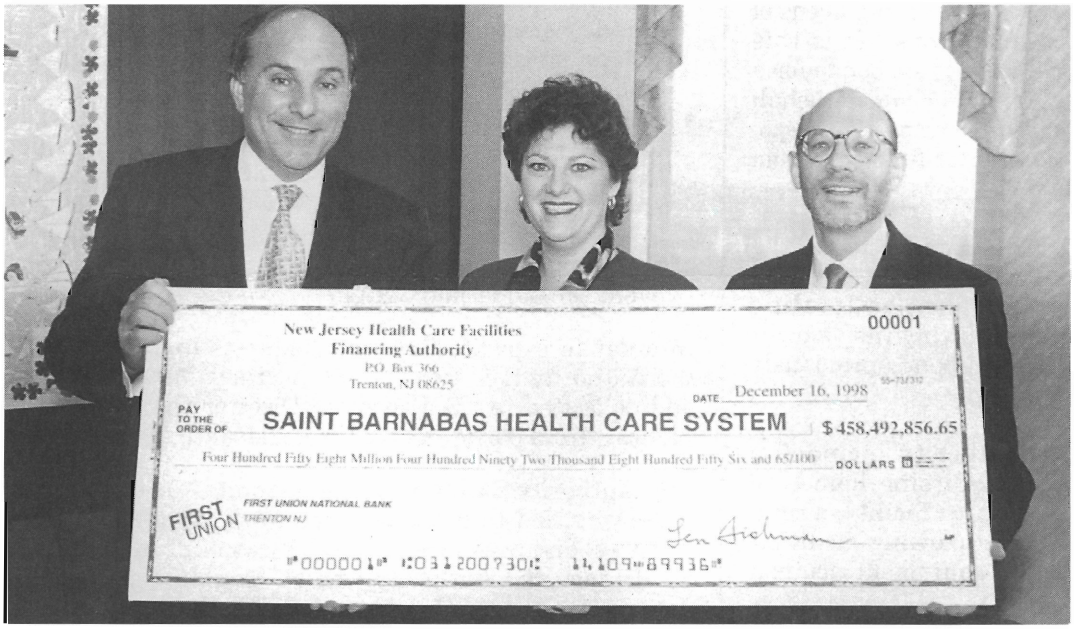
AUTHORITY NOTE$

New Jersey Health Care Facilities Financing Authority February 1999

1998 – AN EXTRAORDINARY YEAR



(Right to left) Chairman Len Fishman and Executive Director Edie Behr present a check in the amount of $458,492,856.65 to Ron Del Mauro, President and Chief Executive Officer of Saint Barnabas Corporation. The check represents a portion of the proceeds of the Saint Barnabas Health Care System Bond Issue, the largest financing ever completed by the Authority.

AUTHORITY SAVES BORROWERS $57 MILLION

An extremely attractive interest rate environment, coupled with the continuing consolidation, restructuring, and formation of new corporate structures by the state's health care organizations, contributed to a record-setting year for the Authority. In fact, the largest Authority financing issued to date, for Saint Barnabas Health Care System, consisted primarily of debt consolidation (see article in next column). Twenty-one financings totaling more than $1.4 billion were completed by year-end, surpassing by 58% the previous record of $900 million set in 1994. Borrowers took advantage of low interest rates to refund bonds previously issued by the Authority, resulting in net present value savings of more than $57 million. While more than $1 billion in bonds were refunded, approximately $400,000 was used for construction/renovation and equipment acquisition projects.

VISIT OUR NEW WEB SITE
For information on the Authority's services and qualifications, financing vehicles, fee schedule, Board and Staff members, visit us on our new web page at www.njhcffa.com. Then contact us. We'd love to hear from you.

AUTHORITY COMPLETES RECORD-SETTING FINANCING

On December 16, 1998, the Authority completed a $458,492,856.65 financing on behalf of Saint Barnabas Health Care System (the "Saint Barnabas System"). Proceeds of the 30-year Series 1998B Bonds will be used to refund five series of Authority revenue bonds, including those issued on behalf of Irvington General Hospital; Monmouth Medical Center; Newark Beth Israel Medical Center; Wayne General Hospital Corp.; a portion of the Authority's Revenue Bonds issued on behalf of Union Hospital/MegaCare, Inc.; and the New Jersey Economic Development Authority's Revenue Bonds, Saint Barnabas Realty Development Corporation Project, Series 1993. In addition, a HUD nursing home loan, an equipment loan, a GNMA mortgage, a Capital Asset Program loan, a bank loan, and a note were refinanced. The Series 1998B Bonds will also finance or refinance the costs of construction, renovations, and capital budget items for various system affiliates.

