

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on July 23, 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 as Vice Chair); Ulysses Lee, Public Member (via telephone); Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Eileen Stokley, Designee of the Commissioner of Human Services; and, William Conroy (via telephone), Designee of the Commissioner of Health and Senior Services.

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

Mark Hopkins, Steve Fillebrown, Jim Van Wart, Lou George, Suzanne Walton, Bill McLaughlin, Edwin Fuentes, Carole Conover, Michael Ittleston, Arvella King, Marji McAvoy, Alison Tallone, and Stephanie Bilovsky.

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

Jim Foley, Robert Wood, Shore Memorial Hospital; Brian Klocke, Richard Koss, Kennedy Health Facilities; Joseph Lario, Richard Krangel, Kennedy Health System; Jan Blazewski, Stuart Carr, Cain Brothers; Brian Francz, Lynn Armano, NJ Treasury – OMB; Scott Kobler, McCarter & English; Jim Fearon, Gluck Walrath; and, Cliff Rones, Deputy 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 28, 2009 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

June 25, 2009 Authority Meeting

Minutes from the Authority's June 25, 2009 meeting were presented for approval. Ms. Stokley offered a motion to approve the minutes; Ms. Kralik seconded. Mr. Escher voted yes, Mr. Lee voted yes, Ms. Kralik voted yes, Mr. Conway abstained, and Ms. Stokley voted yes. The minutes were approved.

INFORMATIONAL PRESENTATION/PROJECTIONS

Shore Memorial Hospital

Suzanne Walton began by introducing Jim Foley, Vice President of Finance and Chief Financial Officer and Robert Wood, Director of Finance. She then reminded the Members that

at last month's meeting, Shore Memorial Hospital received approval to move forward with a negotiated private placement.

She described Shore Memorial Hospital as a 296-bed acute care hospital, located in Somers Point, providing health care services to the year-round and summer residents of Atlantic and Cape May counties. The hospital is part of a larger continuum of care that includes its parent, Shore Memorial Health Care System, Shore Memorial Health Foundation, Inc., Shore Health Services Corporation (a nursing home), Shore Health Enterprises and Shore Memorial Properties.

Authority staff has been working with the hospital to structure a financing that will provide funds to: (1) finance the construction of a 139,000 square foot surgical pavilion, including new operating rooms, endoscopy suites, interventional suites, and sterile processing and surgical recovery processing, (2) fund routine capital expenditures, (3) fund a debt service reserve, if required, and (4) pay the related costs of issuance. The anticipated cost of the surgical pavilion is approximately \$50 million.

Ms. Walton reported that Shore Memorial has expressed in interest in issuing Bank Qualified Bonds. A Bank Qualified Bond is a tax-exempt bond for which a financial institution can deduct the associated purchasing or carrying interest costs. Previously, Bank Qualification could only be met by issuers that did not anticipate issuing more than \$10 million in bonds per calendar year. In the past, the term "issuers" was interpreted to include conduit financing authorities. As such, this Authority could not issue Bank Qualified Bonds due to its annual volume of issuance.

Under the new federal Stimulus package, "Issuers" is defined as the entity actually using the proceeds of the bonds, in this case, Shore Memorial. Further the annual limit has been raised from \$10 million to \$30 million. Allowing financial institutions these additional deductions reduces their cost to invest in bonds while broadening the pool of banks willing to purchase tax-exempt debt, which, in turn, should save the borrowers some interest expense.

Shore Memorial would like to take advantage of the recently expanded Bank Qualified provisions by financing \$30 million of tax-exempt bonds in 2009 and financing the balance, approximating \$15 million, in 2010. The hospital received a commitment from TD Bank to purchase the bonds and the working group is in the process of incorporating provisions from the term sheet into the documents.

Ms. Walton reported that, in 2008, Shore Memorial reported an operating gain of approximately \$2.8 million dollars; however, the bottom line was negatively impacted by an almost \$10.8 million loss on investments. The hospital also used some of its cash to fund capital expenditures, a portion of which will be reimbursed with bond proceeds. Budgeted numbers for 2009 anticipate an operating gain of \$2 million and excess revenues over expenses of \$3.8 million.

Inpatient admissions declined over the past three years, which is consistent with industry trends; however, more recently, the hospital has lost some volume in maternity cases. Average length of stay dropped from 4.8 in 2006 to 4.5 in 2008 and 4.46 year to date and payor mix has remained constant.

Financial ratios designed to measure Shore Memorial's liquidity, operating performance and capital structure have consistently outperformed statewide medians.

Mr. Escher asked if there had been a stated estimated savings amount in using the Bank Qualified Bonds. Staff replied that, because this is the Authority's first Bank Qualified Bond transaction, the savings is unknown; however, the proposed variable rate transaction is expected

to yield an interest rate of approximately 2.7% versus a comparable fixed interest rate of 7 or 7-1/8%.

