NJHCFFA AUTHORITY NOTE$

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

January 2002

2001 — YEAR IN REVIEW

At the December Authority meeting, Executive Director Edie Behr recapped the year's accomplishments. Twelve series of bonds totaling approximately $475 million and two Capital Asset Program loans totaling approximately $41 million were completed by the Authority during 2001. While eleven of these transactions were completed on behalf of hospitals or health systems, the Authority also completed financings on behalf of an assisted living facility, a skilled nursing facility, and a continuing care retirement community. Proceeds were used primarily for construction and renovation projects.

(continued on page 4)

NEW AUTHORITY CHAIR

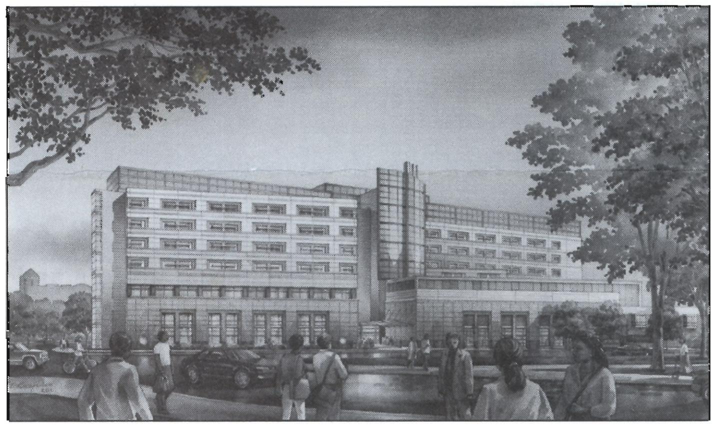
Clifton R. Lacy, M.D., F.A.C.C., F.A.C.P., brings expertise and 18 years of experience in health care, disease prevention and management, epidemiology, and outcomes research to his new role as Commissioner of the Department of Health and Senior Services.

Prior to this, Dr. Lacy was Senior Vice President for Medical Affairs and Chief of Staff at Robert Wood Johnson University Hospital in New Brunswick. He was also Associate Professor of Medicine and Chief of the Division of Cardiovascular Diseases and Hypertension and Director of the Center for Disease Management and Clinical Outcomes of UMDNJ-Robert Wood Johnson Medical School. In addition, he was Visiting Professor in the Department of Pharmacy Practice and Administration at Rutgers University College of Pharmacy.

Dr. Lacy earned his M.D. degree from UMDNJ-Rutgers Medical School, where he also completed a residency in internal medicine, was chief resident in internal medicine, and completed a fellowship in cardiovascular diseases. Dr. Lacy is board certified in Internal Medicine and Cardiovascular Diseases.

Dr. Lacy has had extensive administrative experience as medical director of one of New Jersey's premier academic health centers and as chief of the largest medical division of the medical school. He has served on national, regional, and local clinical and scientific committees and advisory boards including those of the National Institutes of Health, the American College of Cardiology, and the American Heart Association.

AUTHORITY FINANCES REPLACEMENT FACILITY IN JERSEY CITY



Rendering of the "new" Jersey City Medical Center

The Authority recently completed a $200 million transaction to finance the first replacement hospital in New Jersey in 25 years. Proceeds will be used by Jersey City Medical Center to construct, install and equip a new 359 licensed-bed, replacement acute care hospital. Proceeds will also be used for 1) the construction and equipping of a 40,000 square foot ambulatory care facility adjacent to the 350,000 square foot hospital; 2) the acquisition and preparation of land for the facilities, parking lots, roadways and driveways; and 3) the refinancing of the acquisition, renovation and equipping of a family health center.

The bond issue was enhanced with an FHA-insured mortgage and a municipal bond insurance wrap from Ambac Assurance Corporation resulting in triple-A ratings from both Standard & Poor's Ratings Services and Moody's Investors Service. The use of commercial bond insurance to wrap the FHA-insured mortgage resulted in a lower cost of financing for the borrower – a true interest cost of approximately 5.19%. The final yields ranged from 2.95% in 2004 to 4.5% in 2015 for the serial bonds. Yields on term bonds were 4.8% for the 2021 maturity, 5.016% for the 2031 maturity, and 5.088% for the 2041 maturity.