An additional $12,075,000 Series (the "Series 1998C Bonds") was sold in December and is scheduled for delivery in July 2000. These 18-year forward delivery bonds will be used to refund, on a current basis, the Authority's revenue bonds issued on behalf of Kensington Manor Care Center, Inc.

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1998 IN REVIEW

At the December Board meeting, Executive Director Edie Behr recapped the year's accomplishments referencing 1998 as a "year of new beginnings." With the signing of legislation by Governor Whitman in January, Ms. Behr noted that "the Authority is now in a position to address the diverse and evolving financing needs of all of the state's health care organizations. It is this statutory expansion which allowed us to issue bonds for a senior housing complex; to complete financings on behalf of two health care systems through their respective corporate parents; and to consider a request for financing from a for-profit assisted living facility.

"Record new issue volume in 1998 is a reflection of the continued consolidation of health care providers and extremely low interest rates. Financings totaling $1,422,267,856 have been completed during the year for 21 borrowers. More than $1 billion in bonds previously issued by the Authority were refunded.

"New projects financed by the Authority included a senior housing complex, a 120-bed nursing home, an 82-bed assisted living facility, a research facility, a community center for health fitness, and parking facilities, as well as various renovations and equipment acquisitions.

"The Authority completed several financings that included a number of unique and substantial cost-saving features. For example, the Authority utilized:

- sealed bids from the management team to obtain the lowest yields for two early maturities;
- two different pricing options (discounts and premiums) for serial bonds and Capital Appreciation Bonds (also known as zero coupon bonds) maximizing demand from both retail and institutional investors;
- forward delivery bonds to lock in low rates for a refunding to be closed in 2000; and,
- commercial insurance to wrap an FHA-insured issue resulting in triple-A ratings."

The COMP Program was also introduced in 1998. It is "a new financing program to complement the Authority's other financing vehicles. The first COMP Program issue, totaling $29,300,000, was completed on behalf of six borrowers and sold on a variable rate basis at an initial weekly rate of 2.90%. The proceeds of the issue were used to fund various projects, including construction of an ambulatory care facility and an oncology pavilion, and to refinance outstanding taxable debt. One of the many added benefits to borrowers of this Program is the shared issuance costs of the Program."

The Authority entered into Guaranteed Investment Contracts for four new bond issues that were completed with yields that exceeded those on other allowable investments and which provide more flexibility for the withdrawal of funds from construction accounts. For the first time, the Authority also rebid a defeasance escrow account prior to the closing of an issue, which resulted in savings of more than $115,000.

"In furtherance of its promise to increase flexibility and reduce costs, the Authority modified its financial feasibility study policy. The Authority clarified that it will accept financial projections in lieu of a feasibility study for:

- non-investment grade transactions for which the proposed projects are not expected to have a material (5% or more) impact on revenues and/or expenses; and,
- privately placed non-rated or non-investment grade bonds that are anticipated to significantly affect the revenues and/or expenses of the borrower if a potential investor provides a written commitment to purchase the bonds without a financial feasibility study and a pledge to sign an investor letter in the event the bid is successful."

In order to expedite financing requests from borrowers, the Authority held two special meetings during the year and delegated to the Executive Director the approval of requests from borrowers for the defeasance of bonds.

The Authority found every opportunity to reach out to borrowers and to potential borrowers at meetings, conferences, and conventions and by way of printed material. In fact, the Authority was an exhibitor at the New Jersey Healthcare Congress and, for the first time, at the New Jersey Association of Non-Profit Homes for the Aging and at the New Jersey Association of Health Care Facilities conventions.

The Authority unanimously passed a resolution supporting judicial review of adverse IRS determinations of bond taxability and, in so doing, was the only health care authority in the country to take this formal action.

The Authority appointed 51 firms to its list of qualified bankers following a formal Request for Qualifications process and reiterated its policy to review, on a continuous basis, requests from banking firms to be added to the qualified list. In another action, the Authority adopted a policy implementing several safeguards related to minimum denominations for non-investment grade and non-rated bonds.

Ms. Behr noted that "1999 will bring a host of new opportunities and challenges that we will continue to meet with enthusiasm. We will complete the large number of financing requests with the utmost efficiency and diligence. We will roll out and continue to improve upon the Authority's new WEB site. We will continue to monitor borrower construction projects, investments and borrowers' financial conditions. While we are confident in our readiness for the transition to the new millennium, we will be designing alternative practices and contingency plans throughout the coming year." She closed by stating that "the Authority will continue its practice of responding to the needs of all health care organizations in New Jersey and providing access to low-cost financing."