At this point, Ms. Walton introduced Steve Fillebrown to provide a summary of the Management Projections submitted by Shore Memorial. The forecast period for the projections is 2009 to 2012. Mr. Fillebrown noted that a revised set of projections had been provided with one major change between the forecast that was sent to the Members in the mailing and the revised one: the line item "Other Changes in Net Assets" is higher in 2009 but lower in 2010 through 2012. The net result is that the ending cash totals about \$4 million less in the revised projections.

The results of the projections are as follows:

- Operating margins are expected to rise steadily from 2.0% in 2009 to 4.6% in 2012.
- Profit margins, reflecting donations and interest earnings, are projected to rise from 2.8% to 5.7%.
- The debt service coverage ratio remains around 3.0 times through the forecast period.
- Days cash on hand starts at 157 days in 2009 and rises to 183 days in 2012 based on positive operating and profit margins.
- Accounts receivable are stable in the low 40's throughout the forecast period.
- Accounts payable fluctuate from the low 70's to the low 80's.
- All in all, the projections show good profitability and a strong cash position, with accounts payable slightly above the statewide median.

The key assumptions of the projections are as follows:

- In terms of volume –
 1. There will be minimal increases in admissions (.4% to 1.6%) based on recruitment of new physicians.
 2. An increase of 2.7% to 2.9% is expected in same day surgery based on recredentialing of a physician and shifting of cases from the surgicenter.
 3. ER visits are projected to increase by 1.6% to 2.2%.
 4. Length of stay modestly declines from 4.3 days to 4.0 days over the forecast period.
- In terms of revenue -
 1. Revenues are assumed to increase by 9.7% in 2009 reflecting expected frontloaded increases in managed care contracts, by just 2.0% in 2010 based on expected increases in charity care, and then by 6.3% in 2011 and 2012 reflecting expected inflation levels and minimal volume growth.
 2. Little change in payer mix is expected throughout the forecast period.
- In terms of expenses -
 1. Salaries are assumed to increase by a base inflation rate of 3.5%.
 2. Fringe benefits rise to 40% of salaries in 2009 reflecting increased pension liabilities but fall back to 34% for the rest of the projection period based on a freeze on the defined benefit plan.
 3. Full-time employees per adjusted occupied bed rises slightly over the course of the forecast.
 4. Supplies and other expenses increase by 6.7% in 2009 due to increases in same day surgery and startup costs associated with the project; from 2010 to 2012 the increase is 3.5% to 3.6% reflecting general inflation.

- Interest rate on the bonds is assumed to be 6.0%

Mr. Fillebrown stated that the key factors of the projections are:

- Even though projected volume increases are small, the recent trend for the hospital has been slight declines in admissions.
- There are large increases in Shore Memorial's 2009 managed care rates. The negotiations are ongoing.

Mr. Hopkins asked about the population growth in Shore Memorial's market area. Jim Foley replied that the overall area had been growing at a rate of approximately 2.5%. He added that, because of the protected land in the area (the region backs up to the Pinelands), the hospital's primary service area, Egg Harbor Township, is one of three designated growth areas and had been growing at the rate of high 3 to low 4%, which is a high rate of growth.

Ms. Stokley asked how much Charity Care Shore Memorial receives from the State, to which Mr. Foley replied that Shore Memorial is in the "Five Percenters," the lowest tier of Charity Care reimbursement, and, as such, it receives only about \$400,000 from the State for those services. He stated that, as a result, the hospital does not rely on those types of funds and, further, no increase in such monies are assumed in their projections. Shore Memorial is also not a Disproportionate Share Hospital.

Mr. Hopkins noted that the proposed financing includes a 10-year put, which is relatively new to the Authority and would be discussed further in Executive Session.

This report was for informational purposes only; no action was required.

NEGOTIATED PRIVATE PLACEMENT REQUEST / INFORMATIONAL PRESENTATION / PROJECTIONS

Kennedy Health Facilities

Bill McLaughlin presented a request for an amendment to an approved Negotiated Sale concerning the proposed bond transaction for Kennedy Health Facilities, Inc. He reminded the Members that during the Authority's May 2009 Meeting, Members approved the use of a Negotiated Sale for a public issuance of bonds on behalf of Kennedy Health Facilities, Inc. Kennedy Health Facilities has since submitted a letter requesting the format be changed to a private placement, citing market complexities associated with financings for long-term care facilities and a proposed interest cost that is significantly lower than indications of long-term fixed rates for unrated transactions. Additionally, Kennedy Health Facilities, Inc. requested that the Attorney General's Office appoint Cozen O'Connor to serve as bond counsel for this transaction. At the time, Cozen O'Connor was unable to serve in this capacity due to a conflict of interest; subsequently, Wilentz, Goldman & Spitzer was selected to serve as bond counsel.

Mr. Escher moved to adopt the resolution approving the pursuit of a negotiated private placement on behalf of Kennedy Health Facilities and the forwarding of a copy of the justification in support of said resolution to the State Treasurer. Mr. Lee seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. JJ-14

(attached)

Having approved the pursuit of a negotiated private placement, Bill McLaughlin then gave an informational presentation on the proposed transaction. He introduced Brian Klocke, (Executive Director) and Richard Koss (Vice President Ambulatory Services) from Kennedy

Health Facilities as well as Joseph Lario (Chief Financial Officer) and Richard Krangel (Vice President of Finance) from Kennedy Health System.