Edie Behr, Executive Director of the Authority, was honored to have spoken at the historic groundbreaking for the long-awaited replacement of the Jersey City Medical Center. She acknowledged the System and Medical Center board members and staff for their "determination, fortitude and resolve" in this endeavor and wished the Medical Center much success as it commences "the final phase of the journey that began in the mid-1980's".

NOTEWORTHY

The Authority recently released its second quarter 2001 **APOLLO** statewide hospital medians. The year 2000 was a very strong year financially for New Jersey's hospitals and this trend is continuing through the first half of 2001. Improvements in profitability, liquidity and leverage can be seen. For example, median days cash on hand in 2000 was at 70 and reached a median of 80 days through June 2001. The first and second quarter medians as well as the medians for the years ending 1995 - 1999 can be viewed on the Authority's web site, www.njhcffa.com. To obtain additional information about the APOLLO Program or the medians, please call Steve Fillebrown, Director of Research and Investor Relations at the Authority at 609-292-8585.

The Authority explored over a **dozen issues** with the help of its team of bond counsel firms. As a result of these discussions and further debate among members of the Authority, the Authority will:

- Phase out the General Bond Resolution and develop a new trust indenture/loan agreement format which will allow for a more efficient financing process and ease of making additions specific to the bond issue;
- Research and develop a set of parameters within which modifications could be made following Authority contingent sale approval;
- Address the issue of title insurance and the circumstances under which it may be required;
- Authorize the printing of a final official statement ("OS"), without a preliminary official statement ("POS") if all the necessary information is finalized and the underwriter agrees that a POS is not needed for marketing of the bonds;
- Commence electronic transmission of POSs upon request of the borrower;
- Advise borrowers of pricing implications that certain provisions (e.g., Substitution of Note) may have on their bonds;
- Advise borrowers that any reserves required by credit enhancers must meet "reasonableness" tests under IRS regulations or be yield restricted;
- Recommend defining the methodology for amortizing principal when structuring a variable rate issue to avoid a possible subsequent reissuance determination; and,
- Encourage the IRS to clarify secondary market disclosure guidelines for borrowers of tax-exempt securities in an effort to ease the communication between cautious borrowers and frustrated investment analysts.

Edie Behr, Executive Director, spoke at the **Fourth Annual New Jersey State Institutional Investors Conference**. The conference focused on the credit situation and debt policies of New Jersey and the major issues affecting the capital programs of major state agencies and authorities.

Ms. Behr updated the audience on the configuration and financial condition of the state's acute care hospitals. She then provided an overview of the federal and state policies affecting the fiscal condition of the health care providers. She discussed the benefits to hospitals through changes to the Prospective Payment System as it relates to wage indexes (those facilities who will now be held harmless when another hospital in their market area is reclassified into a higher wage market area) and the Medicaid budget. Ms. Behr also reviewed the budget increases to NJ FamilyCare, Charity Care, Supplemental Charity Care, the Hospital Relief Subsidy Fund, and the New Jersey Insolvent Health Maintenance Organization Assistance Association. She made particular note of the FEMA reimbursement and the additional monies to be awarded to New Jersey hospitals as a result of the September 11 terrorist attack. She concluded her presentation with a summary of the Authority's forward calendar.

In October, the Authority participated in the 53rd annual conference and exhibition of the **Health Care Association of New Jersey** (formerly the New Jersey Association of Health Care Facilities). The annual meeting and exhibit along with its 250 exhibitors attracted more than 2000 health care registrants from New Jersey as well as Pennsylvania, Maryland and New York.

The Securities and Exchange Commission ("SEC") is cracking down on noncompliance with **secondary market disclosure** rules. Specifically, SEC Rule 15c2-12 requires that an official statement must include any issue of noncompliance that has occurred during the last five-year period. Martha M. Haines, Chief of the SEC's Office of Municipal Securities ("OMS") emphasized the Commission's monitoring efforts at a meeting of the National Association of Independent Public Finance Advisers in October. While no penalties have been assessed, Ms. Haines noted that there "can be ramifications" and encouraged the appropriate parties to comply with the regulations.

