

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on February 26, 2009 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 the meeting); Ulysses Lee, Public Member (via telephone); Maryann Kralik, Designee of the Commissioner of Banking and Insurance; William Conroy, Designee of the Commissioner of Health and Senior Services (via telephone); Eileen Stokley, Designee of the Commissioner of Human Services.

The following **Authority staff members** were in attendance:

Mark Hopkins, Dennis Hancock, Steve Fillebrown, Jim Van Wart, Suzanne Walton, Lou George, Carole Conover, Edwin Fuentes, Michael Ittleson, Marji McAvoy, Bill McLaughlin, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:

Gary Walsh, Windels Marx Lane & Mittendorf; Randy Schultz, Dan Davis, Catholic Health East; Bob Segin, Gerry Lowe, Bob Osler, Virtua Health Inc.; Sheena Foster, Darib Canhow, JNESO; Joan Marron, Morgan Stanley; Linda Schneider, USBank; Frank Taylor, Ponder & Co.; Jim Fearon, Gluck Walrath; and Clifford T. Rones, Office of the Attorney General.

CALL TO ORDER

Gus Escher called the meeting to order at 10:06 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 22, 2008 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

January 22, 2008 Authority Meeting

Minutes from the Authority's January 22, 2008 meeting were presented for approval. Ms. Stokley made a motion to approve the minutes; Ms. Kralik seconded. Mr. Escher voted yes, Mr. Lee voted yes, Ms. Kralik voted yes, Mr. Conroy voted yes, and Ms. Stokley voted yes. The motion to approve the meeting minutes passed.

BOND SALE REPORT

Christian Health Care Center

Suzanne Walton stated that on February 19, 2009, staff set the initial weekly interest rate for the Christian Health Care Center transaction. This \$14,970,000 million variable rate issue is rated "A/A-1" by S&P based on a letter of credit provided by Valley National Bank. The

underwriter estimated that the weekly SIFMA index would be set within the range of .65 to .68 basis points and, therefore, proposed that they market the bonds in the .55 to .60 range. Staff, based on other Valley National Bank (“Valley”) backed letter of credit issues, agreed to these levels.

The underwriter received indications of interest from four money market funds, but only two could get final credit approval on the Valley letter of credit by the time the bonds needed to be sold. Based on the orders of the two funds, the manager offered to underwrite at a rate of .55%. Ultimately, the SIFMA rate for the week was set at .66%. Yesterday, the interest rate was reset at .52%, fifteen basis points below the SIFMA index.

Mr. Conroy asked for clarification, to which Ms. Walton stated that the Authority has four deals backed by a Valley hospital letter of credit, which are based on the SIFMA index and historically traded 8 to 13 basis points below that index. This was the first time B.C. Ziegler and Company (“Zeigler”) was working on this type of transaction with the Authority and the Authority felt that Zeigler made an aggressive proposal of 5 to 10 basis points below. By being set at eleven basis points below the index, CHCC received a very good rate of approximately one half of one percent. Mr. Escher asked about Valley’s rating, to which Mr. Hancock replied that the short-term ratings are at the highest levels.

TEFRA HEARING & CONTINGENT BOND SALE Virtua Health, Inc.

Mr. Escher stated that the following portion of the meeting is considered a public hearing in connection with the proposed issuance of bonds on behalf of Virtua Health, Inc. (“Virtua”). This hearing is taking place in accordance with the public notice and approval requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended.

Lou George introduced Bob Segin, CFO/Senior Vice President for Finance, Gerry Lowe, Vice President for Finance, and Bob Osler, Treasury Director at Virtua Health Inc. He advised the Members that Virtua Health Inc. is the parent of Virtua – West Jersey (which is comprised of three hospitals in Marlton, Berlin, and Voorhees) and Virtua–Memorial (with one hospital in Mt. Holly). Further, he reminded the Members that Virtua and Authority staff had been working on this transaction for the past two years and that today he’d like to request the Members’ consideration of a contingent sale of bonds in an amount not to exceed \$975 million.