He described Kennedy Health Facilities as a not-for-profit corporation that operates a 130-bed skilled nursing facility located in Sewell, New Jersey. It is a subsidiary of Kennedy Health System, Inc., which is a not-for-profit 607-bed multi-campus hospital system with facilities in Stratford, Cherry Hill and Turnersville (Washington Township), New Jersey. Kennedy Memorial Hospital – University Medical Center, the System’s primary component, is the major teaching affiliate of the University of Medicine and Dentistry of New Jersey – New Jersey School of Osteopathic medicine.

The proposed transaction will be comprised of \$15,500,000 tax-exempt private placement debt, which is expected to finance the construction and equipping of a 60 bed sub-acute nursing unit at its skilled nursing facility in Sewell; to refinance the acquisition costs of licensing rights for 50 sub-acute beds to be placed at this nursing unit; to fund the Debt Service Reserve; to fund Capitalized Interest; to pay related costs of issuance; and subject to consent of bond counsel, to pay costs associated with an interest rate cap. This transaction is expected to be structured as a 30-year loan that has a 24-month interest only period with principal being amortized over the next 28 years. The financing is expected to be initially priced at 69% of the sum of Thirty-Day LIBOR plus 350 basis points for the initial period with an option for the bank to reset the interest rate and call the bonds at the 7th, 14th, 21st and 28th anniversaries of the issuance date. The transaction is expected to be secured by first mortgage lien on the Kennedy Health Care Center located in Washington Township, and by a first priority security interest on all business assets of Kennedy Health Facilities, Inc.

Mr. McLaughlin reported that an overview of the financial performance of Kennedy Health Facilities indicates that days cash on hand decreased from 79.29 days to 64.42 days from 2007 to 2008, but remains slightly stronger than the statewide median of 59.18 days. The decrease is due to cash outlays for its refurbishment program. Debt service coverage is solid at 4.61 times as was the cushion ratio at 7.64 times. Days in accounts receivable remain strong at approximately 23 days. The operating margin is strong at 4.91% versus a statewide median of (.84) %.

Mr. McLaughlin then turned the floor over to Steven Fillebrown to summarize management’s financial projections. Mr. Fillebrown reported that Kennedy Health Facilities is a 130-bed skilled nursing facility, proposing to add 60 sub-acute beds. It is affiliated with Kennedy Health System, but the System will not be part of the obligated group. Therefore, the projections represent the Health Care Center alone. The forecast period is 2009 to 2013.

The results of the projections are as follows:

- Operating and profit margins are estimated above 6% in all years except 2010, when the facility projects a small loss as it incurs the startup costs for the new sub-acute unit with little new volume.
- The debt service coverage ratio is expected to be about 2.6 times, once the principal payments begin in 2011.
- Days cash on hand starts at 83 days in 2009 and rises steadily throughout the forecast period to 170 days in 2013 based on strong operating and profit margins.
- Accounts receivable remain in the mid 20’s throughout the forecast period.
- Accounts payable start at over 70 days but decline into the 50’s after the project comes on line.
- In short, the projections show good profitability and improving liquidity.

The key assumptions of the projections are as follows:

- The most critical assumption is the expectation that the sub-acute unit will fill up with a high percentage of Medicare patients.
 1. Since Medicare is a more generous payer, the new unit means not only additional volume, but also substantially increased revenue per day.
 2. About 20,500 additional patient days is assumed, about 14,000 of which are Medicare days.
 3. Medicare goes from about 16% of days to 32% of days.
 4. After the startup period, volume is flat in 2012 and 2013.
- As a result of the volume increase and change in payer mix, revenue is assumed to increase by 16% in 2010 and 49% in 2011 before settling back down to more normal increases of 3.5% and 2.9% in 2012 and 2013, and revenue per day is assumed to increase by 10% in 2010 and 7% in 2011 but drops back to 3% in 2012 and 2013.
- Expenses follow a substantially similar pattern except there is some “frontloading” of the expenses before the full impact of the increased volume is realized.
 1. Expenses increase by 17% in 2010 and 34% in 2011 but settle back to 4% in 2012 and 3% in 2013.
 2. Full-time employees per day are forecast to rise slightly from 2.5 to about 2.7.
 3. The average salary will decrease in 2010 because of the changing labor mix required to staff the larger sub-acute unit, then will increase by 6.0% in 2011, 5.0% in 2012 and 3.3% in 2013.
 4. Other expenses, adjusted for volume, are forecast to increase by 3.3% per year.
- Interest rate on the bonds is assumed to be 6.5%.

Mr. Fillebrown ended the projections by stating that, in summary, inflation factors in the 3% to 5% range are consistent with what is seen in most projections, and he reiterated that the key factor of these projections is the fill up of the sub-acute unit with Medicare patients.

