

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on December 16, 2004 on the fourth floor of Building #4, Station Plaza, South Clinton Avenue, Trenton, New Jersey.

The following members, staff, and guests were in attendance:

Commissioner Fred M. Jacobs (appointed Ed Tetelman as Department of Health and Senior Services representative for the meeting since he was only available for the start of the meeting); Gus Escher; John Kerr, representing the Commissioner of Banking and Insurance; Frieda Phillips, representing the Commissioner of Human Services; Ed Tetelman representing the Commissioner of Health and Senior Services; Mark Hopkins, Dennis Hancock, Jim Van Wart, Steve Fillebrown, Suzanne Walton, Lou George, Susan Tonry, Michael Ittleson, Carole Conover, Barbara Koozin, Robin Piotrowski, Marji McAvoy, Bill Lohman, Bob Day, Stephanie Zschunke, Authority Staff; Peter Newell, John Nicolardi, Robert Wood Johnson University Hospital at Hamilton; Jim Nolan, Atlantic City Medical Center; Karen Lump, Atlantic Health System; Jay Jimenez, Department of Health and Senior Services; Karen Mosner, Kevin Natali, Evergreen Financial Services; Richard Harte, Bank of America; Gary Walsh, Riker, Danzig, Scherer, Hyland & Perretti LLP; Bill Phillips, Meridian Health System; Frank D'Andrea, Dominic Colaizzo, Aon Risk Services; Kari Fazio, Wachovia Securities; Jim Fearon, Gluck, Walrath, LLP; Manny Fernandez, the Treasurer's Office; Victoria Pratt, Authorities Unit; and, Clifford T. Rones, Deputy Attorney General.

Prior to the meeting's official start, Public Member Gus Escher introduced Dr. Fred M. Jacobs, who had just been nominated by Acting Governor Codey to serve as the new Commissioner of Health and Senior Services. Dr. Jacobs stated that he is pleased to accept his new role and looks forward to working with the Authority, adding that the Authority's mission is very important to him. He noted that he has officially selected Ed Tetelman to represent the Department of Health and Senior Services for Authority business. He stated that, as this was only his third day as Acting Commissioner, he would only be able to sit in for the beginning of the meeting. Mr. Escher congratulated him on behalf of the Authority and thanked him for his visit.

CALL TO ORDER

Mark Hopkins called the meeting to order at 10:10 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the June 24, 2004 Authority meeting. In accordance with the provisions of the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to all the newspapers with mailboxes at the Statehouse, including *The Star-Ledger* and the *Courier Post*, far enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

In the absence of the Chairman and Vice Chairman, Mr. Hopkins asked the Authority to appoint a Member of the Authority, present at the meeting, to serve as Chairman pro-tem. Mr. Kerr nominated Mr. Escher. Mr. Tetelman made the motion, Mr. Kerr seconded. Mr. Escher voted

yes, Mr. Kerr voted yes, Ms. Phillips voted yes, and Mr. Tetelman voted yes. The motion carried.

AB RESOLUTION NO. EE-51

NOW, THEREFORE, BE IT RESOLVED, that, in the absence of the Commissioner of Health and Senior Services and the Authority's elected Vice Chairman, the Authority appoints Gustav Edward Escher, III. to serve as Chairman pro-tem for the December 16, 2004 meeting of the Authority.

APPROVAL OF MINUTES

Mr. Escher stated that the minutes for the Authority's November 23, 2004 meeting had been distributed for review and approval. Mr. Kerr offered a motion to approve the minutes. Ms. Phillips seconded. Mr. Escher voted yes, Mr. Kerr voted yes, Ms. Phillips voted yes, and Mr. Tetelman voted yes. The motion carried and the minutes were approved.

BOND SALE REPORTS

Virtua Health, Inc.

Mr. Hancock informed the Members that on December 2nd, the Authority priced a \$60 million issuance on behalf of Virtua Health, Inc. The bonds were issued as variable rate securities with the interest level changing every seven days. Interest rates on short-term bonds have been rising since earlier in the year when rates had been below 1%. The Bond Market Association index was at 1.55% and Wachovia offered the bonds at 1.53%. Historically, interest rates on Authority variable rate securities have generally been at levels at or below the BMA index.

