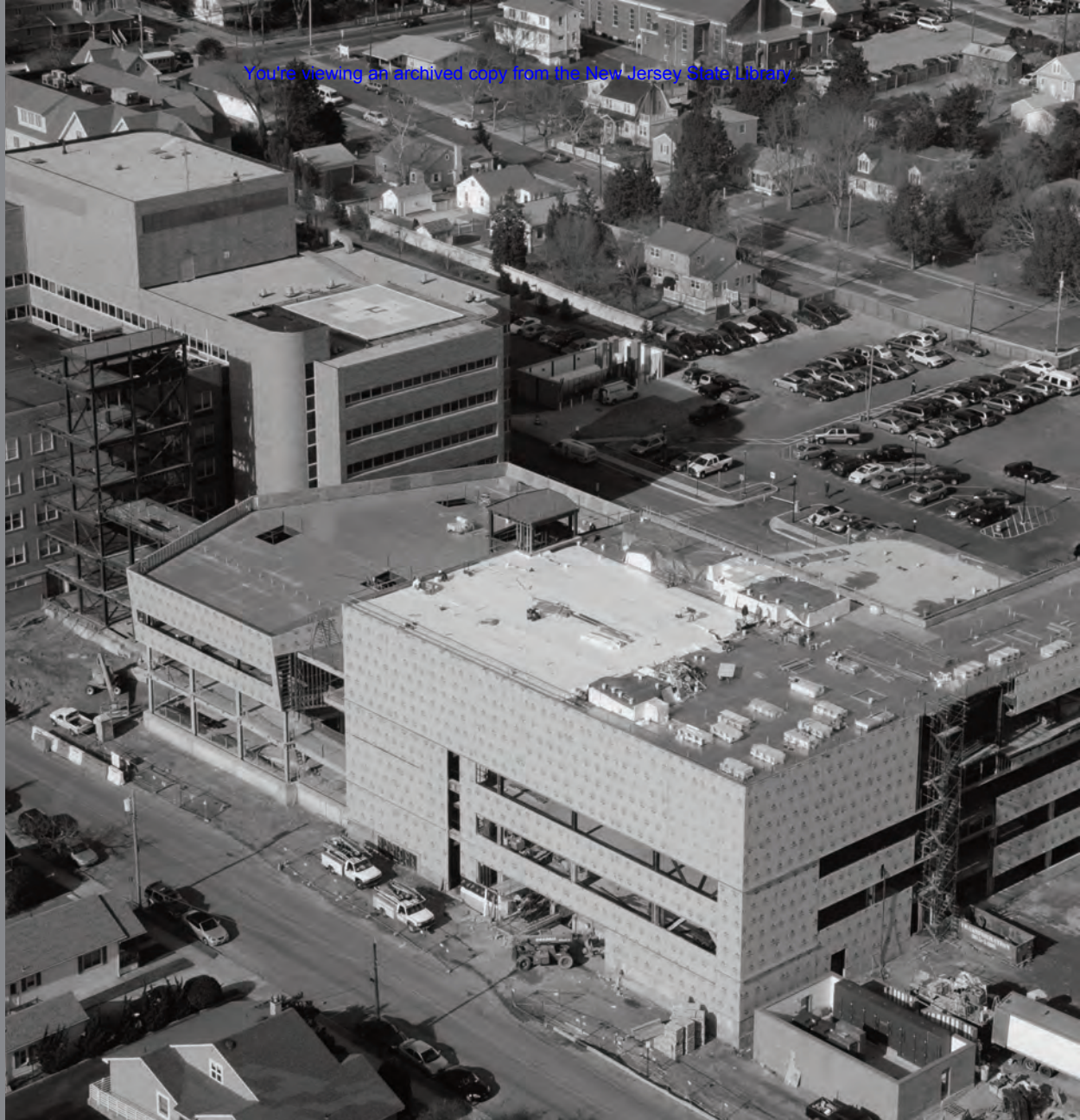
Under the HATP, the Authority can issue bonds secured by a contract with the State Treasurer, on behalf of a hospital terminating acute care services at a specific location where they are no longer useful. The program allows the bonds to benefit from the credit rating of the State which generally results in lower interest rates for the bonds.

According to the contract, the Treasurer agrees to pay the principal and interest on the bonds when due, subject to an annual appropriation by the Legislature. At the same time, the borrowing hospital enters into a loan agreement with the Authority to make payments equal to the principal and interest on the bonds plus other related costs and fees. The Authority, under contract with the Treasurer, will pay those funds directly back to the State. Thus, that structure is revenue neutral for the state.