Mr. Conroy complimented Kennedy Health System for a very thorough feasibility study and noted that, at the time of the report’s writing, it was unclear whether or not the Provider Tax program would be carried forward. He confirmed that the Provider Tax is, in fact, going forward. Brian Klocke stated that, even with it going forward, the Provider Tax would not have a substantial impact on the facility’s bottom line because the facility will have to increase Medicaid admissions in order to meet the required 45% Medicaid occupancy. As such, there would be greater expense but also greater revenue. Mr. Conroy added that, should the study’s consultants wish to change it, there is a reference on p. 2 of the feasibility study to the Department that should actually reference the Division of Senior Benefits.

In response to Ms. Stokley, Mr. Klocke replied that the sub-acute unit will only include coverage by Medicare and one managed care company. Also, Mr. Klocke further explained the use of the proceeds “to refinance the acquisition costs of licensing rights for 50 sub-acute beds to be placed at this nursing unit” by stating that there is no Certificate of Need process for new beds of this sort; the license must be purchased. Kennedy Health Facilities purchased the license for 50 new beds for \$500,000, plus a \$50,000 brokerage fee for the rights. Kennedy had heard that the going rate ranged from \$8,000 to \$14,000 per bed so \$10,000 per bed sounded like a fair amount.

Jan Blazewski of Cain Brothers stated that the bank is taking the liquidity risk as a private placement. There is also a put option after seven years, and the transaction is proposed in a multi-modal format to allow for a conversion to fixed rate at that time. This is also a Bank Qualified Bond transaction, which is becoming increasingly popular since banks can fully deduct their carrying costs.

This report was for informational purposes only; no action was required.

NEGOTIATED SALE REQUEST

Mr. Escher reminded the Members that the Authority's Equipment Revenue Note Program offers borrowers a quick turnaround for financings no greater than \$15 million, in which the proceeds will only be used to acquire equipment or retrofit a facility for equipment. One of the factors contributing to the quick turnaround is that the Authority annually approves the private placement method of sale for all projects fitting the program's specific criteria.

Staff reminded the Members that the program had been revamped in 2003, and in that revamping, the Authority started to annually ratify this "cookie-cutter" resolution to remove one of the financing steps. The Members still approve each individual transaction on a case by case basis. The annual ratification shortens the overall financing process for Equipment Revenue Note Program transactions by about a month.

Ms. Stokley made a motion to approve the pursuit of a negotiated sale private placement for transactions issued through the Authority's Equipment Revenue Note Program through July 31, 2010; Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. JJ-15

(attached)

FQHC REVOLVING LOAN PROGRAM

Mr. Hopkins reported that, for some time, Authority staff has been considering how to make the best use of its fund balance. As of June 30, 2009, the Authority had a fund balance of approximately \$3.9 million. Back in March, the Authority was approached by a recently approved Federally Qualified Health Center ("FQHC") for a financing. An FQHC is a community-based health center designed to provide out-patient primary care, preventive care and some specialty care to medically underserved and low-income or indigent patients, thus relieving hospitals of the burden of seeing those low-acuity patients in their emergency rooms at commensurately higher costs.

FQHCs must meet strict federal standards and receive some start-up funding from federal grants, charitable contributions and, sometimes, hospitals. Generally, ongoing funding for their services comes from Medicare and Medicaid reimbursement for treating patients.

After discussions with the FQHC, it was clear that the facility did not have the track record established to get a cost effective financing through the Authority's existing programs. The FQHC was forced to seek the bulk of its financing through conventional borrowing at a rate of 10%. Staff wondered if the Authority could lend directly to the FQHC from its fund balance, as it has done in the past with hospitals in bankruptcy. At that time, though, the Authority had a relatively low fund balance and the credit market had been virtually inactive since the fall, making uncertain the Authority's ability to generate additional revenues.

In the recent past, \$2 to \$3 million of the Authority's fund balance was used to: (i) participate in a debtor-in-possession loan to finance PBI Regional Medical Center during its bankruptcy (fully repaid); (ii) provide financing for Bayonne Medical Center during its bankruptcy (assumed by the successor entity running Bayonne Medical Center with payments current); and (iii) fully fund the Authority's post-employment health care benefits (currently in a trust). Staff has discussed such other uses as establishing a loan guaranty program for hospitals and a working capital loan program for hospitals so they could avoid the high cost of lines of credit secured by accounts receivable, however, it was thought that the Authority's fund balance would be too small to have any appreciable effectiveness for these programs.

Now that the Authority has almost \$4 million in its fund balance, has issued approximately \$750 million of bonds in the last quarter as a result of the financial markets opening up, and several other new borrowers have started the financing process, staff proposes the possibility of providing loans from the Authority's fund balance to start-up FQHCs.

Mr. Hopkins stated that the Authority staff believes it is prudent to keep at least six months cash on hand to compensate for fluctuating income and expenses as a result of changing market conditions. This year, the Authority's total operating expenses are budgeted to be \$3,644,537. Therefore it would be prudent to keep at least \$1,825,000 on hand, leaving approximately \$2.1 million of fund balance available for use in a new financing program, if the Authority Members see fit.

