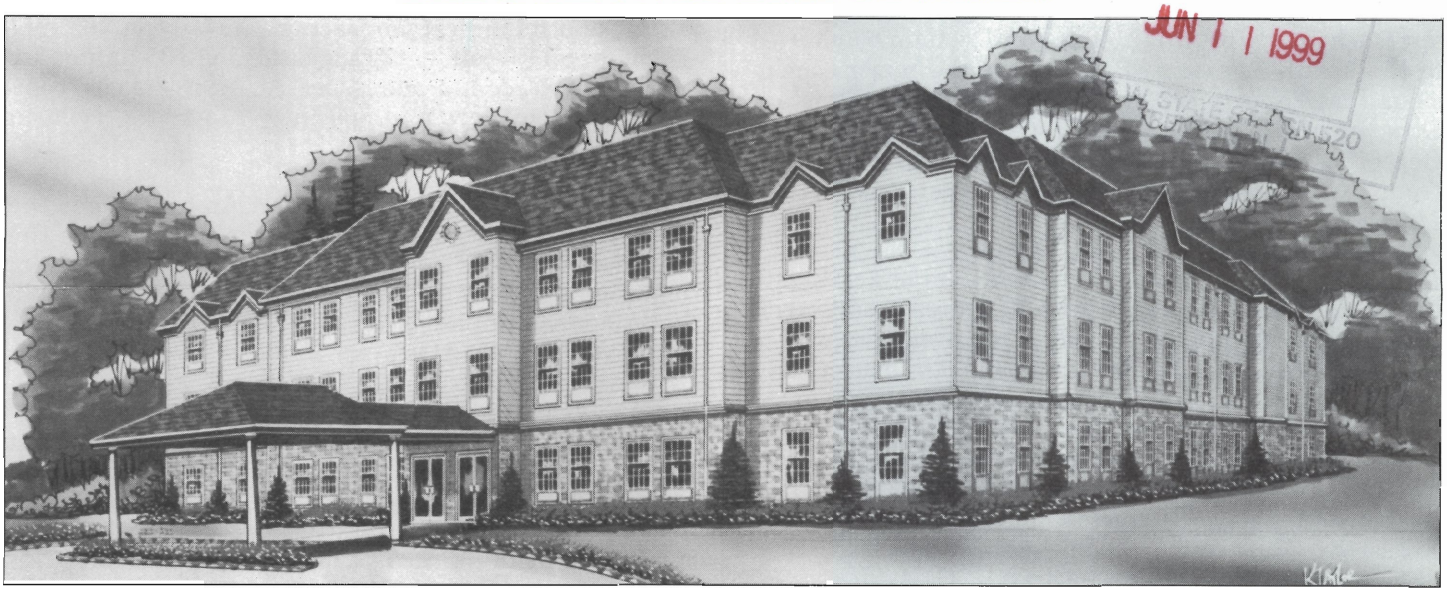
AUTHORITY NOTE$

New Jersey Health Care Facilities Financing Authority

May 1999

THE AVALON AT BRIDGEWATER



FIRST FOR-PROFIT FINANCING

The Authority recently completed its first financing on behalf of a for-profit entity, Bridgeway Assisted Living, L.L.C., representing the first such financing completed under the Authority's expanded legislation. This expanded legislation permits the issuance of bonds on behalf of any New Jersey health care organization.

The $7,285,000 financing will pay for the construction of a new assisted living facility to be located on a two-acre site on Route 28 in Bridgewater Township. The bond issue consists of two series of nonrated bonds; a $6,630,000 Series 1999A tax-exempt issue, and a $655,000 Series 1999B taxable issue. The proceeds of the Series 1999A bonds will be used for the acquisition of land, construction of a 57-unit assisted living and special care facility, an initial deposit to an Operating Reserve Fund, and to fund pre-opening marketing costs. The Series 1999B bonds will fund working capital, additional capitalized interest and a portion of the cost of issuance.