Congratulations...

to the following health care organizations on the successful completion of construction projects financed through the Authority:

- **Saint Mary's Hospital, Passaic** - Same Day Surgery Area and Business Office Renovations
- **Hackettstown Community Hospital, Hackettstown** - Emergency Department and Entrance Lobby Renovations
- **Rancocas Hospital, Rancocas** - Addition to the facility
- **Medical Center of Ocean County, Brick** - New Oncology Unit
- **The Orchards at Bartley, Jackson** - New Assisted Living Facility
- **Saint Peter's Medical Center, New Brunswick** - Sleep Lab, Pharmacy, and CT Scan Renovations
- **New Seasons at Mount Arlington, Mount Arlington** - New Assisted Living Facility
- **The Society of the Valley Hospital, Paramus** - Robert and Audrey Luckow Ambulatory Surgery Pavilion
- **Holland Christian Home, North Haledon** - Addition containing 45 new Resident Rooms
- **Saint Barnabas Medical Center, Livingston** - Renovations and expansion to the Emergency Department
- **Robert Wood Johnson University Medical Center, New Brunswick** - Bristol Myers Squibb Children's Hospital

FINANCING NOTES

In October, the Authority completed a $120.4 million financing on behalf of **Saint Barnabas Health Care System**. Two series of bonds were issued to maximize available credit enhancement. While both series of bonds were issued in a multi-modal format, $41,200,000 Series 2001A bonds were initially issued as weekly variable rate demand bonds backed by a Chase Manhattan Bank letter of credit, and $79,200,000 Series 2001B bonds were initially issued as 7-day auction rate securities backed by Financial Security Assurance Inc. ("FSA") insurance. The initial interest rates were 1.9% and 2% for the 2001A and 2001B bonds, respectively.

The proceeds are being used to finance or refinance the costs of 1) acquiring fixed and moveable equipment and other capital budget items including machinery, computers, related software and renovations for the System; 2) construction and/or renovations to certain areas of System members' facilities including emergency rooms, radiation oncology and radiology departments, surgical services and operating rooms, cancer centers, labor and delivery areas, intensive care units, parking garages; and, 3) the acquisition of a medical clinic. In addition, the bonds will be used to refund the Authority's outstanding Revenue Bonds, Center State Health Group Issue, Series A ("Country Manor") as well as to refinance outstanding taxable debt of Country Manor.

The Authority also completed a $43,890,000 financing on behalf of **Kennedy Health System** ("KHS"). KHS is the parent corporation of Kennedy Memorial Hospital – University Medical Center, Inc. ("Medical Center") and Kennedy Surgical Center, Inc., ("Surgical Center") among other corporations. The Medical Center owns and operates a 610-bed multi-campus acute care hospital system whose facilities are located in Stratford, Cherry Hill, and Turnersville (Washington Township).

Rendering of KHS's expanded emergency department

The proceeds of the bonds will be used 1) to pay a portion of the costs of constructing and equipping a 96,200 square foot, four-story addition at the Washington Township campus including an expansion of the emergency department, additions to ancillary areas, and a rooftop modular heli-deck; 2) to pay a portion of the costs of constructing and equipping a Radiation/Oncology/Imaging Center at the Washington Township campus; and, 3) to finance and reimburse the Medical Center for a portion of the costs of its 2001 capital equipment budget. The bonds are rated "A3" by Moody's Investors Service and are structured with two term bonds maturing in 2021 and 2031 with yields of 5.54% and 5.625%, respectively. The financing carried an all-in true interest cost of 5.73%.

Whispering Knoll, JFK's new assisted living facility

A private placement of bonds was completed by the Authority on behalf of **JFK Assisted Living, Inc.** ("JFK") and **Hartwyck West Nursing Home, Inc.** ("Hartwyck"). The $13,760,000 JFK series and the $1,500,000 Hartwyck series were both purchased by Commerce Bank. The JFK series will mature on January 1, 2026 and will initially bear interest at a rate not to exceed 6% for a period of 10 years, with a reset in 2011 based on the 10-year Treasury Bond, and another reset in 2021 based on a 5-year Treasury security. The Hartwyck series will bear interest at a rate not to exceed 6% until its maturity on October 1, 2008.

The proceeds were used 1) to refinance a taxable construction loan for costs associated with the construction and equipping of JFK's 118-unit (126-licensed bed) assisted living facility located in Edison known as Whispering Knoll; 2) to refinance the Authority's outstanding revenue bonds issued on behalf of Hartwyck; and, 3) to provide funds for the costs of renovations, furnishings and other equipment for the Hartwyck facility.