Saint Clare's Hospital

Mr. Hancock stated that Authority staff also priced a fixed rate issue for \$104 million on behalf of Saint Clare's Hospital on December 7th and 8th. The bonds were broken into two series, one insured by MBIA and the other by Radian. Wachovia was the Senior manager and the Co-managers were Merrill Lynch, Morgan Stanley, NW Financial and Powell. The managers agreed that a retail order period could be helpful and over \$18 million of orders were taken on Tuesday the 7th. The market held steady overnight and the managers went out with an order period on Wednesday December 8th with a structure composed of serial bonds through 2023 and a two-year term bond in 2025. Orders were sporadic with the pricing hampered in some respects by the supply of other New Jersey paper in the market over the last two weeks. However, the sufficient orders were obtained and the managers offered to purchase the bonds with yields ranging from 2% to 4.83%. The all-in interest cost of the issue was 5.00%.

INFORMATIONAL PRESENTATION

Robert Wood Johnson University Hospital at Hamilton

Suzanne Walton began by introducing Peter Newell, Corporate Vice President of Finance and John Nicolardi, Director of Finance at Robert Wood Johnson University Hospital at Hamilton (RWJUHH). Ms. Walton stated that staff is in the process of structuring an estimated \$88 million dollar financing on behalf of RWJUHH.

The proceeds of the proposed Series 2005 bonds will be used for new money projects including (1) the construction of a new, four-story tower, attached to the hospital's existing facility, which will provide for 64 new medical surgical beds; and (2) the construction of a two-story addition to the main facility to provide for the expansion of radiology services, a new kitchen and cafeteria; and (3) new loading and receiving areas. These projects total approximately \$58 million. The proceeds will also be used to refinance approximately \$30 million of 1994 bonds issued through the Economic Development Authority. The 1994 bonds were issued as fixed rate securities with interest rates ranging from 5.6% to 6.5% and are currently refundable. RWJUHH also issued \$31 million of Authority bonds in 2002 and those bonds are expected to remain outstanding.

According to Ms. Walton, hospital management indicated an interest in structuring a portion of its new debt on a variable rate basis; therefore, in addition to bond insurers and rating agencies, credit packages have been distributed to a number of banks to encourage proposals for credit and liquidity support. Until the hospital receives feedback from the insurers, rating agencies and letter of credit banks, Wachovia Securities, the underwriter, will dual track the financing to determine the best cost/benefit structure for the RWJUHH. Based on current market conditions, net present value savings would approximate \$2 million representing 6% of the refunded bonds.

RWJUHH is a 200-bed acute-care hospital and is the only acute care facility in Hamilton Township. Historically, RWJUHH has reported solid financial results. The hospital benefited from the old Medicare outlier reimbursement policy but recognized that those revenue dollars would be short-lived. Therefore, management budgeted for the decline in revenue dollars by keeping their expenses in line and adding new programs so that when those dollars ceased, revenues would still cover expenses. Unaudited information for the nine months ended 9/30/04 shows continued profitability. RWJUHH has been well utilized over the past three years and the year-to-date trends continue to be positive. In addition, it has consistently outperformed statewide medians for key performance indicators.

Ms. Walton reported that, as required by Authority policy, management provided financial projections for a four-year period. The financing for the project is scheduled to be completed by the end of the first quarter of 2005. Construction is expected to begin in 2005 and be completed by December 2006. The patient tower will begin to see patients in January of 2007. Net patient revenues grow at a rate of 3.5% in 2005 and 2006 to account for normal growth patterns. In 2007, in addition to the 3.5% growth, management projects approximately 3900 new admissions with the opening of the new patient tower, which translates into an approximately \$30 million increase in revenue. In 2008, the assumptions return to the normal growth rate of 3.5%.

Expenses, both salary and non-salary, will increase by 3% in 2005 and 2006. In 2007, the patient tower will add approximately 100 full time employees with a \$9 million increase in salary expenses. Supplies to cover patient needs will add another \$8.5 million dollars in addition to the normal 3% increase. Depreciation expense will increase approximately \$1.7 million in 2007 representing the first full year of depreciation on the project.

Interest expense will be capitalized at 50% of the total in the years 2005 and 2006 and reflected fully starting in the year 2007. The interest savings by refunding the Series 1994 Debt is partially reflected in 2005 and fully reflected in 2006.

Ms. Walton reported that, key financial indicators reflect:

- Positive operating results throughout the forecast period ranging from .80% to 3.60%
- Strong Debt service coverage ratios ranging from 3.18 to 3.82 times
- Days Cash on Hand growth from 109.6 to 130 days in 2008

In closing, Ms. Walton publicly congratulated RWJUHH for being the recent recipient of the prestigious Malcolm Baldrige National Quality Award in the category of Healthcare. The award promotes excellence in organizational performance, recognizes quality achievement and performance achievements and publicizes successful performance strategies. RWJUHH is the first hospital to receive the award in New Jersey and the only healthcare recipient for 2004. The organization joins a group of only three other health care organizations who have ever received the award. Criteria for the award includes: leadership, strategic planning, customer and market focus, information and analysis, human resources focus, process management and business results.

