

974.905
H431



AUTHORITY NOTES

New Jersey Health Care Facilities Financing Authority

December 1997



Commissioner Len Fishman presents a PROCLAMATION issued by Governor Christine Todd Whitman to Edie Behr, Executive Director of the Authority, commemorating the Authority's 25 years of service to the health care industry.

AUTHORITY MARKS ANNIVERSARY

On Tuesday, September 30, 1997, several hundred guests attended a reception held at Drumthwacket, the Governor's official residence, commemorating the Authority's 25th anniversary. The guests included current and former Board members, executive directors and staff members, health care executives, attorneys, financing professionals, and other friends of the Authority. It gave all who attended the opportunity to mingle, to visit with old friends and colleagues, and to discuss the changes that have occurred in the health care industry and the Authority over the past 25 years.

A great deal of reminiscing about the history of the Authority could be heard as guests walked through the crowded rooms. For instance, Joe Sherber (past Executive Director of The Community Hospital Group) and Lila Roomberg (of Counsel to Ballard, Spahr, Andrews & Ingersoll) recalled the Authority's first bond issue - the \$12.9 million financing for The Community Hospital Group. In another room, George Reinhard (Authority Board member from 1982 to 1990), Ted Bessler (Authority Board member from 1982 to 1991), and Bob Lackey (Executive Director from 1972 to 1974 and 1984 to 1986) could be overheard talking about the Authority's nearly \$1.2 billion bonds issued in 1985, when all three were affiliated with the Authority. Of course, many could be heard talking about the current issues of concern - charity care and its fund-

(continued on page 4)

AUTHORITY EXPANDS TYPES OF FINANCING VEHICLES

The Authority recently expanded the types of financing vehicles available to borrowers by using **auction bonds** on behalf of one of its borrowers. Auction bonds offer an alternative to borrowers who are interested in a variable rate financing, but do not want to subject themselves to letter of credit renewal risk. Auction bonds, like variable rate demand notes ("VRDN"), provide the borrower with a variable interest rate which is reset at predetermined intervals (e.g., every 35 days). But, unlike VRDN's, there is no "put" risk, that is, the bondholders do not have the option to "put" or force the issuer to buy bonds back. Because there is no "put" risk, the issuer is not required to purchase a liquidity facility or hire a remarketing agent. On the other hand, an auction agent and a broker/dealer are necessary. Some of the other significant features of auction bonds are as follows:

- municipal bond insurance, providing triple-A ratings is generally required;
- the issue can have a final maturity of from one to thirty years but can be prepaid in any amount, without penalty, on any auction date;
- bonds can be converted to different auction periods or to fixed rates; and,
- because there is no "put" risk, auction bonds are considered long-term debt by the rating agencies.

On each auction date, the following is accomplished:

- a new auction rate is determined;
- bonds can be prepaid without penalty;
- new investors can purchase bonds; and,
- existing bondholders have an opportunity to sell bonds as well as to hold and/or buy new bonds.

Auction bonds represent a complex financing technique which encompasses many more features than those highlighted above.
(continued on page 2)

LEGISLATIVE UPDATE

Senate Bill S-2226, which seeks to broaden the Authority's statutory power, was reported out of the Senate Health Committee by a unanimous vote on December 11, 1997 following a hearing. The bill, sponsored by Senator Peter Inverso and co-sponsored by Senator Henry P. McNamara, is now pending consideration by the Senate.

Assembly Bill A-3149, the companion Assembly bill, was reported out of the Assembly Health Committee by a unanimous vote on November 17, 1997. The bill, sponsored by Assemblywoman Charlotte Vandervalk and Assemblyman Nicholas Felice and co-sponsored by Assemblywomen Joan Quigley and Loretta Weinberg and Assemblymen Alan Augustine and Joseph Doria, is pending a second reading and consideration by the Assembly.

The Proclamation

WHEREAS, on May 25, 1972, through approval of Chapter 29, Laws of New Jersey 1972, the New Jersey Health Care Facilities Financing Authority was created in response to a serious public emergency which affected the health, safety and welfare of the people of the State, resulting from the fact that many hospitals and other health care facilities were becoming obsolete and were no longer adequate to meet the needs of modern medicine; and,

WHEREAS, as a result of rapid technological changes, such facilities required substantial structural or functional changes and became unsuited for continued use by virtue of their location and the physical characteristics of their existing plants which required replacement; and,

WHEREAS, such inadequate and outmoded facilities denied to the people of the State the benefits of health care of the highest quality, efficiently and promptly provided at reasonable cost; and,

WHEREAS, the Authority was mandated to encourage the timely construction and modernization, including the equipment of hospital and other health care facilities which are necessary for the diagnosis or treatment of human disease, pain, injury, disability, deformity or physical condition, including mental illness and retardation, and of facilities incidental or appurtenant thereto; and,