Lending to FQHCs would be consistent with the Authority's mission "to ensure that all health care institutions have access to financial resources to improve the health and welfare of the citizens of the State." It would also be consistent with the recommendations of the *Commission on Rationalizing New Jersey's Health Care Resources* (the "Reinhardt Commission"), which indentified FQHCs as a critical cog in preserving and improving New Jersey's health care system.

Lending to start-up FQHCs would also allow the Authority to use its relatively small fund balance for the most benefit. Few FQHCs are started each year and FQHCs need smaller loans because parts of their start-up costs are paid by government grants. A loan to a start-up FQHC would also allow a health care organization, which would not normally have access to the low cost, tax-exempt market due to their non-existent track record, get low cost financing. This will also benefit the Authority's other borrowers and the New Jersey health care system as a whole because FQHCs provide important preventive care, reducing illness in low-income families, and provide primary care, replacing costlier hospital emergency rooms as the primary care providers to low-income families.

The loan program to start-up FQHCs is intended to be a revolving pool, so that as the principal and interest on each loan is repaid those funds will be returned to the loan pool to be lent out again to another start-up FQHC. The Members may also want to consider placing all future interest and principal payments from the Bayonne Medical Center loan into the pool as well. In future years, if the Members so desire, the Authority may add to the loan pool from any increase in its fund balance, provided a reasonable amount of cash on hand is maintained.

Because of the importance of the public benefit provided by FQHCs and their need for low-cost capital, the Authority should use the loan to Bayonne Medical Center as an example for setting the interest rate on loans to start-up FQHCs. In the Bayonne Medical Center loan agreement, the Authority agreed to provide a \$2.5 million loan with a five-year amortization schedule at a variable monthly interest rate of 200 basis points over the previous month's interest rate paid by the New Jersey Cash Management Fund. For the Authority's first loan to a start-up FQHC, no more than \$2 million should be considered, using the same interest rate and having a

term of five to ten years, to be determined by the total amount of the loan and based on the financial information provided by the FQHC.

The application and due diligence process should require the FQHC to provide the Authority with: (i) any historic financial information and audits; (ii) its current year's budget; (iii) projections for its next three years; (iv) current and projected utilization statistics; (v) the requested amount of the loan and an explanation of the expected use of the loan proceeds; (vi) all documentation from existing outstanding loans and grants; (vii) copies of any lease or mortgage for the subject facility; (viii) a copy of the FQHC's Section 330 application and approval (qualifying it as an FQHC); (ix) curriculum vitae for key staff including the Chief Executive Officer, Chief Operating Officer (if any), Chief Medical Officer and Chief Financial Officer; (x) a list of the Board of Directors of the FQHC; and (xi) its letter from the IRS indicating it is a 501(c)(3) organization.

Loans of these types will carry considerable risk for the Authority. Therefore, staff should carefully review the FQHC's projections to assess the FQHC's ability to repay the loan and present the projections along with a recommendation to the Authority Members. The Authority should also seek appropriate security for the loan in the form of a first, parity or second mortgage and/or a first, parity or second lien on the gross revenues or accounts receivable of the FQHC.

This program has been discussed with the Commissioner of Health and Senior Services who has expressed her support of the program as an additional step in advancing the goals of a more rational health care system outlined in the Reinhardt report.

Staff then requested the Members' approval for the creation of a loan program as described above, using the Authority's fund balance in excess of a six month cash-on-hand reserve (currently approximately \$2 million) to provide funding, including capital and working capital, for start-up FQHCs, and that the terms of said loans be from five to ten years and that the rates be set at a monthly variable interest rate of 200 basis points over the previous month's interest rate paid by the New Jersey Cash Management Fund.

The Members all expressed overwhelming support of the idea. Mr. Lee stated that it is a great move, applauding "anything that facilitates the extension of healthcare coverage and takes some of the stress off hospitals." Ms. Stokley sent word that her Commissioner is also excited about the proposal. Mr. Escher asked about the size of the loans expected through the program, to which it was replied that the pilot borrower cobbled together its start-up needs from various lenders, some with rates as high as 10% for a total of about \$5.5 million. He noted that the loans would not likely be for the whole of the startup costs but if they could provide help that could be a great easing of financial burden for these facilities.

Mr. Escher introduced the industry term "but for," which essentially shortens "but for these funds your financing would not be able to be achieved." For example, a facility may need \$4 million to open, but may really need \$150,000 to be able to acquire the \$4 million at a reasonable rate. The "but for" amount would be \$150,000. This is a strategy to perform beneficial financings for more facilities with smaller loans. Mr. Hopkins stated that for this pilot loan, there is expected to be only one candidate, therefore, it is expected that all of the available funds would be loaned to that candidate to provide maximum assistance.

It was discussed whether or not there was a model for starting such a facility, noting that, while there are certain federal requirements for all, the facilities themselves vary greatly depending on the area of need. The Federal Government determines the need. In a densely populated area like New Jersey, the factors would likely be based on areas with high amounts of under-covered populations. In a State like Montana, the focus would be on rural health care and

the factor may be the space between one hospital and the next. The New Jersey Department of Health and Senior Services is involved with these facilities through the handling of grants, licensing and inspection.