The proceeds of the Series 2009 bonds were used to pay off outstanding debt related to Muhlenberg Regional Medical Center, which closed last year, and to refund outstanding indebtedness of its nearby sister facility JFK Medical Center, and renovate and expand JFK to accomodate the patients from the Plainfield area.

The bonds received an "A+" rating from Fitch, "A1" from Moody's and "AA-" from S&P. These ratings helped to achieve the low all-in true interest cost of approximately 5.77%.

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Shore Memorial Hospital

On September 17th, the Authority issued \$30 million in bonds on behalf of Shore Memorial Hospital, a not-for-profit, 296 licensed-bed facility located in Somers Point, New Jersey. The bonds fell within the new parameters for bank qualification created by the American Recovery and Reinvestment Act of 2009, making these the Authority's first series of bank qualified bonds.

The proceeds of the bonds will be used to finance costs associated with the construction and equipping of a new 4-story, approximately 141,900 square foot surgical addition to the hospital. The new surgical pavilion will include a new hospital entry, new outpatient procedure facilities, and a new surgical suite along with patient and staff support areas. A three-story connector and five-story elevator tower will link the new construction to the existing hospital.

Shore Memorial planned to finance \$45 million for this project through Authority bonds, however, due to the \$30 million per calendar year limit for bank qualification, Shore Memorial financed the remaining \$15 million in the first quarter of 2010. Structured as a variable rate transaction, the bonds are priced based on an index rate that equals 69% of the sum of the 30 Day LIBOR plus a spread of 350 basis points, determined initially on the closing date and recalculated monthly. The bonds bore an initial interest rate of 2.58%

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Somerset Medical Center

Somerset Medical Center (the “Medical Center”), a 355-bed acute care hospital facility located in Somerville, New Jersey, received financing of \$5,585,500 through the Authority’s Equipment Revenue Note program on September 22, 2009. In order to qualify for financing through the Equipment Revenue Note program, the financing must be for less than \$15 million, proceeds can be used only for equipment and related installation costs, and the issue must be unrated. Financings under the program have received approval to be completed as negotiated private placements. Therefore, no underwriters were needed for this transaction.

Financing was used for the acquisition of computer network equipment, operating room monitors, digital x-ray equipment, and the equipment and fit-out renovations for a cardiac catheterization lab. Proceeds were also used to pay the related costs of issuance. The Note was privately placed with GE Government Finance, Inc. and secured by a first lien on the equipment being financed. The term sheet offered by GE established an interest rate of 5.45% and required the Note to be repaid in consecutive monthly installments of principal and interest over an 84-month period. GE provided the Authority with a traveling Investor letter with respect to the issuance and sale of the Note.

Serving the residents of Somerville and neighboring communities in Somerset, Middlesex and Hunterdon Counties, the Medical Center offers a full range of medical, surgical and diagnostic programs and services, as well as a wide variety of community health education programs and screening services.

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Kennedy Health Facilities

On October 1, 2009, the Authority successfully closed on \$16,340,000 in bonds on behalf of Kennedy Health Facilities, Inc. The proceeds of the bonds will finance the construction and equipping of a new 44,000 square foot sub-acute nursing unit at Kennedy's skilled nursing facility in Sewell. Proceeds were also used to refinance the acquisition of licensing rights for 50 sub-acute beds to be placed in this nursing unit and the acquisition of capitol equipment.

With a final maturity date of October 1, 2039, the transaction was structured as an unrated thirty-year private placement that has a twenty-four month interest only period with principal being amortized over the subsequent twenty-eight years.

Privately placed with TD Bank, the bonds are secured by a first mortgage lien on the Center and by a first priority security interest on all business assets of Kennedy Health Facilities, Inc.

Because these are bank qualified bonds, TD Bank can deduct their carrying costs, which allowed for Kennedy to negotiate a more favorable interest rate. The bonds are at a variable rate with the rate set at 69% of the sum of the adjusted LIBOR rate, plus 350 basis points. This resulted in an initial floating rate of 2.59%.

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Chilton Memorial Hospital

On November 10, 2009, the Authority issued \$39,195,000 on behalf of Chilton Memorial Hospital, a not-for-profit 256-bed facility that services residents from more than 33 communities in Morris, Passaic, Sussex, Bergen and Essex counties.

Proceeds were used to refund \$12.5 million of outstanding 1993 revenue bonds issued by the Authority on Chilton's behalf and to refinance a commercial bank loan of approximately \$10.9 million, which originally funded the construction of an MRI addition.