Mr. George offered several reasons for the financing’s delay. First, he reminded the Members that, initially, there were permits and approvals that had yet to be received and the Members agreed to allow the financing to proceed without such approvals subject to the inclusion of an optional call. Subsequently, UBS (the Senior Manager) exited the municipal finance business so Virtua needed to name a new senior manager. Also, the initial financing structure envisioned the use of auction rate debt and the market for this debt ultimately collapsed. Lastly, the economic crisis took hold and the financial markets froze. Although smaller financings have been completed, only now are some larger transactions being successfully marketed. He noted that, in the interim, Virtua had obtained all the necessary permits and approvals.

He indicated that the proceeds of the bonds would be used to: (i) finance the costs of constructing and equipping a new approximately 380-bed hospital to replace the Voorhees facility, (ii) acquire capital equipment including information technology equipment for use throughout the System, (iii) possibly refund all or a portion of Virtua’s outstanding indebtedness,

(iv) fund capitalized interest during the construction period, (v) fund any reasonably required reserves, and (vi) pay the related costs of issuance.

Mr. George further indicated that the Members were being asked to consider approving a public offering of both fixed and variable rate bonds in any combination thereof and in an aggregate amount not to exceed \$975 million. The requested approval will allow for any combination of fixed or variable rate debt. At this time, the structure under consideration does not include any refundings which would reduce the bond issue to approximately \$570 million comprised of \$245 million of variable rate debt and \$325 of fixed rate debt. However, because of fluctuations in the market, there may be a time when the refundings work. This request is not unusual and the Members had authorized similar requests in the past.

Because of the size of this deal and the uncertainty in the market, staff in consultation with the Deputy Attorney General agreed to ask the Members for greater flexibility with respect to certain portions of the authorizing resolutions. Normally, a purchase contract is signed within a three-month window after approval of a contingent sale; in this case that period has been extended to a six-month window ending August 31st. Also, the resolutions allow an Authorized Officer of the Authority, which includes the Executive Director or Deputy Executive Director, to appoint managing underwriters including co-mangers and remarketing agents as necessary, to be chosen in accordance with the Authority's policies and procedures. This will provide flexibility to sell the \$570 million bond issue, as there is no certainty that a transaction of this magnitude can be sold at one time in the current market. Also, if the market cooperates, this will provide the ability to refund Virtua's existing outstanding indebtedness within the six-month window.

The structure under consideration at this time consists of three series of variable rate bonds enhanced with direct-pay letters of credits. They consist of: a \$100 million issue with a JP Morgan Chase letter of credit, an \$85 million issue with a TD Bank letter of credit and a \$60 million issue with an M&T Bank letter of credit. The variable rate bonds will be issued in minimum \$100,000 denominations and will be rated based on the ratings of the banks. The bonds will be multi-modal and have the ability to convert from one mode to another. They can be issued at a daily or weekly variable rate, a commercial paper rate, a term rate, or as a "put" bond.

There will be at least two series of fixed rate bonds: a \$295 million enhanced issuance with bond insurance provided by Assured Guaranty ("Aa2" & "AAA") and approximately \$30 million of unenhanced bonds issued on Virtua's credit. These bonds will be issued in \$5,000 denominations.

The Series 2009 Bonds are payable from payments to be made by Virtua under a Loan Agreement together with investment income held by the Trustee. The obligation to repay the loan would be evidenced by Notes issued pursuant to a Master Trust Indenture and Supplemental Indenture. The Notes would be secured by a Guaranty issued pursuant to a Virtua-West Jersey MTI and a Virtua-Memorial MTI, and a mortgage on the new hospital facility. The Guarantee issued under the respective hospitals' MTIs is secured by a first lien on the Gross Receipts of both Virtua-West Jersey and Virtua-Memorial.

Mr. George indicated that Virtua met with all three rating services and although not yet received, they expect to obtain ratings in the "A" category. The authorizing resolutions require a bond rating within the three highest rating categories without regard to modifiers.

The steel for the new hospital has been erected, and to date, Virtua has expended \$70 million towards this project for which they will be reimbursed from bond proceeds.