Before opening the floor for questions, and on behalf of all present, Mr. Escher congratulated RWJUHH for their receipt of the Malcolm Baldrige National Quality Award.

Mr. Tetelman asked for an explanation of the hospital's 2003 declining revenues, to which Mr. Newell stated that 2003 was the year first affected by the change in Medicare's outlier reimbursement policy, however, the hospital moved forward by adding new programs to replace the resulting revenue losses. The drop is expected to be a one-time occurrence.

Mr. Tetelman then questioned RWJUHH's very high occupancy rate, which almost doubles the State's average, to which Mr. Newell added that the hospital's occupancy would even be a little higher except that it has several rooms with two licensed beds that are currently being used by patients requiring isolation, thereby taking beds out of service. Mr. Newell attributed the high occupancy rate to strong market share growth (2.2%) over the last five years. He added that the hospital received tremendous results from its Physicians Survey and its Community Satisfaction Survey, both run by Gallup polling services, and he stated that RWJUHH is quickly becoming the facility of choice for Hamilton and the surrounding area. Management expects RWJUHH's occupancy, including the newly constructed facility to be funded by the bonds, to level off at approximately 85%.

Mr. Tetelman asked if the facility does any special programs to draw business, to which Mr. Newell replied that RWJUHH sees great opportunities in the neurosciences and is currently trying to recruit neurosurgeons rather aggressively.

Mr. Kerr asked if RWJUHH experienced any increase in uninsured patients, and Mr. Newell stated that the hospital has seen marginal increases in both charity care and bad debt. In order to best defend against the increase, RWJUHH maintains an active charity care department to try to ensure that all patients receive the charity care reimbursements for which they are eligible. Mr. Newell responded to another question from Mr. Kerr, stating that RWJUHH maintains an offshore captive that covers its employed physicians. There were no further questions, and because this portion of the meeting was for informational purposes only, no actions were taken.

CAPITAL ASSET PROGRAM LOAN APPROVAL

Atlantic City Medical Center

Ms. Walton began by introducing Jim Nolan, Vice President of Finance for Atlantic City Medical Center ("ACMC"). She then informed the Members that ACMC requests a loan in the amount of \$25 million to finance construction and equipment costs related to an expansion project at the Medical Center's Mainland Division involving the Emergency and Ob/Gyn Departments. In addition to the expansion project, loan proceeds will be used to finance an expansion and upgrades to the Medical Center's central utility plant including new boilers, chillers and condensers.

Ms. Walton described ACMC as a 601-licensed bed acute care, multi-hospital system offering health care services to the residents of Atlantic, Cape May, Cumberland and southern Ocean counties in southeastern New Jersey. The Medical Center delivers services in two hospital divisions: The City Division located in Atlantic City proper and operating with a bed complement of 293; and the Mainland Division located in Galloway Township operating with a bed complement of 308. In addition to providing general acute care services, ACMC operates emergency service departments at both divisions and provides a full range of diagnostic and therapeutic outpatient services. The Medical Center also serves as the regional provider of cardiac and cancer services.

According to historical financial and utilization data included in the Member's packages, ACMC was profitable from 2001 to 2003 and year to date through September 2004. Year-end projections reflect income from operations of \$37.8 million and a bottom line of \$56.2 million. Available cash and investments have grown from \$68.2 million in 2001 to \$219 million to date. Utilization trends are positive with growth in both inpatient and outpatient admissions and the average length of stay has been reduced from 5.26 days in 2001 to 4.94 in 2003 and 4.71 in 2004 to date.

Ms. Walton reported that, based on the Apollo data for 2003, ACMC's liquidity remains strong with 245 days cash on hand and a cushion ratio of 18.98%. There has also been a significant reduction in Days in Accounts receivable declining from 74.4 days in 2001 to 41.8 days in 2003. Debt service coverage of 5.67 times is more than adequate to service this debt. Based upon this data and their own analysis, JPMorgan Chase Bank has approved the loan subject to the ACMC providing parity security with existing bondholders, which includes a pledge of gross receipts and a mortgage on the real property.

Mr. Nolan responded to a question from Mr. Tetelman, stating that ACMC's occupancy rate is approximately 50%-55%, though the vacancies are primarily in the city division, which will be renovated in a future project (not associated with the proposed CAP loan). The mainland campus maintains high occupancy, and is often in need of more open beds. Mr. Kerr asked if ACMC is having any trouble maintaining physicians in light of high medical malpractice premiums. Mr. Nolan agreed that, at ACMC, as well as at other hospitals, it is difficult to cope with large premium increases and many are moving practices out of state or retiring.