WHEREAS, the Authority since its inception, has, upheld its legislative mandate to provide low-cost financing for the capital needs of the State's health care facilities through the issuance of its tax-exempt and taxable health care revenue bonds and/or notes; and,

WHEREAS, the Authority has moved rapidly to modify its policies and procedures to meet the challenges of today's dynamic health care environment so that the State's entire health care community can continue to access the capital necessary to modernize plants and equipment; and,

WHEREAS, the Authority has taken a proactive stance toward broadening the types of health care facilities it assists to include nursing homes, assisted living facilities, specialty hospitals, home health agencies, mobile intensive care units, outpatient centers, rehabilitation centers, homes for multi-handicapped individuals, health maintenance organizations and community-based health care facilities in addition to acute care hospitals; and,

WHEREAS, as a result of the dedication, commitment and professionalism demonstrated by a host of individuals, the Authority has been successful in its mission and has gained recognition as a national leader in health care finance;

NOW, THEREFORE, I, CHRISTINE TODD WHITMAN, Governor of the State of New Jersey, in commemoration of the Authority's Twenty-Fifth Anniversary, hereby acknowledge and applaud the success of the New Jersey Health Care Facilities Financing Authority, and I congratulate the Authority's members and staff, past and present, who have contributed to the Authority's success. I am confident that the Authority will continue to provide access to the financial resources necessary to provide for the health and well-being of the citizens of New Jersey.

AUTHORITY EXPANDS VEHICLES

(continued from page 1)

This financing vehicle is just one of the many financing vehicles offered to borrowers by the Authority. Other vehicles include publicly offered bond issues and privately placed bonds and notes, equipment revenue notes, the Capital Asset Program, and the Target Cities Program. If you are interested in obtaining more information on auction bonds or any other financing product offered by the Authority, call Dennis Hancock, Deputy Executive Director and Director, Division of Project Management at 609-292-8585.

NOTEWORTHY

Edie Behr was recently elected Vice President of the **National Council of Health Facilities Finance Authorities** for a two-year term beginning September 19, 1997.

William Lohman, R.A., was recently hired as the **Authority's Construction Manager**. As such, he will monitor project costs, schedules and change orders for bond-financed projects, providing the basis on which to review and approve payment requisitions. He previously served as the senior architect for the Newark Board of Education and as a project architect for an architectural firm in Northern New Jersey. Mr. Lohman earned his Bachelor of Architecture degree from New Jersey School of Architecture, New Jersey Institute of Technology and is a registered architect in New Jersey.

Fleet Securities, Inc., which has served as a co-manager on Authority bond issues, has also been added to the **Authority's QUALIFIED LIST** of senior managers and placement agents. In addition, W.R. Lazard has been removed from the list due to their withdrawal from the municipal bond business.

Potential borrowers are reminded and encouraged to have a **Reimbursement Resolution** adopted by its Board of Trustees if any monies will be expended for capital budget items prior to completion of a financing. This action will permit the reimbursement of these project expenses from bond proceeds at closing. For more information and a draft resolution, call Dennis P. Hancock, Deputy Executive Director and Director, Division of Project Management at 609-292-8585.

The statewide medians calculated by the Authority's **Apollo System** for the second quarter of 1997 showed little change from the first quarter and year-end 1996 levels. Median days cash-on-hand dropped slightly from 78 days at year-end to 73 days after the first quarter to 70 days at mid-year. Other liquidity ratios showed similar declines. Median days in accounts receivable went from 66 days to 71 days in the first quarter, but has come back to 70 days through six months. In general though, the medians have been remarkably constant over the two quarters.

PROJECT NOTES

Congratulations to **Care Institute, Inc.'s** "Brighton Gardens" located in Cherry Hill which recently completed construction and dedicated its new facility in December. The resident units in this 112-room, assisted living facility are now available for occupancy.

Construction is underway on a new three-level cancer center and surgical expansion at **Morristown Memorial Hospital** in Morristown. The project (see article on page 3) is ahead of schedule and a March, 1998 completion date is anticipated. The project includes a new parking garage for visitors and staff, and renovation and expansion of the hospital's surgical and recovery suites.

The Renewal 2000 construction project at **Raritan Bay Medical Center's** Perth Amboy Division is continuing and is expected to be completed in February, 1998. The fifth-floor

(continued on page 4)



The Authority recently completed a \$186,570,000 financing for AHS Hospital Corporation. Dennis Hancock, Edie Behr and Commissioner Len Fishman congratulate Chris Fallon, Vice President-Finance and Chief Financial Officer of AHS Hospital Corporation.