Lastly Mr. George noted that staff had previously presented and reviewed financial projections with the Members. Because time has elapsed since that presentation, Virtua was asked to update the projections and that update was included in the mailing packet.

He then introduced Gary Walsh of Windels Marx Lane & Mittendorf to provide an overview of both the Series Resolution and the Bond Resolution.

SERIES RESOLUTION

Gary Walsh, Esq., of Windels Marx Lane & Mittendorf, LLP, stated that because the transaction involves both fixed rate and variable rate debt he has prepared two separate resolutions. A Series Resolution for the fixed rate debt and a Bond Resolution for the variable rate debt. Also, he noted that as part of the working group, he was advised that currently there is significant volatility in the marketing of obligations on behalf of health care institutions, and, as part of the solution, it may be necessary to issue both the Fixed Rate Bonds and the Variable Rate Bonds in various series over a period of time. As a result he structured the Series Resolution and Bond Resolution in such a way as to provide flexibility for additional financings within the limits of the contingencies provided for in the Resolutions.

Further, he stated that the Series Resolution authorizes the issuance of the tax-exempt Series 2009 Fixed Rate Bonds in one or more Series in an aggregate principal amount which, together with the aggregate principal amount of Variable Rate Bonds, will not exceed \$975,000,000 at a true interest cost not to exceed 10%. The Series 2009 Fixed Rate Bonds would have a final maturity date of no later than July 1, 2049 and the Redemption price on the Bonds would not exceed 105%.

The Series Resolution also approves the form of and authorizes the execution of one or more, Bond Purchase Contracts with a respective Underwriter or Underwriters appointed by an Authorized Officer in accordance with the policies and procedures of the Authority prior to close of business on August 31, 2009 and approves the distribution of one or more Preliminary Official Statements (including the authorization for an Authorized Officer to certify such document as “deemed final”) and authorizes an Authorized Officer to execute and deliver one or more Official Statements with such insertions, deletions and changes and supplements thereto as Counsel may advise and such Authorized Officer may approve. The Series Resolution approves the form of the Bonds to be in substantially the form as set forth in Section 2.10 of the General Resolution with such insertions or variations as may be necessary. In addition, the Series Resolution approves the execution and delivery of one or more Loan Agreements, and the form of the Letters of Instruction including an authorization to subscribe for SLGS should there be any future refunding transactions.

Lastly, the Series Resolution provides authorization to an Authorized Officer of the Authority to appoint a Trustee, Bond Registrar, and Paying Agent with respect to the issuance of each Series of Fixed Rate 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 respective Loan Agreement, Bond Purchase Contract and the issuance and sale with respect to each series of the Series 2009 Fixed Rate Bonds.

Mr. Walsh reviewed the MTI note structure for Mr. Escher stating that the obligation to repay the loan would be evidenced by Notes issued pursuant to a Master Trust Indenture and Supplemental Indenture. The Notes would be secured by a Guaranty issued pursuant to a Virtua-West Jersey MTI and a Virtua-Memorial MTI, and also pursuant to a mortgage on the new hospital facility. The Guarantees issued under MTIs is secured by a first lien on the Gross

Receipts of both Virtua-West Jersey and Virtua-Memorial. The mortgage would also now serve as security for all prior bond issues outstanding under the MTIs.

Mr. Escher asked about M&T Bank's rating, to which Mr. Hancock replied that the short-term ratings are all in the highest category.

Mr. Lee noted the inclusion of both a fixed rate and variable rate structure for the financing and asked for a comment on the current market. Mr. Hancock noted that, although current rates are favorable, there is always a risk of variable rates rising. However, fixed rates are still relatively high and health care bond issues are just beginning to re-enter the market. The time of year is another potential hurdle as the bond funds are at a point when they are likely to have less money available because the April 15th tax deadline is approaching. All of these hurdles have a much larger impact given the size of the deal. The flexibility provided by the proposed Resolutions allows the working group to take action as soon as the circumstances are favorable.