The new facility, to be known as The Avalon at Bridgewater, will contain up to 74 beds, 12 of which will accommodate dementia patients. Bridgeway Assisted Living, L.L.C. qualified for tax-exempt funding due to the fact that they will make at least 20% of the

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NEW BOARD CHAIRMAN

Christine Grant was appointed Acting Commissioner of Health and Senior Services by Governor Whitman effective April 5, 1999. During her tenure, she serves as Chairman of the Authority.

Ms. Grant previously served as Vice President, Public Business and Policy with Pasteur Mèrieux Connaught USA; and Senior Director of Public Policy at Merck and Company. Prior to that she was Deputy Commissioner of Health in New Jersey with direct oversight responsibility for hospital rate setting; HIV and substance abuse; public health programs; health insurance expansion; and maternal and child health. She has practiced corporate and product liability law, served as Senior Program Officer at the Robert Wood Johnson Foundation, and served as a Congressional Legislative Assistant.

Ms. Grant received a Juris Doctor degree from Rutgers University School of Law where she was a member and Business Manager of the Law Review; an MBA from the Wharton School; and a BA from Swarthmore College. She resides in Princeton, New Jersey.

CREDIT ENHANCERS COMMITTED TO HEALTH CARE, BUT CAUTIOUS

Health care providers can expect insurers to be more selective in choosing credits and to require more stringent security features in the transactions they do accept in the wake of the AHERF bankruptcy and reports about the ailing financial condition of hospitals nationwide. In spite of the more cautious approach, however, credit enhancers remain committed to the health care sector. These are the major conclusions that Executive Director Edie Behr and Assistant Director of Research and Investor Relations Jeanette Bergeron reached after meeting with representatives from five municipal bond insurers over two days in March.

Borrowers will notice the most significant changes with MBIA and FSA. MBIA no longer insures credits with less than an A- rating. Security requirements will be more stringent as well. For example, both insurers now include a days cash on hand covenant in addition to the debt service coverage ratio covenant. Further, FSA has instituted a stricter definition of days cash on hand. The insurer prefers to deduct short-term notes payable, 50% of third party settlements, and accounts payable in excess of 60 days from available cash.

Three other municipal bond insurers, Ambac, Asset Guaranty, and American Capital Access, reported no changes to their underwriting or security criteria. As a result, FSA's and MBIA's tightened criteria have further defined market niches for the five municipal bond insurers.

- MBIA has a "AAA" rating and targets sole community providers with "A-" ratings or better. MBIA's premiums usually preclude transactions of less than $25 million.
- FSA and Ambac also have "AAA" ratings but will still consider credits over $10 million with "BBB" ratings or better.
- Asset Guaranty has a "AA" rating and looks for rural and sole community providers with financing needs in the $7 million to $12 million range. Asset Guaranty takes the longest of the five insurers to process an insurance commitment.
- American Capital Access has an "A" rating and targets the lower-rated credits, including non-investment grade facilities. ACA has no minimum bond size, and its largest transactions have been $65 million for an investment grade issue and $35 million for a noninvestment grade issue. ACA targets sole community providers and specialty providers, even in urban areas.

MBIA, FSA, Asset Guaranty, and Ambac target the providers in multiple-facility markets that have the strongest chance of survival both in terms of financial condition and marketshare. Small rural hospitals will find American Capital Access and Asset Guaranty more receptive than MBIA, FSA, or Ambac.

Providers can attract insurers by facilitating the insurance review process. For example, bond insurers must make credit decisions in a relatively short period of time. Providing revenue, expense, market share, payer mix and physician information early in the process speeds the insurers' review of the credit and prepares management for the insurers' questions. Direct, succinct responses to insurers' questions focus attention on the strengths and weaknesses of facilities.

The following charts highlight each municipal bond insurer's general requirements for the Insurance Process, and their respective Underwriting Criteria. If you are interested in obtaining additional information on credit enhancement, call Jeanette Bergeron, Assistant Director, Division of Research & Investor Relations at 609–292-8585.