In November, the Authority completed a $15,000,000 financing on behalf of **Newton Memorial Hospital** (the "Hospital"). The proceeds of the bonds will be used to reimburse the Hospital for expenditures related to the acquisition of capital budget items and renovations to the Hospital facilities including the surgical suite and electrical system upgrades; and, to finance additional capital budget items and routine renovations to the Hospital facilities. Based on municipal bond insurance from FSA, the bonds were rated triple "A" by Moody's Investors Service ("Moody's"). In addition, the Hospital received an underlying rating of "A3" from Moody's. The all-in true interest cost is 5.38%.

YEAR IN REVIEW

(continued from page 1)

"The notable reduction in short-term interest rates caused by 11 Federal Reserve actions during the year had a significant impact on demand for the issuance of variable rate securities by health care borrowers. Almost half of the transactions completed by the Authority during 2001 leveraged the short end of the yield curve. In addition, Capital Asset Program borrowers realized an unprecedented 0% loan rate for eight months during the year.

The Authority made two additions to its website, www.njhcffa.com, providing immediate access to the APOLLO statewide medians and a list of financings in progress. Internally generated APOLLO reports show that the positive median profit margins reflected in 2000 by New Jersey hospitals continued through the first two quarters in 2001 (see NOTEWORTHY - APOLLO article, page 2).

During 2001, the Authority staff was busy monitoring construction and renovation projects at 18 hospitals, three assisted living facilities, and one continuing care retirement community. Staff also closely monitored the financial condition of the institutions for which Authority bonds are outstanding. In addition, the Authority adopted or modified several policies and invested bond proceeds.

The Authority continued its active role in the National Council of Health Facilities Finance Authorities. As President of the Council, Ms. Behr participated in a Municipal Securities Rulemaking Board forum; promoted the Health and Education Facilities Improvement Act of 2001; and met with the IRS to discuss the negative effect on the marketing of municipal bonds given the IRS's new audit practice. Other forums in which staff participated during the year were an MSRB Roundtable on Disclosure Initiatives and the first meeting of the Muni Council, a forum created by the MSRB to examine secondary market disclosure.

Ms. Behr concluded by stating that "2002 will be an excellent time for the Authority to reexamine its mission and to affirm or modify its standard operating practices" and recommended that an Authority retreat be scheduled for this purpose. She further stated that "in keeping with the Authority's position that educated investors result in a lower cost of borrowing for the state's health care organizations, staff is exploring the possibility of an investor conference in 2002."

A full transcript of Ms. Behr's report can be found at www.njhcffa.com.

FINANCING NOTES

(continued from page 3)

In December, the Authority completed its third variable rate Composite Program ("**COMP Program**") with the issuance of $34.6 million on behalf of two health care systems and one hospital. The interest rate on the bonds at the time of issuance was 1.4% and the rate as of January 3, 2002 was 0.9%. Credit and liquidity was provided by Fleet National Bank in the form of letters of credit negotiated by each borrower on an individual basis. As a result, each of the series were rated Aa3/MIG1 by Moody's Investors Service. As was the case with the two previous COMP Program issues, the bonds for all of the borrowers were marketed simultaneously, but each borrower is responsible only for its own series of bonds. There is no cross collateralization. The major benefit of the program is that borrowers share costs of issuance.

The borrowers, amounts issued, and use of proceeds for each are as follows:

The $15,000,000 Series 2001 A-1 Bonds were issued on behalf of **Meridian Hospitals Corporation,** and used to finance the cost of renovation and capital improvements at the hospitals owned and operated by Meridian as well as the acquisition of various medical, office and communications equipment.

The $5,000,000 Series 2001 A-2 Bonds were issued on behalf of **Holy Name Hospital,** and used to finance the acquisition of various medical and communications equipment.

The $14,600,000 Series 2001 A-3 Bonds were issued on behalf of **Capital Health System,** and used to finance new construction and renovation projects, including expansion of the emergency department, patient registration, emergency mental health services, lobby and gift shop areas at the Fuld campus.

NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

P.O. Box 366
Trenton, New Jersey 08625
609 - 292-8585

E-mail us at info@njhcffa.com
Visit us at www.njhcffa.com