Joan Marron of Morgan Stanley added that it is unknown whether or not there will be variable rate bonds or fixed rate bonds or a balance of both for the Virtua issue. She commented on the piece that would be insured by Assured Guaranty and reminded the Members that when the bond insurance industry suffered a major recent meltdown, one of the survivors was Assured Guaranty, however, investors may still be wary of monoline insurance in general. Therefore, while having bond insurance was once a solid way to provide security for the bondholders, investors no longer feel totally secure by the presence of bond insurance. This may make variable rate bonds more attractive because with variable rate bonds, the hospital bears the risk of a faltering monoline insurer, while with fixed rate bonds, the investor bears that risk. Investors are instead looking at the underlying credit of the issue and considering any insurance an add-on providing a value of maybe 25 to 50 basis points.

Mr. Escher asked if Assured Guaranty is related to Asset Guaranty, to which Ms. Marron stated that it is not.

Mr. Escher asked the Members' pleasure with respect to the adoption of the Series Resolution. Mr. Lee moved that the document be approved. Mr. Conroy seconded.

AB RESOLUTION NO. II-59

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Series Resolution entitled, **"A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS VIRTUA HEALTH, INC. ISSUE OF VARIOUS SERIES (FIXED RATE)."**

BOND RESOLUTION

Mr. Walsh stated that the Bond Resolution authorizes the issuance of the tax-exempt Series 2009 Variable Rate Bonds in one or more series in an aggregate principal amount which together with the aggregate principal amount of the Fixed Rate Bonds will not exceed \$975,000,000 at an initial interest cost not to exceed 7%. The Series 2009 Variable Rate bonds would have a final maturity date of no later than July 1, 2049 and any Redemption price would not exceed 105%.

Further, the Bond Resolution approves the form of and authorizes the execution of one or more Bond Purchase Contracts with a respective Underwriter or Underwriters appointed by an Authorized Officer in accordance with the policies and procedures of the Authority prior to close of business on August 31, 2009 and approves in substantially final form the terms and provisions

of one or more Loan Agreement and Trust Agreement with such changes as counsel may advise and the Authorized Officers executing the same may approve. In addition, the Bond Resolution approves the form of the Letters of Instruction including an authorization to subscribe for SLGS should there be any future refunding transactions.

The Bond Resolution also approves the terms and provisions of the Variable Rate Bonds as set forth in each Trust Agreement and the distribution of one or more Preliminary Official Statements, if any (including the authorization for an Authorized Officer to certify such document as “deemed final”) and authorizes an Authorized Officer to execute and deliver one or more Official Statement relating to a Series of Variable Rate Bonds.

The Bond Resolution also authorizes the Authorized Officers to execute and deliver such other documents and to take other action in order to effectuate the execution and delivery of the respective Trust Agreement and Loan Agreement and the issuance and sale of the Variable Rate Bonds. Lastly, the Bond Resolution provides authorization to an Authorized Officer of the Authority to appoint a Trustee, Bond Registrar, Remarketing Agent, Tender Agent and Credit Facility Provider with respect to the issuance of each Series of Variable Rate Bonds.

Mr. Escher asked the Members’ pleasure with respect to the adoption of the Bond Resolution. Mr. Lee moved that the document be approved. Mr. Conroy seconded.

AB RESOLUTION NO. II-60

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, VIRTUA HEALTH, INC. ISSUE OF VARIOUS SERIES (VARIABLE RATE).”**

Mr. Segin then thanked the Authority and provided a little background on the transaction. He stated that this project began on December 7, 2002 when a strategic meeting determined the need to build a new facility in Voorhees which, at the time, was expected to cost approximately \$152 million. After the design progressed according to strategy and market needs, the project evolved into the construction and equipping of a new 380-bed hospital to completely replace the current Voorhees facility. Shortly thereafter, Wachovia and UBS were selected to serve as co-senior managers, both of which had to be replaced due to dramatic reorganization within the banking community.