The facilities are well-reimbursed federally for their services, and Members and staff knew of no FQHC that had gone out of business or bankrupt. The biggest struggle for these facilities is the initial hump of startup costs, which is why this program could be so helpful. The facilities have been so pivotal in helping ease the distress of area hospitals that a number of the FQHCs are started by hospitals.

For the pilot loan, it is expected that all of the initial balance will be spoken for. As a revolving loan program, when the funds are repaid, they will be made available for another entity of this sort. New Jersey currently has 19 FQHC entities but 99 sites, as FQHCs often have several locations within a community.

Also, the interest rate charged is similar to the rate at which the Authority invests its fund balance, therefore, no financial loss is expected for the Authority,

The plan going forward would be to, once the veto period has passed, announce the availability of the program, send applications to those interested (only one entity is known of at this time), and return to the Authority Members with a proposed loan to approve perhaps as early as next month.

Mr. Conroy offered a motion to approve the creation of a new loan program for start-up Federally Qualified Health Centers, as described by staff; Ms. Stokley seconded. The vote was unanimous and the motion was carried.

AB RESOLUTION NO. JJ-16

NOW, THEREFORE, BE IT RESOLVED, that, the Authority hereby approves the creation of a loan program using the Authority's fund balance in excess of a six month cash-on-hand reserve (currently approximately \$2 million) to provide funding, including capital and working capital, for start-up FQHCs; and,

BE IT FURTHER RESOLVED, that the terms of said loans be from five to ten years and that the rates be set at a monthly variable interest rate of 200 basis points over the previous month's interest rate paid by the New Jersey Cash Management Fund.

APPROVAL TO AUCTION PRIUS

Mr. Hopkins reported that, when the Authority Members last authorized the purchase of cars, the Members indicated that the Authority should implement a plan to reduce the number of cars from six cars to two over time, leaving the Construction Manager's car and one pool car.

As a result, since employees who had been assigned cars considered them as part of their compensation packages, the Authority decided to sell Authority cars as the employees who were assigned them retired. Regardless of when the staff members retired, all but two of the cars would be eliminated no later than December 31, 2010. When Dennis Hancock retired and Lou George was promoted to Director of Project Management on June 30, 2009, Dennis' car became available to sell, and Lou's car was reassigned as a pool car.

The car to be sold is the Blue Toyota Prius with about 54,000 miles on it. The Kelly Blue Book value for a Prius with 54,000 miles in good condition ranges from \$11,675 (trade-in value) to \$13,695 (private party value).

In determining the best way to sell the vehicle, staff contacted the Division of Purchase and Property, in the New Jersey Treasury Department. They could sell the car at a monthly auction for a 10% commission but the car would have to be delivered to them as soon as possible and would not be sold until at least September. Purchase & Property also stated that the Authority could go through them to use GovDeals.com to auction the car sooner. That would cost an additional 6.75% on top of the 10% charged by Purchase & Property.

Staff researched other methods of selling the car, keeping in mind that it must be sold via an auction. An auction sale on eBay would cost approximately \$200, including \$125 for the listing (not charged unless the car sells for at least the reserve price), \$7 to establish a reserve price and another \$60 or so for pictures and other enhancements to generate interest in the sale. As of July 9th, eBay has over 64,000 cars listed. Of those, 174 are Toyota Priuses, 24 of which are the 2005 model year. Seven 2005 Toyota Priuses currently for sale on eBay are located within 50 miles of Trenton.

Staff also investigated other sites that permit the auction of cars besides eBay and GovDeals. eBid.net charges 3% of the final sale value (\$360 assuming a \$12,000 selling price). It currently has only 75 cars up for auction. Municibid charges a minimum of \$200 (based on population of government entity) and only had 10 cars listed for auction on its website. USGovernmentAuctions.net does not charge the seller but does charge a monthly fee of \$39.80 for interested buyers to access the site, which staff believes would greatly reduce the number of potential bidders. Auctions4wheels.com is also a free site but listed only 267 cars available nationwide (0 Toyotas), leading staff to believe that this site does not generate a lot of hits and thus would also not result in an acceptable sale price.

Staff then recommended that the Members approve the auction of the Blue 2005 Toyota Prius on eBay with a reserve price to be discussed during Executive Session at a cost of \$132 to \$200. In addition, to reach the maximum number of likely buyers in the area, staff recommended putting a link to the auction on the Authority's website, at no cost, and placing an advertisement in the auto classifieds of the Trenton Times and/or the Trentonian indicating that the car is available for auction with a link to our website for more information. An ad in the Trenton Times would be \$20.05 for three lines running two weeks and an ad in the Trentonian would cost \$36.43 for three lines for one week. The total cost of the eBay listing and newspaper ads should be no more than \$300.