Mr. Kerr asked if ACMC has seen an increasing amount of uninsured patients, to which Mr. Nolan replied that it has experienced an increase in both charity care patients and in bad debt. ACMC expects to benefit from the new charity care reimbursement formula and recently reviewed its collections policies and found them to be satisfactory. In terms of bad debt, the hospital attempts to collect payments in-house for 45 days, after which the invoices go to pre-collections, and then to collections agencies. The Medical Center does try to be sensitive to the needs of its patients, since the facility treats a large number of casino workers and local 54 members, by working out payment plans for those without insurance.

Mr. Tetelman offered a motion to approve the issuance of a Capital Asset Loan on behalf of Atlantic City Medical Center; Mr. Kerr seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. EE-52
(attached)

CONVERSION TO TAX-EXEMPT BONDS

Atlantic Health System

Bob Day reminded the Members that on June 29, 2004, the Authority issued the Series 2004 Bonds on behalf of AHS Hospital Corporation (AHS) in two taxable lots A and B totaling \$26,300,000. Each lot was in the amount of \$13,150,000 and was convertible to a tax-exempt rate after certain conditions were met. The purpose of the issue was to advance refund the Series 1997B Bonds, and to pay certain costs of issuing the Series 2004 Bonds. The security for the bonds is a Trust Agreement and funds and accounts established under the Trust Agreement. A Financial Guaranty Insurance Policy issued by Ambac Assurance Corporation (AMBAC) further secures the bonds.

Mr. Day stated that AHS, one of New Jersey's largest nonprofit health care systems, owns and operates three acute care hospitals: Morristown Memorial Hospital, consisting of a 549-bed acute care teaching hospital and a 78-bed rehabilitation and skilled nursing hospital located in Morristown; Overlook Hospital, a 514-bed acute care teaching hospital located in Summit; and, Mountainside Hospital, a 347-bed acute care teaching hospital located in Montclair.

Mr. Day explained that AHS Hospital Corporation requests approval from the Authority to convert Lot A of the Series 2004 from a taxable rate of interest to tax-exempt rate of interest. Riker Danzig, Scherer, Hyland & Perretti LLP, as Bond Counsel, opined that all necessary actions were taken to convert the Lot A bonds to tax-exempt status. The Attorney General's office also reviewed the attached resolution and Bond Counsel's opinion and it has no objection to the Board's consideration of this matter.

Mr. Escher asked what the requirements were that needed to be fulfilled before conversion, to which Mr. Day replied that tax-exempt uses for the funds were needed in the form of new equipment and related capital needs. Mr. Tetelman asked why the bonds were issued taxable in the first place, to which Gary Walsh of Riker Danzig, Scherer, Hyland & Perretti LLP explained that the bonds were originally issued taxable since the initial purpose of the proceeds, that is the

repayment of bonds related to the acquisition of the General Hospital Center at Passaic, was not a permitted tax-exempt use. AHS could not wait to accumulate the appropriate tax-exempt uses because insurance commitments from MBIA would lapse before the tax-exempt purposes were available.

Mr. Walsh continued, stating that a structure was designed in which AHS would refinance \$25 million in taxable bonds to take advantage of the insurance commitment in place. The Authority issued the bonds in an auction format that would be convertible when certain tax-exempt uses were accumulated. Mr. Walsh added that the Authority can expect to see Lot B of the taxable bonds presented for conversion in the next few months.

Mr. Tetelman then moved to approve the conversion of Lot A of the Series 2004 bonds from a taxable rate of interest to tax-exempt rate of interest; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. EE-53

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the conversion of Lot A of the Series 2004 bonds from a taxable rate of interest to tax-exempt rate of interest.

SELF-INSURANCE PROGRAM MODIFICATION

Meridian Health System

Susan Tonry began by introducing: Bill Phillips, Senior Vice President and Chief Financial Officer of Meridian Health System; Frank D'Andrea, Senior Vice President and Chief Risk Officer of Meridian Health System; and, Dominic Colaizzo, Managing Director of Aon Risk Services. She then described Meridian Health System ("Meridian") as a regional hospital system in central New Jersey that was created in July 1997 and currently consists of three area hospitals, namely Jersey Shore University Medical Center, Riverview Medical Center and Ocean Medical Center.