He then noted that Virtua still needed final approval for some property permits which it thankfully did not receive because, if it had, Virtua would have issued auction rate bonds with derivative agreements, which, in today’s market would be approximately \$50 million “underwater.” At this point, Morgan Stanly came on as senior manager and then, in 2008, the bond market froze with the troubled economy. Mr. Segin stated that Virtua is pleased to see some thawing in the market and is optimistic that it will be able to issue this new debt in the next quarter.

Mr. Segin expressed that Virtua is truly grateful to the Authority Members, and to the staff including Dennis Hancock, Steve Fillebrown, Lou George, and Mark Hopkins. He also thanked Deputy Attorney General Cliff Rones for his work on the transaction. Mr. Segin closed by saying he greatly respects the Authority and what it does, which is essentially to allow hospitals like Virtua to provide health care to the community.

Mr. Escher noted that this is the first time he had heard anyone state that a delay in permit approvals was a good thing. He then applauded Virtua for its tenacity and closed the public hearing in accordance with Section 147(f) of the Internal Revenue Code of 1986, as amended.

REQUEST FOR MODIFICATION TO SALE DOCUMENTS

Catholic Health East

Dennis Hancock introduced two representatives from Catholic Health East (“CHE”): Randal Schultz, Vice President of Capital Management and Strategy, and Dan Davis, Director of Capital Management. Mr. Hancock then reminded the Members that Catholic Health East (“CHE”) received approval at the Authority’s January meeting for a sale of bonds to refinance bonds sold in 2007, which benefitted Our Lady of Lourdes Medical Center. As the January meeting approached, CHE indicated some concern with two of the Authority’s standard covenants, but had not yet determined the extent of the difficulties that those two provisions would pose. CHE decided to move forward with the sale and if the covenants were unworkable for them, they would request a modification at a later meeting.

Since the January meeting, CHE has determined that portions of the two covenants raised serious management concerns and, by a letter dated February 13, 2009, requested that modifications to the Loan Agreement be made. The two covenants concern: Monitoring Rights (if and when the obligated group breaches identified ratio levels), and limitations imposed on the collateralization of derivative products. In both cases, CHE indicated an agreement with the general concept behind the covenants, but stated that there are specific requirements of each that are troublesome for their specific circumstance.

Mr. Hancock reported that staff reviewed the letter including the suggested alternative provisions, but is not authorized to make any changes without direction from the Authority Members. The existing covenant language, as well as the letter from CHE, had been mailed to Members in advance of this meeting. Since these provisions are contractual through the Loan Agreement, staff believes it would be appropriate to discuss the matter in Executive Session.

Mr. Escher indicated that he would like to hear from a representative of CHE and their take on the matter. Mr. Schultz began by giving some background on the bond transaction that had been approved as a contingent bond sale at the January meeting. He stated that while refunding bonds would be issued, CHE actually views the transaction as a bond exchange. The 2007 bonds were issued as variable rate debt, which was then swapped to convert them to fixed rate debt. The bonds’ variable rate was set to follow the three-month LIBOR index plus a spread. Therefore, essentially these bondholders are holding bonds with a variable rate that only resets every three months. The bondholders of the 2007 CHE Authority bonds expressed frustration with the fact that, while the bond structure was favorable in 2007, it is not so in the current market. Investors are finding that the movement of the interest rate is not working well in relation to other health care investments. As a result, many bondholders would like to sell the bonds, but since they are in a currently unfavorable structure, there are no buyers.

After having contacted the bondholders, CHE and its financing team found that this is an opportunity to significantly reduce their debt by buying back the bonds from the bondholders for approximately 50 cents on the dollar. Many of the bondholders have indicated a willingness to do this because it would allow them to become more liquid, which better meets their current needs. CHE would benefit by reducing its long-term debt by approximately \$85 million, having a present value savings on the interest cost of 2% to 5% (or roughly \$14 million), increasing unrestricted assets by about \$155 million, and increasing its cash to debt ratios. CHE would also be paying off the related swaps, and thereby reducing their collateralization by about \$68 million, which equates to about 6 days cash on hand. Rating agencies, noted Mr. Schultz, are in favor of this transaction.