It was discussed that the buyer would be responsible for the sales tax when he/she registers the car, and in response to a question from Mr. Escher, Mr. Fillebrown stated that he had not heard of other state authorities selling assets on eBay. The Deputy Attorney General confirmed that the Attorney General's Office is comfortable with the Authority's use of eBay in this manner. The proceeds of the sale would return to the Authority's fund balance.

Mr. Lee offered a motion to approve the Authority's use of eBay to auction the Authority-owned 2005 Toyota Prius; Mr. Conroy seconded. The vote was unanimous and the motion was carried.

AB RESOLUTION NO. JJ-17

NOW, THEREFORE, BE IT RESOLVED, that, the Authority hereby approves the use of eBay to auction the Authority-owned 2005 Toyota Prius.

AUTHORITY EXPENSES

Mr. Escher referenced a summary of Authority expenses and invoices and then Mr. Conroy 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. JJ-18

WHEREAS, the Authority has reviewed memoranda dated July 16, 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 \$200,623.71, \$33,239.77 and \$6,325.86 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, Semi-Annual Budget Report, and Legislative Advisory. Mr. Hopkins then presented his Executive Director's Report which stated the following:

1. The Authority's latest edition of Authority Note\$ had been distributed to the meeting attendees.

2. On July 17th, Governor Corzine announced the interim appointment of Neil Jasey to Commissioner of the Department of Banking and Insurance, effective immediately. Mr. Jasey replaces former Commissioner Steve Goldman, who recently stepped down to return to private law practice. Mr. Jasey enjoyed a long and distinguished career in the area of insurance and financial services until he retired in 2004.

3. The Obama Administration has voiced concern over the nationwide use of incompatible medical record-keeping systems and the errors and duplicated services that have resulted from the disjointment. Assemblyman Herb Conaway Jr. introduced a bill that would create a new authority to handle the coordination of health information technology products in response to a large sum of Federal money earmarked through the Stimulus Package signed in February.

Mr. Hopkins has been in contact with a government group devoted to this initiative to see how the Authority can get involved in this mission, especially since the bill proposes that the new authority include the same three State Commissioners that sit on this Authority's board as Ex-Officio Members. It may require

some additional staffing and perhaps the establishment of a sub-unit; however, the Authority already has a fair amount of the needed resources and knowledge to perform the task for which the bill prescribes creating a new authority. Performing the task at this Authority instead of creating a new one could save the State startup costs.

4. In hospital news, William T. Cusick has been named interim CFO at **St. Mary's Hospital**. Mr. Cusick previously worked as a management consultant at several hospitals including guiding some through the bankruptcy process. He also served as chief financial officer at the University of Medicine and Dentistry of New Jersey as well as the North Philadelphia Health System. On June 11th, Anthony "Skip" Cimino became the new CEO of **RWJ at Hamilton**, replacing Ellen Guarnieri, who resigned to return to her consulting practice. Mr. Cimino, who has been on the board of RWJ at Hamilton since 1988, was previously a Mercer County freeholder and state assemblyman and was also president and chief administrative officer of CMX Engineering, of Manalapan.

Hackensack University Medical Center has asked for a six month postponement of the consideration of its application to reopen the former Pascack Valley Hospital. The State Health Planning Board was scheduled to consider the application today. The postponement request could delay consideration of the application until early next year. **Jersey Shore University Medical Center** dedicated its new \$300 million Authority financed addition on July 11th. The expansion includes a new emergency department, a five-story parking garage and a new diagnostic and treatment center. The new patient floors are expected to open on August 2nd.

5. In Authority news, on July 6th, the Authority's new receptionist, Alison Tallone, started. Alison was previously the Senior Administrative Assistant for Central Jersey Courier Company. She has also been an Administrative Assistant at the consulting firm of Seabrook Associates and GVA Williams Buschman, a corporate real estate firm. She holds an Associates degree in Liberal Arts from Mercer County Community College, a Bachelor's degree in Liberal Arts & Psychology from Rider University and a Master's degree in Counseling Psychology from Kean University. She served as an adjunct professor at Mercer County Community College and Burlington Community College. She is a welcome addition to the Authority's staff.

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 discuss contractual matters regarding the sale of the Toyota Prius and the issuance of bonds with put options, and also to discuss bankruptcy litigation and receive advice from the Attorney General's Office regarding St. Mary's Hospital of Passaic. 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. JJ-19

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 matters regarding the sale of the Toyota Prius and the issuance of bonds with put options and to discuss bankruptcy litigation and receive advice from the Attorney General's Office regarding St. Mary's Hospital of Passaic;

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, following a motion by Ms. Stokley and a second by Ms. Kralik, the Members voted unanimously to adjourn the meeting at 12:20 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 JULY 23, 2009.