Ms. Tonry stated that Meridian owns and operates Coastal Medical Insurance, Ltd. ("Coastal"), a fully licensed captive insurance company, which is incorporated under the laws of Bermuda and commenced operations 6.5 years ago on July 1, 1998. Since that time, Coastal has been in full compliance with all offshore regulations governing the operation of captive insurance companies.

Currently, Meridian purchases the first \$2 million of coverage for Hospital Professional Liability and General Liability from Princeton Insurance Company ("Princeton"). Of this level, Princeton assumes the first \$500,000 of loss and Coastal assumes the next \$1,500,000 of loss through a reinsurance agreement with Princeton. Meridian also purchases separate policies from Princeton for its Employed Physicians for at least the first million of coverage. For most of the physicians, Princeton assumes the full \$1 million per claim without the involvement of Coastal. In addition to the primary policies, Meridian insures \$4 million in excess of \$2 million for each claim of the excess through Coastal and purchases reinsurance with "A" rated reinsurers for \$25 million in coverage above Coastal's layer.

As a result of significant price increases and changes in coverage terms from Princeton, as well as Princeton's recent withdrawal from the AM Best Rating process and with no viable market alternatives to underwrite primary coverage, Meridian would like to modify its existing insurance structure beginning January 1, 2005.

According to Ms. Tonry, Meridian plans to replace Princeton for primary coverage with an "A" rated Fronted Program for General, Hospital Professional and Physician Liability, using Coastal to reinsure 100% of the risk of this insurer. The "A" rated insurers considered by Meridian are Zurich, Chubb and Lexington. The insurer's risk will be fully secured by a combination of a Letter of Credit and/or a Reinsurance Trust Agreement. Coverage at the excess layers will essentially not change, and reinsurance will continue to be provided by "A" rated reinsurers.

Coastal's loss reserves have consistently been calculated actuarially at a 70% confidence level. Discounted reserves at this level have been estimated at \$4.1 million for year-end 2004. As of year-end 2003 the captive held approximately \$5.1 million of capital and surplus. This capital and surplus is projected to increase to over \$7 million by year-end 2004. Coastal also has an additional \$10-\$15 million in cash and investments that is available to pay losses.

At the time the Authority received Meridian's request for the modification, Meridian was in the final stages of obtaining an AM Best rating. Mr. D'Andrea stated at this point in the meeting that the rating had been obtained that morning. AM Best had granted Meridian's self-insuring entity a "B++" rating. This rating was sought on a voluntary basis by Meridian and demonstrates their desire to meet Authority requirements before imposed. The System has agreed to comply in the future with the Authority's Resolution adopted on November 20th, 2003 (attached at the end of these minutes), which mandates compliance with reporting requirements that relate to self-insurance programs including the continued annual rating of their captive. Based on a staff review, Ms. Tonry requested the Authority's consideration of a resolution approving Meridian's proposed insurance plan.

Mr. Tetelman asked for clarification of the various Meridian insuring companies, to which it was explained that Coastal, Meridian's offshore captive, received a rating of "B++" by AM Best and was the first captive to receive a rating in New Jersey. Lexington is an AIG company with an A++ rating that will serve as the fronting program. Essentially, Meridian is proposing to replace Princeton with Lexington in its primary layer. As such, Coastal will reinsure Lexington 100%. Mr. Phillips added that the new structure yields a large savings, reducing the premium by \$2.5 million.

Mr. Kerr asked if the hospital has been increasing the capital for Coastal, to which Mr. Colaizzo stated that it periodically injects cash and after the December 31st financials, Coastal will have \$7 million of capital and surplus in reserves. In response to another question from Mr. Kerr, Ms. Tonry stated that the self-insuring entities report to the Authority on an annual basis and AM Best ratings are reviewed annually.

Mr. Tetelman asked if there have been any claims, to which Mr. Colaizzo stated that Meridian has an excellent claims history, with only one claim (\$1.6 million) in its history larger than

\$500,000. As a result, Meridian has a very low liability cost. Mr. Kerr asked how many people are insured by the captive, to which Mr. Colaizzo responded approximately 200 employed physicians, plus the hospital employees.

Mr. Phillips reiterated that captives are a new and evolving area for hospitals. Meridian is willing to provide the Authority with any and all requirements deemed necessary. Mr. Tetelman then moved to approve the requested modification to coverage under Meridian Health System's existing self-insurance program for medical malpractice and general liability insurance; Ms. Phillips seconded. Mr. Escher voted yes, Mr. Kerr abstained, Ms. Phillips voted yes, and Mr. Tetelman voted yes. The motion carried.