FINANCING NOTES

On September 11, 1997, the Authority successfully closed a \$186,570,000 bond issue on behalf of **AHS Hospital Corporation**, a corporation whose nucleus was formed in 1996 as a result of the consolidation of Morristown Memorial Hospital, Overlook Hospital and Mountainside Hospital. The financing consisted of \$121,170,000 Series 1997 A Bonds and \$65,400,000 Series 1997 B Bonds, Periodic Auction Reset Securities (PARSSM) (service mark of Goldman, Sachs & Co.). The bonds were insured by AMBAC Indemnity Corporation which resulted in triple-A ratings from both Standard & Poor's Corporation and Moody's Investors Service. The Series A Bonds will mature July 1, 2027. The Series B Bonds were issued in two tranches; \$30,500,000 Tranche I bonds maturing July 1, 2016, and \$34,900,000 Tranche II bonds maturing July 1, 2025. The true interest cost for the Series A Bonds was 5.467% and the borrower will benefit from present value savings of \$7.1 million related to the portion of the Series A bonds which were refunding bonds. The initial interest rate for the Tranche I Series B Bonds (28 day-mode) was 3.20% while the initial interest rate for the Tranche II Series B Bonds (7-day-mode) was 3 1/8%.

The proceeds of the Series A Bonds will be used to refund two outstanding bond issues and to undertake a construction and renovation project at the Morristown Memorial Hospital campus. The proceeds of the Series B Bonds were used to purchase escrow securities for the advance refunding of The General Hospital Center at Passaic, Inc., Series 1994 Bonds. The bond closing occurred at the same time as the merger of AHS Hospital Corporation, The General Hospital Center at Passaic, Inc., and its parent, Healthcare Continuum, Inc.

The \$186,570,000 bond financing on behalf of AHS Hospital Corporation is the largest single financing completed by the Authority. A number of features incorporated in the AHS Hospital Corporation financing include:

- no requirement for a debt service reserve fund resulting in a bond size reduction of approximately \$18 million and saving the borrower certain issuance costs and debt service payments over the life of the issue;

- 35% of the issue was sold utilizing auction bonds, a first time undertaking by the Authority; and,
- first use of IRS acquisition rules by the Authority to refund an outstanding bond issue which allows for an exemption from the one-time limit on advance refundings.

The Authority recently completed a \$20,645,000 bond issue on behalf of **Newton Memorial Hospital**. The bonds, insured by Financial Security Assurance Inc., received a AAA rating from Standard & Poor's Corporation. Proceeds of the Series 1997 Bonds will be used to advance refund the Authority's Revenue Bonds, Newton Memorial Hospital Issue, Series A; and to finance and reimburse the institution for the costs of various capital projects including the electrical and HVAC systems, renovations to the outpatient cardiac rehabilitation, radiology, pharmacy and food service areas, the acquisition of miscellaneous medical and office equipment, machinery and furniture, and other routine capital equipment and improvements totaling approximately \$9 million. The bonds were sold on a negotiated basis at a true interest cost is 5.31%. The Hospital realized present value savings of 9.38% or approximately \$945,000.

A \$57,960,000 bond issue was completed in November on behalf of **Kennedy Health System**. The financing consisted of a 30-year series (Series 1997A Bonds) in the amount of \$17,930,000 and a 17-year series (Series 1997B Forward Delivery Bonds) in the amount of \$40,030,000. The Series 1997A Bonds and the Series 1997B Bonds were insured by MBIA Insurance Corporation and sold at true interest costs of 5.378% and 5.183% respectively.

The proceeds of the Series 1997A Bonds will be used: to advance refund the Authority's Revenue Bonds, Kennedy Memorial Hospitals - University Medical Center, Inc. Issue, Series E; to pay the costs of purchasing certain capital equipment for the Medical Center, including a management information system; and, to reimburse the Surgical Center for the acquisition of certain fixed and major moveable equipment and the construction of the building and improvements at the Surgical Center including engineering and site work related thereto.

The proceeds of the Series 1997B Bonds will be used to refund on a current basis the Authority's Revenue Bonds, Kennedy Memorial Hospitals - University Medical Center, Inc. Issue, Series D. The use of Forward Delivery Bonds was utilized to achieve a current refunding of the aforementioned Series D Bonds. The Series 1997B Bonds were priced at the same time as the Series 1997A Bonds, but the closing for the B Bonds will be scheduled on or about April 1, 1998 at which time the proceeds will be used to complete a current refunding of the Series D Bonds. The hospital benefited from the "forward purchase commitment" by: eliminating the risk of higher interest rates between now and April, 1998; spreading the costs of issuance across a larger bond issue; and saving its one remaining advance refunding option. The Hospitals realized present value savings of 4.749% or \$293,530 from the Series E advance refunding and 13.445% or \$5,834,598 from the Series D current refunding.