Carole A. Conover
Assistant Secretary

AB RESOLUTION NO. JJ-14

**RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY
PRIVATE PLACEMENT TRANSACTION PURSUANT TO
EXECUTIVE ORDER NO. 26**

Kennedy Health Facilities

WHEREAS, the New Jersey Health Care Facilities Financing Authority (the “Authority”) was duly created and now exists under the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c. 29, N.J.S.A. 26:2I-1 et seq., as amended (the “Act”), for the purpose of ensuring that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State; and,

WHEREAS, the Authority issues its bonds from time to time for the achievement of its authorized purposes; and

WHEREAS, on October 25, 1994, the Governor issued Executive Order No. 26 which sets forth procedures by which an issuer may determine the method of sale of bonds or notes; and,

WHEREAS, on December 8, 1994, the Authority adopted Section 2 of its policy which was developed to implement Executive Order No. 26, which requires an Authority resolution to pursue a negotiated sale of bonds; and,

WHEREAS, on March 28, 1996, the Authority amended its policy related to Executive Order No. 26; and,

WHEREAS, Kennedy Health Facilities entered into a Memorandum of Understanding with the Authority to pursue a revenue bond financing (the “Financing”); and,

WHEREAS, on May 28, 2009, the Authority approved the use of a negotiated sale on behalf of Kennedy Health Facilities; and,

WHEREAS, Kennedy Health Facilities has requested consideration of a determination that a negotiated private placement sale is the appropriate method of financing; and,

WHEREAS, the Authority's policy states that a private placement would be permitted if, on an analysis by the borrower, a private placement would be more beneficial to the borrower than a public sale, and the borrower provides, in writing, the reasons for the use of a private placement; and,

WHEREAS, Kennedy Health Facilities provided such reasons; and,

WHEREAS, the Authority is desirous of being responsive to Kennedy Health Facilities’ request; and,

WHEREAS, the aforementioned resolution and justification in support of such resolution must be filed, within five days of its adoption, with the State Treasurer;

NOW, THEREFORE, BE IT RESOLVED, that, based upon the above findings, the Authority hereby determines that it would better serve the requirements of this Financing to conduct a negotiated sale; and,

BE IT FURTHER RESOLVED, that the Executive Director is hereby directed and authorized to transmit a copy of this Resolution and justification in support of such resolution to the State Treasurer.

AB RESOLUTION NO. JJ-15

**RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY
NEGOTIATED TRANSACTION PURSUANT TO
EXECUTIVE ORDER NO. 26**

Equipment Revenue Note Program

WHEREAS, the New Jersey Health Care Facilities Financing Authority (the “Authority”) was duly created and now exists under the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c. 29, N.J.S.A. 26:2I-1 et seq., as amended (the “Act”), for the purpose of ensuring that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State; and,

WHEREAS, the Authority issues its bonds from time to time for the achievement of its authorized purposes; and

WHEREAS, on October 25, 1994, the Governor issued Executive Order No. 26 which sets forth procedures by which an issuer may determine the method of sale of bonds or notes; and,

WHEREAS, on December 8, 1994, the Authority adopted Section 2 of its policy which was developed to implement Executive Order No. 26, which requires an Authority resolution to pursue a negotiated sale of bonds; and,

WHEREAS, on March 28, 1996, the Authority amended its policy related to Executive Order No. 26; and,

WHEREAS, the Authority’s policy states that a negotiated sale of bonds will be conducted if it is determined by the Authority that it would better serve the requirements of a particular financing; and,

WHEREAS, a negotiated transaction would be permitted in circumstances including, but not limited to, the sale of bonds for a complex or poor credit; the development of a complex financing structure, including those transactions that involve the simultaneous sale of more than one series with each series structured differently; volatile market conditions; large issue size; programs or financial techniques that are new to investors; or, for variable rate transactions; and,

WHEREAS, the Authority’s policy provides that the Authority may make determinations with respect to the method of sale, which will be utilized for two or more transactions, providing that the transactions are a part of a larger bonding program of similar issues; and,

WHEREAS, the Authority wishes to improve the efficiency of issuing bonds through its Equipment Revenue Note Program; and,

WHEREAS, financings completed through the Equipment Revenue Note Program must meet the following criteria: 1) the proceeds will only be used to acquire equipment or retrofit space to house equipment, 2) the bond-size does not exceed \$15,000,000, and 3) the bonds are not publicly rated or credit-enhanced; and,

WHEREAS, financings meeting these criteria would generally be considered complex credits and would not benefit from a public offering; and,

WHEREAS, on October 23, 2003, the Authority initially approved the use of negotiated private placements for financings done through the Equipment Revenue Note Program by a resolution that must be renewed on a yearly basis; and,

WHEREAS, the Authority hereby reapproves the use of negotiated private placements for financings done through the Equipment Revenue Note Program by a resolution that must be renewed on a yearly basis; and,

WHEREAS, the resolution and justification in support of such resolution must be filed, within five days of its adoption, with the State Treasurer;

NOW, THEREFORE, BE IT RESOLVED, that, based upon the above findings, the Authority hereby determines that it would better serve the requirements of Financings instituted under the Equipment Revenue Note Program, through July 31, 2010, to conduct a negotiated sale on a private placement basis; and,

BE IT FURTHER RESOLVED, that the Executive Director is hereby directed and authorized to transmit a copy of this Resolution and justification in support of such resolution to the State Treasurer.