Y2K COMPLIANCE – READY OR NOT

Most people are sick of hearing about the "Y2K Problem." However, a recent report prepared by a Senate panel warns that the health care industry appears to be at risk for technological failures and business disruptions. Moreover, a September 28, 1998 report to Congress from the General Accounting Office (GAO) entitled, *Medicare Computer Systems – Year 2000 Challenges Put Benefits and Services in Jeopardy,* states that "it is highly unlikely that all of the Medicare systems will be compliant in time to ensure the delivery of uninterrupted benefits and services into the year 2000." In recognition of this situation, the Municipal Securities Rulemaking Board (MSRB) now mandates that any borrower which issues debt through the capital markets must explicitly report on the status of its Y2K readiness.

Undoubtedly, you've read about potential troubles with patient monitoring systems, CT scans, MRIs, pacemakers, and defibrillators, and computers for patient treatment, insurance claims and pharmaceutical manufacturing and distribution. There are also concerns about invoicing, receivables, payables, inventory control, and payroll. Cautionary notes abound for more mundane issues like elevators and security systems.

We thought we'd pass along a couple of resources we've heard about for your perusal. The Rx2000 Institute website (http://www.rx2000.org.2) offers information on the internet about current Y2K-related activities concerning medicine and healthcare. Apparently there is also an e-mail exchange between members of a Y2K healthcare "user group."

The best you can do is read, talk to others and plan for contingencies. And, if you want to plan to make your January 1, 2000 loan and annual fee payments early, the trustees and Authority would surely welcome them.

PROJECT NOTES

A groundbreaking ceremony was held at **Hackensack University Medical Center** for construction of a new five-story research facility on the main campus. The freestanding research center will be used for expanded clinical and basic research activities currently being conducted at the Medical Center. Construction is scheduled for completion in the Fall.

Renovations to a psychiatric unit at **St. James Hospital** in Newark, a division of Cathedral Health Services, Inc., were completed in December. The unit consists of fourteen open and six closed beds for adult patients and was the first phase of a renovation/modernization project to enhance the Hospital's existing services.

Work is in progress on **Atlantic City Medical Center's** outpatient primary care center located in Atlantic City to be known as AtlantiCare HealthPlex. The exterior façade is currently being installed on the two-story structure. Once completed, it will contain clinical space, physicians' practice offices and a day care center.

SECOND COMP PROGRAM TO BE DEVELOPED

Because of the success of the Authority's "COMP Program", the Authority recently authorized the development of a second issue of bonds. The first COMP Program financing, totaling $29.3 million was completed on behalf of six borrowers with an initial weekly rate on the bonds of 2.90%. The weekly rate on the bonds for February 3 was 2.05%. If you are interested in participating in the second issue, contact Dennis Hancock, Deputy Executive Director and Director of Project Management, at 609 292-8585.

FINANCING NOTES

In November, the Authority completed a financing on behalf of **CentraState Medical Center.** The proceeds of the $61,290,000 bond issue will be used to advance refund the $54,235,000 outstanding principal amount of Authority Revenue Bonds, Series A; to acquire certain fixed and moveable equipment for the operation of the institution; to refinance certain capital leases; and, to refinance the Authority's Equipment Revenue Note. The bonds earned triple-A ratings from both Standard & Poor's Ratings Services and Fitch IBCA Inc. based on an insurance policy provided by Ambac. The true interest cost for the entire issue was 4.99% and the net present value savings on the refunded portion amounted to $2,234,879.

A $38,185,000 financing was completed by the Authority in November on behalf of **Pascack Valley Hospital Association.** The proceeds of the issue will be used to advance refund the $26,060,000 outstanding principal amount of the Authority's Revenue Bonds; to refinance a 1996 Authority Capital Asset Program loan; and, to provide approximately $5,500,000 for renovations to certain areas of the Hospital, and the acquisition of major-moveable equipment. The bonds earned triple-B ratings from both Standard & Poor's Ratings Services and Fitch IBCA, Inc. The issue was structured on a level debt service basis at fixed interest rates providing cash flow savings of over $600,000 per year through 2014 and total net present value savings of approximately $100,000, thus meeting the stated goals of the Hospital. The true interest cost was 5.40%.