The Authority recently hired an advisor who will be conducting a "demand survey" in the near future to determine the need for a new financing vehicle. The new vehicle would reduce the fixed financing costs associated with the financing of smaller projects of \$15 million and under. Please watch for the survey during the next few months!

AUTHORITY MARKS ANNIVERSARY

(continued from page 1)

ing source as well as the Authority's pending legislation. All in attendance remembered the "Wolin decision" of the United Wire case in 1982 which led to the passage of the Health Care Reform Act and resulted in the deregulation of hospital rate-setting in New Jersey. Regardless of the issues being discussed, everyone who attended could agree on one point - a good time was had by all.

Commissioner of Health and Senior Services and Chairman of the Authority Len Fishman congratulated the current Board members and Executive Director on the Authority's achievements and stated that he was proud to be a part of the agency. He referenced the Authority's remarkable record of having issued \$7.5 billion in bonds on behalf of the state's health care facilities without a single bond default. He noted that "with the continuing change, the uncertainty, the increasing pressures on the health care system and without the safety nets that were in place with rate setting, the Authority's mission is more vital than ever." The Commissioner made special note of the Authority's "qualities that should be the aspiration of every agency in government. It successfully blends the mission of government with the entrepreneurial spirit and energy of the private sector." He concluded by stating that the Authority's professionalism, dedication, energy and creativity will serve the state well into the next century.

Executive Director Edie Behr spoke of the Authority's mission, its ability to provide access to low-cost capital for the state's health care providers and its strong reputation in the market place. She said she was proud of the Authority's implementation of new policies to improve efficiency, flexibility, cost and communication. She then discussed the legislation that is pending before the Legislature which would broaden the statutory authority of the agency and would allow the Authority "to modernize our services and provide capital to health care organizations regardless of tax status and regardless of whether the project is for a direct deliverer of health care or a support service." In closing, Ms. Behr stated that while the health care organizations of the state continue to deal with the pressures of a newly-defined health care system, they can count on the Authority to continue to provide access to the low-cost capital so necessary for their continued success.

The guest speaker, Paul Long, Senior Vice President of The Hunter Group, presented his observations on the future of health care and what the health care community can do to maintain its financial health. His remarks highlighted both the external and internal issues that are and will be affecting health care providers in future years.

Len Fishman, Chairman • Commissioner of Health and Senior Services
Elizabeth E. Randall • Commissioner of Banking and Insurance
(John Kerr, Designee)
William Waldman • Commissioner of Human Services
(Edward Tetelman, Designee)
Noreen P. White • Timothy T. Richards
Shing-Fu Hsueh, Ph.D. • Robert J. Rahl
Edith F. Behr, Executive Director

PROJECT NOTES

(continued from page 2)

cardiac care unit in the new wing received the necessary approvals and opened in early November. The new free-standing ambulatory care center located across the street from the main facility opened on December 4.

St. Ann's Home for the Aged in Jersey City has opened its new 116-bed skilled nursing facility. Renovations to the older building are in progress and demolition of a 1915 structure will provide on-site parking for the facility. The entire project is scheduled for completion in April 1998.

Somerset Medical Center located in Somerville has completed the construction of a new 404-space parking garage. Dedicated and opened in October, the garage will increase the on-site parking capacity of the Medical Center's campus by 50%.

IN MEMORIAM J. ROBERT LACKEY

J. Robert Lackey, who drafted the legislation that created the New Jersey Health Care Facilities Financing Authority and served as the agency's first executive director, died recently at his home in Pennington, New Jersey. Mr. Lackey began his career in the health industry as Administrator of the East Orange Health Department. After serving in this capacity for 18 years, he accepted one of several assignments in the State Department of Health as Director of Comprehensive Health Planning where he developed a variety of programs including the Certificate of Need Program. During his term as Assistant Commissioner of Health his efforts in drafting legislation creating the New Jersey Authority were rewarded when the bill was signed into law in 1972. As executive director of the Authority, the agency became an active participant in the tax-exempt municipal market and Mr. Lackey helped to co-found the National Council of Health Facilities Finance Authorities. Although he left state government for a period of time, he did return, once again, to assume the leadership of the Authority. During this two-year period, the agency issued bonds totaling nearly \$1.2 billion.

All who knew him, either in a professional or personal level, will remember him for his loyalty, generosity, friendship and gentle ways. A man of strong character, he resolved to accomplish what he set out to do. This Authority and the National Council are two outstanding examples of this determination and the man who helped develop them.



NEW JERSEY HEALTH CARE
FACILITIES FINANCING AUTHORITY
P.O. BOX 366
TRENTON, NEW JERSEY 08625
609 - 292-8585