In the interest of full disclosure, Mr. Schultz added that Moody's had just announced that they would be confirming CHE's "A1" rating but would issue a negative outlook.

Mr. Ronces asked if the bonds would be privately placed, to which Mr. Schultz replied that they would be sold publicly. All the bonds will, however, be sold to the current holders of the bonds; they are free to turn around and sell them at that point, if they so choose. It was noted that the 2007 bonds were issued through multiple states for a total of approximately \$330 million, \$110 million of which were issued through this Authority.

Having provided background on the transaction, Mr. Schultz went on to explain the two covenants with which CHE would like to take issue with the Authority. He noted that both of the covenants in question had been newly added Authority policies that were not included in the 2007 bond issue.

The first issue regards Monitoring Rights. He stated that he understood the State's desire to have such rights in transactions such as the St. Michael's issue, where the State has financial risk involved through its backing of the Hospital Asset Transformation bonds. There is no direct financial risk for the State in this transaction, however, therefore monitoring is unnecessary. If the Authority's goal for monitoring is to protect the bondholders, Mr. Schultz reminded the Authority that the bondholders are already protected through financial disclosure and transparency requirements.

Mr. Schultz noted that the Authority requires the ability to attend all Board and Committee meetings, but he stated that there is concern that Board and Committee members may not feel comfortable speaking as openly as would be needed about performance and strategic matters in the presence of Authority representatives. He agreed to continue to provide quarterly information and additional information if needed in the event of the Authority's default triggers, but stated that CHE simply does not see the value in Authority representatives attending the Board and Committee meetings.

Mr. Escher asked if other states have these requirements, to which Mr. Schultz replied that CHE has not found any requirements to this extent within its other states of business, and he further noted that states such as Connecticut and Massachusetts are moving further away from the monitoring role.

The second covenant that CHE would like to have modified is the Authority's Derivatives covenant. He stated that CHE's financing team oversees more than \$2 billion in investments and a large part of that investment management involves the use of derivative products. He stated that, two years ago, CHE restructured its capital according to an assets liability study and, as a result, CHE increased its net surplus by \$27 million simply through allocation adjustments. One of the components of that allocation is variable rate debt, which was once obtained through auction rate securities (no longer an option), traditional variable rate debt, and interest rate swaps.

Mr. Schultz explained that this derivative policy makes CHE a less attractive counterparty, therefore, when CHE seeks to enter into a swap, it will have to do so at a higher cost to compensate for the collateral limitations. Also, because of this covenant, the counterparties would impose triggers because one of the covenants for posting collateral weighs days cash on hand. He stated that, of the two covenants in question, the second poses a more significant hurdle for CHE.

Mr. Schultz said that, in these extraordinary times, one has to imagine new scenarios. He offered the following example: in December, CHE had a negative \$118 million market value in its swaps and had to post a collateral of \$98 million. At the same time, CHE had record swap receipts of \$5.4 million that effectively reduced their interest expense. Imagine if CHE hit a

triggering event and had to pay out all those swaps for \$118 million even though, at the same time, the swaps were generating positive cash flow for the system. He described that as an unintended consequence of the derivative covenant.

Mr. Escher asked if CHE could get a swap agreement according to the Authority's requirements. Mr. Schultz explained that it would be more difficult.

Mr. Roncs clarified that CHE's concern with the derivatives covenant is not one related to their specific business model but rather it questions the policy in general; therefore, if the Authority agrees with CHE on this matter, it may wish to modify the policy in general for all Authority borrowers.

Mr. Escher asked the Members to meet in Executive Session, as permitted by the Open Public Meetings Act and the Authority's By-Laws, to discuss these contract negotiations regarding Catholic Health East and to receive advice from the Attorney General's office on this matter. Ms. Stokley offered a motion to meet in Executive Session; Mr. Conroy seconded the motion. The vote was unanimous and the motion carried. Mr. Escher noted that the results of this discussion will be made public when the need for confidentiality no longer exists.