AB RESOLUTION NO. EE-54

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the requested modification of coverage under Meridian Health System's existing self-insurance program for medical malpractice and general liability insurance.

FINANCE COMMITTEE REPORT

Proposed January 2005 Budget

Mr. Escher, as Chairman of the Finance Committee, then presented the proposed Authority 2005 budget for approval. First, he commended Michael Ittleson and senior staff for developing a financially sound budget that promotes a successful workplace and exceptional service at the Authority. As a percentage of the budget, operating income projections increased a total of 11.18%, interest income increased 46.91% and expected operating expenditures decreased 3.04%, excluding salary adjustments, which will be discussed in Executive Session. All numbers are moving in favorable directions.

The proposed budget identifies significant changes from the 2004 budget including an increase of \$58,885 in the Mortgage Servicing Income category. This is based on the monthly outstanding mortgage balances on FHA-insured issues for which the Authority is mortgage servicer. Fees collected normally decrease from year-to-year as mortgage balances decrease, however, the 2005 budget includes the probability of adding both Jersey City Medical Center and Englewood Hospital and Medical Center to the Authority's mortgage servicing portfolio.

Mr. Escher stated that, with respect to Personnel Services, "Fringe Benefits" shows a decrease of \$79,450. Contributing to the decrease was the elimination of a one-time payment of \$190,000 budgeted in 2004 to pay for an Authority employee who opted for the State's Early Retirement Incentive program in 2002. Offsetting that decrease are increases in health benefit and prescription drug premiums, the reinstatement of the Employer Pension Expense line item, the change in the reimbursable amount for Eye Care Expense, the moving of the Additional Compensation line item from salaries to fringe benefits, and personnel matters that will be discussed in Executive Session.

The Office Equipment & Furniture Purchase line item increased by \$42,550. In 2004, the Authority began replacing office furniture, most of which is approximately 20 years old. The budgeted amount completes the replacement for occupied offices in 2005. In contrast, the Repairs & Renovations line item decreased by \$24,300 since there are no specific items

earmarked for service. Another large decrease in 2005 expenses is in the Insurance line item, which decreased by \$49,160.

Mr. Escher noted a projected 2005 budget increase of \$98,652 for Authority Vehicles. This increase considers the input by staff that purchasing vehicles may be more economical than leasing them, as the Authority now does. Staff indicated that getting bids on leases has been difficult because of indemnification issues and, therefore, the leases have not been very competitive. Staff will identify the various options at the time the leases expire in 2005 and determine if purchasing makes more sense.

And finally, the budget allots approximately \$25,000 to the New Financing Products-Developmental Phase line item. As was mentioned at earlier meetings, staff has been considering a product to provide financing to help healthcare institutions defend themselves against potential acts of terrorism. The funds budgeted would cover the legal costs of creating a new financing product. Mr. Escher stated that the new product idea was one which the Finance Committee enthusiastically supports. He then asked the Members to meet in Executive Session to discuss budget areas related to personnel.

EXECUTIVE SESSION

As permitted by the Open Public Meetings Act and the Authority's By-Laws, the Members voted to meet in Executive Session to discuss personnel matters, to discuss contractual matters, and to receive advice from the office of the Attorney General. Mr. Escher stated that the results of the discussion would be made known at such time as the need for confidentiality no longer existed. Mr. Escher offered the motion to enter the session; Mr. Tetelman seconded it. The vote was unanimous.

AB RESOLUTION NO. EE-55

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

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. Tetelman then moved to approve the proposed Authority 2005 Budget, including the salary adjustments agreed upon in Executive Session; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. EE-56

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the proposed Authority 2005 Budget, including the salary adjustments as discussed in Executive Session.

AUTHORITY EXPENSES

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

AB RESOLUTION NO. EE-57

WHEREAS, the Authority has reviewed memoranda dated December 16, 2004, 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 \$705,517.94, \$32,710.20 and \$236,489.14 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 referenced staff reports that were distributed for review, including the Project Development Summary, Interest Rate Trends Graph, Cash Flow Statement, and Legislative Advisory. He thanked staff for preparing the reports.

Mr. Hopkins then began his Executive Director's report and stated that he had met with representatives of PNC Bank as a potential underwriter and letter of credit provider for the Authority, and he met with representatives of Cozen O'Connor as a potential bond counsel firm for the Authority. Mr. Hopkins informed the Members that he and John Kerr had a meeting with Holly Bakke, the Commissioner of Banking and Insurance, and her Assistant Commissioner Ray Conover, regarding self-insurance and captive regulation. At that meeting, Ms. Bakke stated that the Department of Banking and Insurance ("DOBI") is not willing to monitor self-insurance or captive organizations, nor will it issue guidelines to the hospitals interested in using such entities. DOBI is satisfied with the Authority's requirements such as the mandatory annual AM Best rating.