INSURANCE PROCESS FOR CREDIT ENHANCEMENT

FSA	MBIA	ACA	Asset Guaranty	Ambac
• One-two weeks before site visit: • 3 – 5 years of audits • One-two days before site visit: • Area market definition • Market share statistics for borrower and competition • Patient origin market share statistics • Relationships with systems/ potential mergers • Names of competing facilities' CEOs	• One week before site visit: • 5 years of audits • Interim Financials • Appendix A* • Debt Service Schedule • Sources and Uses • Distribution list • Site visits for new customers • Term sheet of structure	• Credit package should include: • 5 years of audits • Appendix A* • Existing legal documents and covenants. • Site visit required • Decision usually in 3 – 4 weeks.	• Credit package should include: • Description • 3 - 5 years of audits • Interim financials • Appendix A* • Market share info • Site Visit • Scheduling a site visit is a good indication of interest • Decision on insurance usually within a week of the site visit.	• Credit package should include: • 3 - 5 years of audits • Appendix A* • Site visit required • Commitment will be given within one week of site visit.

*Information included in Appendix A of Official Statement

UNDERWRITING CRITERIA FOR CREDIT ENHANCEMENT				
FSA	**MBIA**	**ACA**	**Asset Guaranty**	**Ambac**

• Want winner(s) in market
• FSA does its own independent market analysis including contacting competing hospitals, managed care providers, and major employers in the area
• Liquidity
• Location (isolated)
• Stable population
• At least 60% of market share
• 1 bed/1,000; at least 100,000 population; 100 bed minimum
• No minimum, but small deals may have to wait
• Assess technology risks
• Profit and loss managed by product line and by payor type
• Strong and engaged management, "charismatic leader", ability to keep medical staff happy
	• Looking for hospitals that are sole providers in their market area
	• Those that have low levels of Medicare and other government payers
	• They don't like hospitals that own physician practices, too many losses
	• No credits in the "BBB' categories and if they have them they are trying to get out
	• Market share
	• Financial viability
	• Ability to manage cost
	• Strength of management
	• Minimum bond size of $25.0 million
	• Minimum revenues of $65.0 million
		• Looking for relative safety of a sole community or specialty provider, size of the facility not a major emphasis
		• They will do below investment grade credits.
		• Minimum revenues for an acute care hospital of about $20.0 million
		• For a SNF they will do one with revenues below $20.0.
		• Minimum bond size of $5.0 million, maximum of $30.0 – 35.0 million
		• No bed minimum
		• Competency of management a critical issue
			• Market Share.
			  • Liquidity
			  • Coverage Contract mix
			  • Reimbursement environment
			• Historical and projected financial performance
			• Physician relationships
			• Quality of management
			• Service area.
			• Minimum hospital size – 75 to 120 beds, average is usually 100
			• Deal size is usually in the $7.0 to $12.0 million range.
				• They like strongest community providers.
				• They believe that healthcare systems are inherently stronger.
				• They don't like academic medical centers.
				• They are looking for the lowest cost providers in a market area.
				• They like incrementally increasing market share.
				• They have not set a minimum for a % of market share.
				• Minimum average daily census of 100 and total revenues of $30.0 million.
				• The minimum bond size is $10.0 million.

RATING AGENCY REVIEWS HEALTH CARE CREDITS

Moody's Investors Service recently published its 1999 health care outlook of the nearly 500 not-for-profit hospitals and systems it rates, aggregating more than $10 billion of debt outstanding. Included in the portfolio are 27 outstanding New Jersey Health Care Facilities Financing Authority ("NJHCFFA") hospital bond issues totaling approximately $1.7 billion. During 1998, the ratings on NJHCFFA bonds for two hospitals were upgraded and five were downgraded compared with 36 upgraded and 49 downgraded hospital bond ratings for the rest of the country.

In analyzing all of the U.S. hospital ratings that were upgraded, Moody's indicated that a large portion of the credits were smaller, community hospitals that have managed to "offset risks associated with their size and financial positions by focusing on core operations and reducing costs." Those hospitals whose bond ratings were downgraded, however, experienced credit deterioration generally resulting from "revenue constraints associated with the federal Balanced Budget Act of 1997 and managed care growth as well as other internal integration difficulties," all of which negatively affected operating profits and balance sheet indicators.