AB RESOLUTION NO. II-61

NOW, THEREFORE, BE IT RESOLVED, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss contractual negotiations regarding Catholic Health East and to receive advice from the Attorney General's office;

BE IT FURTHER RESOLVED, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. Mr. Escher made a motion, based on discussions held in Executive Session, to:

- modify the Monitoring Rights covenant to make materials available for review by Authority staff prior to required meetings, noting that those documents will remain available for review so long as they are retained in the records of Catholic Health East or Obligated Group, and also noting that copies of those documents shall not be required to be given to Authority staff,
- make those changes not only to the Catholic Health East bond documents but also to the Authority's Monitoring Rights standard policy, in general,
- modify the Derivatives covenant to permit the collateralization of derivative obligations if such collateralization is identified as a permitted encumbrance and, assuming the collateral deposited has been made, the Borrower's Days Cash on Hand would not be less than 60 days, and,
- apply these modifications to the Derivative covenant not only for the CHE bond documents but also for the Virtua documents approved earlier at this meeting and to the Authority's standard Derivatives Policy, in general.

Ms. Stokley seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. II-62

(attached)

Mr. Escher added that the Authority Members are sensitive to these issues and encourage CHE and others to make the Authority aware of other alternatives and proposals that will improve upon these covenants and yet continue to satisfy the Authority's goal of protecting bondholder security.

Mr. Schultz thanked the Authority for its time, noting that it apparently considered the matter seriously given the lengthy discussion held by Members on the matter. CHE had prepared marketing documents for the transaction that include the New Jersey bonds and also a set of documents that excluded them. CHE would decide today whether or not to go through with the transaction having to adhere to these covenant requirements.

AUTHORITY EXPENSES

Ms. Stokley referenced a summary of Authority expenses and invoices; Mr. Escher seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. II-63

WHEREAS, the Authority has reviewed memoranda dated February 19, 2009, 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 \$196,577.34, \$63,280.81 and \$57,781.35 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 thanked staff for their preparation of staff reports, including the Project Development Summary, Cash Flow Statement, and Legislative Advisory. Mr. Hopkins then offered the following items in his Executive Director's Report:

1. In Authority news, the Authority will be holding an Audit Committee Meeting on March 10, 2009 at 10 a.m. at the Authority offices. Also, the Authority Members must submit new financial disclosure statements for 2009, due in May.
2. On February 24, the Governor signed a bill extending the time by which he must deliver his budget to the Legislature from February 24th to March 12th. Bonds with State backing are unable to be marketed for a period of approximately ten days before to two weeks after the Governor's budget address. The Hospital Asset Transformation Bonds previously approved by the Authority for Solaris are affected by this blackout period.
3. On February 9th, the Governor's Authorities Unit sent a letter directing all State authorities to freeze salaries for all non-aligned employees.
4. The American Recovery and Reinvestment Act of 2009, signed by President Obama on February 17th, has several provisions that may aid in the issuance of tax-

exempt bonds. There are two provisions that may be particularly beneficial to some of the Authority's borrowers.

- a. First is the ability of more borrowers to benefit from the issuance of tax-exempt bonds that qualify as Bank Qualified Bonds. A Bank Qualified Bond is a narrowly defined type of tax-exempt bond under which a financial institution may deduct its interest carrying costs for purchasing or carrying those tax-exempt bonds. This incentive typically allows these financial institutions to demand somewhat lower interest rates on the bonds. Previously, Bank Qualified Bonds were limited to bonds issued by issuers that did not anticipate issuing more than \$10 million in bonds in that calendar year. This limit has been raised to \$30 million, however, of more importance is that the limit no longer applies to the "issuer" but applies to the entity actually using the proceeds of the bonds. Previously the Authority could never qualify to issue Bank Qualified Bonds because it has always issued more than \$10 million in bonds. But now, if a hospital or health care organization does not issue more than \$30 million in a year, the Authority can issue Bank Qualified Bonds on its behalf, thereby saving that organization some interest expense.
 - b. The second provision is the temporary repeal, during 2009 and 2010, of the Alternative Minimum Tax for some of the bonds the Authority issues for hospitals and health care organizations. Because of certain tax laws, some tax-exempt bonds issued by the Authority are subject to taxation if the holder of the bonds is required to pay the Alternative Minimum Tax. Thus, those bonds are typically issued at somewhat higher interest rates than those that are purely tax-exempt. As a result, Authority borrowers who need to issue bonds that fall into the category of AMT bonds over the next two years will benefit from the lower interest rates provided by this repeal. Also, borrowers who issued AMT bonds through the Authority from 2004 through 2008 may benefit from refunding those bonds during 2009 and 2010 as non-AMT bonds.
5. In hospital news, **Liberty Health System** has hired Paul Goldberg as interim Chief Financial Officer ("CFO") while it continues its search for a permanent CFO. The Authority is familiar with Mr. Goldberg from his work at the consulting firm Cambio, where he served as interim CFO at East Orange Hospital and St. Joseph's Medical Center. He has extensive additional experience as CFO and other senior finance positions at hospitals throughout the country.