A $158,670,000 financing on behalf of **Virtua Health, Inc.** ("Virtua") was completed in December by the Authority. Virtua was established to operate a regional health network, initially consisting of the West Jersey Health System ("West Jersey") and Memorial Health Alliance ("Memorial"). West Jersey owns and operates four acute care hospitals located in Berlin, Camden, Marlton, and Voorhees. Memorial owns and operates an acute care hospital in Mount Holly. The proceeds will be used to: (1) acquire the membership interest of the parent of West Jersey and refinance the Authority's outstanding Series 1992 bonds; (2) acquire the membership interest of the parent of Memorial and refinance the

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FINANCING NOTES *(cont'd from page 3)*

Authority's Series A bonds and an outstanding loan. In addition, funding will be provided for the construction of a Center for Health Fitness and other offices in Voorhees; construction of a 120-bed nursing home in Berlin; and, for construction, renovations, and related equipping at the Burlington location. The bonds were insured by Financial Security Assurance, Inc., which resulted in triple-A ratings from Moody's Investors Service, Inc., and Standard & Poor's Ratings Services. The all-in true interest cost was 4.97%, and the refunding resulted in net present value savings of $4 million.

In December, the Authority completed an $8,000,000 financing on behalf of **CentraState Assisted Living, Inc.** ("CSAL"), located in Freehold. CSAL is an affiliate of CentraState HealthCare System, Inc., which includes an acute care facility, a skilled nursing facility, and a continuing care retirement community. Proceeds of the bond issue will be used to finance the construction and equipping of a new, 82-bed assisted living facility which will be located across the street from the medical center and the nursing home. The unrated bonds were privately placed with Summit Bank for a 20-year term at an interest rate of 4.57%, which was based on the 10-year Treasury rate and set three days prior to closing. The interest rate will be reset on the tenth anniversary of the issuance of the bonds.

The Authority completed a $67,135,000 financing in January on behalf of **Catholic Health East** ("CHE"). CHE controls or manages various nonprofit and business corporations and other organizations that own, operate or manage health care facilities and provide health care and related services in nine states. The proceeds of the issue were used to refinance the acquisition of Rancocas Hospital ("Rancocas") in Willingboro and to finance and reimburse CHE and its New Jersey affiliate, Our Lady of Lourdes Health Care Services, Inc., for the costs of renovations, equipment acquisitions and installations and working capital at Rancocas. The bonds are insured by Ambac and are rated triple-A by Fitch IBCA Inc., Moody's Investors Service, Inc., and Standard & Poor's Ratings Services. The all-in true interest cost for the Series 1998E issue was 5.11%.

The Authority also completed a $33,265,000 financing in January on behalf of **Barnert Hospital** in Paterson. Proceeds will be used to advance refund the Authority's Series B Bonds issued in 1991. The bond issue was enhanced by an FHA-insured mortgage and a wrap from MBIA Insurance Corporation, which resulted in triple-A ratings from both Standard & Poor's Ratings Services and Moody's Investors Service, Inc. The primary objective of this financing, to provide cash flow relief, was attained by extending the mortgage maturity by ten years, thereby reducing the monthly mortgage payment by $111,000. In addition, the Hospital realized an immediate cash infusion of $5,805,530, consisting of the release from the depreciation reserve fund and the debt service reserve fund, monies which will be used for capital purposes. In addition, the mortgage rate was reduced from 8.75% to 3.78%, one of the lowest mortgage rates in the FHA-insured mortgage program. The all-in true interest cost was 5.34%.

HEALTH CARE SYSTEM *(cont'd from page 1)*

The Saint Barnabas System bond issue, a record-setting financing, is the largest single bond issue completed by the Authority. Because of its size and in an effort to attract as many buyers as possible, the Authority utilized three different pricing techniques when marketing the bonds, including Capital Appreciation Bonds (also known as zero coupon bonds), serial bonds structured with premiums and original issue discounts, and forward delivery bonds. During the initial and final order period, the Saint Barnabas name was well received by the market, resulting in a significant number of orders being placed by both retail and institutional investors. While net present value savings exceeded $3 million, the System will also realize significant cash flow advantages as a result of the financing structure.

Although the bonds received underlying ratings of A- and Baa2 from Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively, the bonds were insured by MBIA Insurance Corporation, which resulted in triple-A ratings from Moody's Investors Service, Inc., Fitch IBCA, Inc., and Standard & Poor's Ratings Services. The all-in true interest cost for the Series 1998B and Series 1998C Bonds was 5.13%.

Congratulations to the following health care organizations on the successful completion of their projects through the Authority:

Shore Memorial Hospital, Somers Point
New Intensive Care/Coronary Care Unit
The Medical Center at Princeton
Renovations to Lambert House
JFK Medical Center, Iselin
Renovations to the Intensive Care Unit
Holy Name Hospital, Teaneck
A new Oncology Pavilion
Newton Memorial Hospital, Newton
Renovations to the Cardiac Rehabilitation Unit

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