Surprising in the review was the fact that a number of highly rated bonds were downgraded while a significant number of lower rated hospital bonds actually experienced rating upgrades. During the last decade, this was not the case. In fact, it was just the opposite with the higher rated issues being upgraded and the lower rated credits being downgraded.

The report concludes with Moody's' foresight into the future of the health care industry – a future of significant change "with credit risk increasing for the industry overall". There will be those hospitals that strategically merge to improve their market position, reduce costs, and improve profitability. Others, however, will merge "for the sake of merging" without addressing the many obstacles facing the health care industry in the future; such as, the financial demands attributed to "increased managed care and capitation; continued subsidization

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RATING AGENCY REVIEWS

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of money-losing physician integration initiatives, over-reliance on investment returns for profitability; and the potential for additional cuts in government health care outlays." While the hospitals in the former group "will likely see their credit ratings remain stable or possibly improve", those in the latter category "will likely see their risk profiles rise and their ratings fall."

PROJECT NOTES

The following project updates are furnished as a means to provide information on the status of projects financed by the Authority.

An opening gala was recently held at the **Monmouth Medical Center's** new Cranmer Ambulatory Surgery Center located in Long Branch. This one-story, 19,000 square foot facility, which is attached to the main hospital building, contains four operating room suites, three procedure rooms, support services, and a full array of amenities specifically designed for children. Monmouth Medical Center is an affiliate of the Saint Barnabas Health Care System.

Kimball Medical Center, located in Lakewood, is putting the finishing touches on its new assisted living facility. Located near the hospital, Saint Barnabas Assisted Living at Lakewood will provide living accommodations for 45 residents in 39 units. Both the Medical Center and the new facility are affiliates of the Saint Barnabas Health Care System.

JFK Medical Center in Iselin is continuing with its facility upgrades and enhancements to better serve its patients. Recently completed projects include relocation of the endoscopic suite, and final programming and opening of a new state of art linear accelerator suite.

Work is continuing on Monmouth Crossing, an assisted living facility in Freehold and a subsidiary of the **CentraState Healthcare System.** The three-story residence will accommodate 82 residents of which 16 residents will be located in an attached one-story dementia wing. Completion of the facility is anticipated by the end of the year.

Patients are lining up to utilize the new mobile MRI unit located at **Wayne General Hospital** in Wayne. In an effort to accommodate both inpatients and outpatients, an access link was added to the hospital building. Wayne General Hospital is an affiliate of the Saint Barnabas Health Care System.

FINANCING NOTES

The Authority completed a $28,630,000 financing on behalf of Palisades Medical Center of New York Presbyterian Healthcare System ("Palisades Medical Center") in May. Proceeds were used to advance refund a portion of the Authority's Revenue Bonds, Palisades Medical Center Obligated Group Issue, Series 1992; refinance a capital lease; and finance capital budget items totaling approximately $5.5 million. Although the bonds received underlying ratings of "BBB-", "BBB-", and "Baa3" from Standard & Poor's Ratings Services, Fitch IBCA, Inc. and Duff & Phelps Credit Rating Co., respectively, the bond issue was rated single-A by all three rating agencies based on an insurance policy provided by American Capital Access ("ACA") Financial Guaranty Corporation. Palisades Medical Center is the first hospital in the state insured by ACA Financial Guaranty Corporation. The all-in true interest cost for the issue is 5.66% with present value savings of $1,259,066 or 5.51% of the bonds refunded.

REMINDER

The Securities and Exchange Commission requires borrowers whose publicly issued bonds were issued after July 3, 1995 to provide continuing disclosure information on an annual basis to each nationally recognized municipal security information repository ("NRMSIR"). There are four NRMSIRs: Kenny Information Systems Inc., Thomson NRMSIR, Bloomberg Municipal Repositories, and DPC Data Inc. For more information on the NRMSIRs, call your account administrator (Wanda Lewis, Robert Day or Ronald Marmelstein) at the Authority's office (609-292-8585).

FIRST FOR-PROFIT FINANCING

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units available to residents whose income is 50% or less of area median gross income. The true interest cost, which reflects all of the financing costs, was 7.41%. Completion of the project is anticipated in July 2000.

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

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