As a result of bond covenant violations, St. Barnabas has engaged consultants Alvarez & Marsal. Jim Van Wart attended the report of the consultants which included St. Barnabas' plan for correction. Staff will continue to monitor St. Barnabas' implementation of its correction plan.

This concluded the Executive Director's report.

EXECUTIVE SESSION

Mr. Escher asked the Members to meet in Executive Session, as permitted by the Open Public Meetings Act and the Authority's By-Laws, to receive advice from the Attorney

General's office, discuss contractual negotiations regarding St. Mary's Hospital of Passaic, and discuss matters related to personnel. Ms. Kralik offered a motion to meet in Executive Session; Ms. Stokley seconded the motion. The vote was unanimous and the motion carried. Mr. Escher noted that the results of this discussion will be made public when the need for confidentiality no longer exists.

AB RESOLUTION NO. II-64

NOW, THEREFORE, BE IT RESOLVED, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to receive advice from the Attorney General's office, discuss contractual negotiations regarding St. Mary's Hospital of Passaic, and discuss matters related to personnel;

BE IT FURTHER RESOLVED, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. As there was no further business to be addressed, Ms. Stokley moved to adjourn the meeting, Mr. Escher seconded. The vote was unanimous and the motion carried at 1:06 p.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 FEBRUARY 26, 2009.

Dennis Hancock
Assistant Secretary

AB RESOLUTION NO. II-62

**RESOLUTION MODIFYING THE NEW
JERSEY HEALTH CARE FACILITIES
FINANCING AUTHORITY'S MONITORING
RIGHTS STANDARD POLICY AND
DERIVATIVES STANDARD POLICY AND
THE MODIFYING THE COVENANTS THAT
REFER THERETO**

WHEREAS, Catholic Health East has asked the Authority to consider modifications to both the Monitoring Rights covenant and the Derivative covenant for the Catholic Health East 2009 Bond issue, and

WHEREAS, the Authority has agreed to make such changes to the bond documents to modify the Monitoring Rights covenant to eliminate the requirement that the Borrower provide to the Issuer and each of the Representatives copies of all information and reports distributed to, or otherwise made available to, voting members of the Board of the Institution and substitute a requirement that the Borrower either provide copies of such materials in advance or make the information available to the Issuer and each of the representatives for review a reasonable period (a minimum of one hour) in advance of the meeting of the Committee or Board, noting that any materials provided for review must remain available for review so long as they are retained in the records of Catholic Health East or the Obligated Group,

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby authorizes staff to make such changes to the Authority's Monitoring Rights standard policy and apply such changes, where appropriate, to any documents previously approved by the Authority; and,

WHEREAS, the Authority has agreed to modify the Derivatives covenant to permit the collateralization of derivative obligations if such collateralization is identified as a permitted encumbrance and, assuming the collateral deposit has been made, the Borrower's Days Cash on Hand would not be less than 60 days,

BE IT FURTHER RESOLVED, that the Authority hereby authorizes staff to apply these Derivative covenant modifications as standard provisions and apply such changes, where appropriate, to documents previously approved by the Authority.