DOBI did make one request: that the Authority encourage the use of domestic corporations for self-insuring and captives to ensure the use of domestic auditing standards. However, in response to a question from Mr. Tetelman, Ms. Tonry stated that the borrowers' offshore entities typically use American auditing firms, which follow the U.S. guidelines and convert all information to the U.S. dollar.

Mr. Kerr added that another reason for such encouragement is that both South Carolina and Vermont have extensive experience with captives and self-insuring agencies because those two states have long recommended that insurance structure. Therefore, DOBI feels that a hospital can have more confidence in one of those two states and their regulations. Mr. Kerr did recognize, though, that there is a limit to how much the Authority can push a hospital to headquarter its captive or self-insurance entity within the U.S.

Mr. Hopkins continued his report, stating that Ms. Bakke will coordinate a meeting between representatives from the Authority and Princeton Insurance Company to assist in the Authority's monitoring of the latter's ongoing success in rebounding.

Mr. Hopkins said staff also met with the New Jersey Office of Public Finance, the Department of Human Services and the Economic Development Authority regarding the Greystone Psychiatric Hospital project and its next phase of financing, which could close by mid-May. He concluded his report by thanking the Authority Members and staff for their hard work on the 2005 budget.

Mr. Escher then stated that, though there is a second Executive Session scheduled for this meeting, due to a schedule conflict of his own, he needs to leave the meeting so there will no longer be a quorum. The information regarding contractual matters that was to be presented to the Members in the session will still be presented to the remaining Members, but it does not qualify as meeting activity since there is no quorum.

Mr. Tetelman took this opportunity to thank the Authority staff and Mark Hopkins as Executive Director and Cliff Rones as Deputy Attorney General for a job well done. He congratulated staff on a successful 2004 and remarked that the Authority's employees work hard to make the Members' roles easy by preparing solid transactions and monthly reports, and by ensuring that the borrowers are following through with all bond covenants. Mr. Kerr agreed and Mr. Escher added that it is a pleasure to work with this staff, stating that the Members interact with a number of different organizations and yet the Authority remains a recognized leader in its professionalism.

ADJOURN

As there was no further business to be addressed, Mr. Tetelman moved to adjourn the meeting, Mr. Escher seconded. The vote was unanimous and the motion was carried at 12:02 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 DECEMBER 16, 2004.

Dennis Hancock
Assistant Secretary

**EXECUTIVE SESSION
AUTHORITY MEETING**

ATTENDEES: Gus Escher; John Kerr, representing the Commissioner of Banking and Insurance; Frieda Phillips, representing the Commissioner of Human Services; Ed Tetelman, representing the Commissioner of Health and Senior Services; Mark Hopkins, staff; Clifford T. Rones, Deputy Attorney General; Manny Fernandez, Treasurer's Office; and, Victoria Pratt, the Authorities Unit.

PERSONNEL MATTERS

The Authority discussed employee compensation with respect to the proposed Authority 2005 budget. The Authority Members recommended salary increases of 2.9% across the board, and up to an additional 4% experience and merit increase for Authority employees with limited minor variations and exceptions for two employees receiving promotions. The Members left the determination of individual salaries to the discretion of the Executive Director consistent with the aforementioned parameters.

As there was no further business, Mr. Tetelman made a motion to exit the session; Mr. Kerr seconded. The vote was unanimous and the motion carried.

**NEW JERSEY HEALTH CARE
FACILITIES FINANCING AUTHORITY**

AB RESOLUTION NO. 52

WHEREAS, the Atlantic City Medical Center (the "Institution") has requested that the New Jersey Health Care Facilities Financing Authority (the "Authority") finance the costs of certain capital assets (the "Capital Assets") through the Authority's pooled financing program funded from the proceeds of the Authority's \$100,000,000 Variable Rate Demand Revenue Bonds (Hospital Capital Asset Financing Program) 1985 Series A, 1985 Series B, 1985 Series C and 1985 Series D (the "Capital Asset Financing Program"); and

WHEREAS, such Capital Assets financing for the Institution will be made pursuant to a Loan Agreement to be entered into between the Authority and the Institution (the "Loan Agreement"), which will be assigned by the Authority to The Bank of New York, as Trustee (the "Pool Trustee"); and

WHEREAS, as additional security for its obligations under the Loan Agreement, the Institution may be required to deliver such collateral as determined and required by JPMorgan Chase Bank ("JPMorgan");

NOW, THEREFORE, BE IT RESOLVED by the New Jersey Health Care Facilities Financing Authority as follows:

1. The Authority hereby approves a loan to the Institution in an aggregate amount not exceeding \$25,000,000 (the "Loan") for the purpose of financing or refinancing the costs of the Capital Assets, consisting generally of the construction and equipment costs related to (a) an expansion project at the Institution's Mainland Division involving the Emergency and Ob/Gyn Departments, and (b) an expansion and upgrade to the Medical Center's central utility plant including new boilers, chillers and condensers.