Proceeds were also used to renovate and expand the cardiac catheterization lab and nursing units, relocate and renovate surgical facilities and patient areas, and purchase various pieces of equipment. The project will also renovate and expand the Comprehensive Breast Center which will expand in size by 20% and will feature warm and welcoming spaces. Enhancements will include a larger waiting room with a private registration area, a separate waiting room for women who need additional testing, and a third digital mammography machine.

The issue was structured as a fixed rate financing with serials bonds maturing each year from 2012 through 2020, and three term bonds maturing in 2024, 2029 and 2039 respectively. The bonds were sold on the basis of Chilton's credit rating of "Baa1" by Moody's and "BBB+" by Standard & Poor's and received an all-in true interest cost of 5.96%.

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Hunterdon Medical Center

On December 11, 2009, the Authority issued \$12,765,000 on behalf of Hunterdon Medical Center, a 178-bed non-profit community hospital and member of the New Jersey Council of Teaching Hospitals affiliated with the University of Medicine and Dentistry of New Jersey - Robert Wood Johnson Medical School.

The proceeds of the bonds were used to refund \$7,755,000 million worth of Authority 1990 Series A bonds. Hunterdon also used the proceeds to finance capital budget items including information technology for both the hospital's main campus in Flemington and the health and wellness facility located in Clinton.

Privately placed with TD Bank, the bonds fit the criteria for bank-qualification. The bonds were initially priced at 69% of the sum of the 30-day LIBOR rate plus 280 basis points. Concurrent with the closing of the transaction, Hunterdon entered into a fixed rate swap, which locked in a rate of 4.107% for the entire life of the bonds. The final maturity date of the bonds is December 1, 2019.

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South Jersey Hospital

On March 31, 2009, the Authority closed a \$12,022,000 loan on behalf of South Jersey Hospital, Inc. The loan was issued through the Authority's Capital Asset Program ("CAP"), designed to take advantage of bonds issued prior to the 1986 changes in the tax laws. Loans under the program are continuously repaid, making fresh funds available for other health care organizations in need of capital. Unlike bond issues, for which the bonds are delivered at closing, CAP funds remain in a Program Fund that was established in 1985. As existing borrowers repay CAP loans, the money recycles back into the Program Fund.

The proceeds of the loan were used to finance and reimburse South Jersey Hospital for routine capital equipment, and to finance renovations and expansions to the emergency department and other areas at the Elmer Division.

The loan is secured by a note, issued under an existing master trust indenture, secured by a parity interest in the pledge of gross receipts and a mortgage on certain property of the obligated group. With a final maturity of April 1, 2016, the loan received an initial monthly interest rate of 2.9%.

Authority Staff

Office of the Executive Director

Mark E. Hopkins, Executive Director
Carole Conover, Executive Assistant & Office Manager
Robin Piotrowski, PHR, CPS, Human Resources Manager
Brooke Liebowitz, Communications Specialist
Lorraine Donahue, Office Management Assistant
Tracey Cameron, Office Management Assistant

Division of Operations & Finance

Ronald S. Marmelstein, Division Director
Michael B. Ittleson, Controller
Bernard J. Miller, Jr., Construction Manager
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Marjorie P. McAvoy, Account Administrator
Taryn Jauss, Accountant
Diane Johnson, Senior Assistant Account Administrator
Edwin Fuentes, Assistant Account Administrator
Jessica Waite, Assistant Account Administrator
Kerry Cook, Administrative Assistant

Division of Project Management

Louis R. George, Division Director
William McLaughlin, Senior Project Manager
Suzanne K. Walton, Senior Project Manager
Tammy Romsdahl, Administrative Assistant

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Division of Research, Investor Relations & Compliance

Stephen M. Fillebrown, Deputy Executive Director & Division Director

Susan M. Tonry, CPA, Assistant Division Director

Arvella King, Compliance Manager

Emmerson E. Sullens, Information Technology Specialist

Lori Jefferson, Health Information Technology Project Manager

Priscilla I. Copper, Database Administrator & Administrative Assistant

(at the time of printing)

In Memorium

The Authority's beloved **Mae C. Jeffries-Grant** passed away in early 2010 after 25 years as the Administrative Assistant in the Project Management Division.

Retirements

Dennis P. Hancock, Deputy Executive Director and Division Director, retired after more than 21 years with the Authority.

James L. Van Wart, Director of Operations & Finance, retired after more than 19 years with the Authority.

Receptionist **Evelynne Burroughs** retired after over 35 years with the Authority

Promotions

Stephen M. Fillebrown was promoted to Deputy Executive Director in addition to his continued duties as Director of the Division of Research, Investor Relations, and & Compliance

Lou George was promoted to the Director of Project Management.

Ron Marmelstein was promoted to Director of Operations & Finance.

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New Jersey Health Care Facilities Financing Authority

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