2. Pursuant to the provisions of the Trust Agreement securing the Authority's Capital Asset Financing Program, the authorized officers of the Authority are hereby authorized and directed to execute the Loan Agreement and any other documentation deemed necessary and appropriate by the Authority's counsel to complete the financing of the Capital Assets for the Institution.

3. The Loan hereby approved shall be subject to the receipt of all necessary loan documentation as required, and subject to the Institution meeting all loan, collateral and security requirements of JPMorgan.

4. The officers of the Authority are hereby authorized and directed to take such other action as may be necessary or appropriate in order to effectuate the financing of the Capital Assets for the Institution in accordance with the foregoing sections and recitals hereof.

5. All prior resolutions of the Authority or any portions thereof to the extent inconsistent with this Resolution are hereby repealed.

6. This Resolution shall take effect ten days (exclusive of Saturdays, Sundays and public holidays) after the delivery to the Governor of the minutes of the meeting of the Authority at which this Resolution is adopted, or such earlier time as the Governor signs a statement of approval, all in accordance with subsection (i) of Section 4 of the New Jersey Health Care Facilities Financing Authority Law, as amended.

AB. RESOLUTION NO.

**AMENDMENT TO ALL RESOLUTIONS IN WHICH THE
AUTHORITY APPROVES A BORROWER'S REQUEST TO
USE A SELF-INSURANCE/CAPTIVE PROGRAM, THUS
MANDATING COMPLIANCE WITH NJHCFFA
REPORTING REQUIREMENTS
(adopted November 20, 2003)**

1. Pursuant to a resolution adopted November 20, 2003, the Authority has accepted the coverages set forth in the plans of self-insurance (in the form of a self insurance trust) or captive insurance, as the case may be (the "Accepted Plan") of the entity referred to in the Resolution (the "Borrower"). With respect to the Accepted Plan, the Borrower shall, on an annual basis, provide to the Authority

(a) a certification that (i) a written actuarial evaluation with respect to such self-insurance or captive insurance company programs from a nationally recognized Insurance Consultant; (ii) a report from such Insurance Consultant to the effect that such self-insurance or captive insurance company program shall not disqualify or materially adversely affect the Borrower for reimbursement under Medicare or Medicaid programs or any governmental programs providing similar benefits or establishing rates and charges for health care services; and (iii) evidence that adequate reserves for such programs have been or will be deposited and maintained with an independent corporate trustee in an amount acceptable to the Authority, which shall be at least equal to the amount required by the report referred to in clause (i) above and (iv) a copy of the annual audit of the self insurance trust or the captive insurance company, as applicable, has been provided to the Insurance Rating Agency within one hundred fifty (150) days of the end of the fiscal year of such self insurance trust or captive insurance company, respectively;

(b) within nine (9) months of the end of the fiscal year of the self insurance trust or captive insurance company, as applicable, evidence of receipt of a Qualified Insurance Rating from an Insurance Rating Agency; and

(c) such other additional documents as the Authority may require.

2. In the event that the Borrower is not able to comply with clause (b) above, it will be deemed to be not in compliance with this resolution unless the Borrower, by the commencement of the next succeeding fiscal year of the Borrower, shall have (i) procured insurance as required under its loan documents with the Authority or (ii) provided a Qualified Insurance Rating..

3. As referred to herein,

(a) "Insurance Consultant" shall mean an independent firm of insurance agents, brokers or consultants which is appointed by the Borrower for the purpose of reviewing and recommending insurance coverages for the facilities and operations of the Borrower, and has a favorable reputation for skill and experience in performing such services

in respect of facilities and operations of a comparable size and nature; provided that any entity so appointed is not

(b) "Insurance Rating Agency" shall mean A.M. Best Company, or its successor, or such other rating service that customarily provides ratings for insurance companies or coverage and is acceptable to the Authority.

(c) Qualified Insurance Rating shall mean a rating that is at least "investment grade" or "secure" as defined by A.M. Best Company, or such similar rating as defined by any other Insurance Rating Agency.