NJHCFFA

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

2011 Annual Report

Mission

Created by an act of the New Jersey Legislature in 1972, the Authority's mission is:

"To ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State."

The Authority fulfills its statutory purpose primarily by issuing tax-exempt bonds for health care organizations throughout the State, including hospitals, skilled nursing facilities, assisted living facilities, continuing care retirement communities, visiting nurse associations and blood banks.

Table of Contents

Message from the Board Chair

Department of Health and Senior Services Commissioner Mary E. O'Dowd, M.P.H.

The hospital industry is going through a time of transformation. Some of New Jersey's hospitals have merged into larger systems. Others have moved into state-of-the-art facilities. In addition, national and local for-profit hospitals have expressed interest in bringing capital to invest in New Jersey's healthcare delivery system. The healthcare landscape continues to evolve and we can expect ongoing change in the way services are provided and reimbursed. Governor Christie recognizes that New Jersey hospitals need our support during this transition period and has preserved nearly $1 billion in critical hospital funding in the proposed State Fiscal Year 2013 budget.

Despite economic challenges facing the state, Charity Care funding is maintained at $675 million, Graduate Medical Education funding remains at $90 million, the Hospital Relief Subsidy Fund remains at $166 million and the Health Care Stabilization Fund is maintained at $30 million. Stable and predictable funding supports the financial viability of hospitals and allows them to pursue their mission to serve their communities.

The Governor's budget maintains his commitment to ensure access to services for the uninsured. In total, hospitals will receive $961 million in subsidies to support their services to the uninsured. And our state's Federally Qualified Health Centers will receive $46.4 million in reimbursement.

Since the Governor took office in 2010, funding for hospitals has increased $56.3 million. In addition, under his tenure, the Charity Care funding formula was revised to make funding more equitable and predictable. The Department continues to work with the hospital industry to refine the way funding is allocated to ensure that limited state resources are appropriately allocated to the hospitals serving the greatest number of patients in need. Based on feedback from the hospitals, the Department provides funding distributions early in the year to assist in planning and updated the funding formula in the proposed budget to ensure a direct correlation between the increase or decrease in documented Charity Care and the increase or decrease in the subsidy.

Working with the State's hospital industry, we have been able to address many of their concerns and improve the way we support our 72 hospitals. New Jersey's hospitals are a critical element of our healthcare safety net for our most vulnerable residents. Even when they face challenging circumstances, our hospitals provide excellent care and the state is committed to supporting them.

Message from the Executive Director

Mark E. Hopkins

The Authority's staff has worked diligently since 1972 to assist the State's not-for-profit hospitals and health care organizations in realizing significant savings through the issuance of tax-exempt bonds to finance their projects. Over its 39 year existence, the Authority has saved health care organizations hundreds of millions of dollars compared to traditional financings. These savings result from the fact that purchasers of Authority bonds are willing to accept lower interest rates because they are not taxed on the interest they earn. Health care organizations have also lowered their capital costs by refunding outstanding debt at significantly lower interest rates available through the Authority's various financing programs. Health care organizations can use these savings to employ additional staff, expand health care services, invest in cutting edge medical technology or maintain services that would otherwise be in danger of elimination due to the current fragile health care economy.

In 2011, the Authority again issued more refunding bonds than bonds for new projects, continuing a trend of recent years. In total, the Authority issued $941.8 million on behalf of six health care facilities in 2011, $775.3 million of which were refunding bonds. Through these 2011 refundings, hospitals will save over $51.1 million on a net present value basis. The Authority also loaned $46 million to three institutions through the Capital Asset Program, previously issued revolving pool bonds, which are currently at historically low interest rates, averaging under 2% in 2011.

In addition to these transactions, the Authority's staff is constantly looking for new ways to save money for our borrowers. For example, in the fourth quarter of 2011, the Authority created the Master Leasing Program to meet the unique needs of health care systems by allowing the various members of a system to access tax-exempt equipment leases through a pre-arranged master leasing financing. The Authority approves the system for a total dollar amount and the system's members can enter into leases over a 10-year period up to the pre-determined dollar amount. Barnabas Health took the initiative to become the trail-blazing borrower for this program when it completed the first master leasing program in the first quarter of 2012. We look forward to more hospital systems taking advantage of this speedy and cost-efficient program as they forge ahead into the ever-evolving health care environment.

In the last few years, we have seen the health care landscape change dramatically in New Jersey. Where many years had gone by without the opening of a newly constructed hospital in the State, the last 18 months have seen three such openings: Virtua Voorhees, Capital Health – Hopewell and University Medical Center of Princeton at Plainsboro.

Another huge advancement in the health care field of late is the implementation of electronic medical records (EMRs). In an effort to streamline the use of EMRs and connect them across health care providers, the federal government awarded an $11.4 million grant to the Authority on behalf of the State in 2010 for the purpose of creating regional Health Information Exchanges (HIEs) throughout New Jersey. So far, three regional exchanges have been created to share patient information electronically and securely while cutting down on time lags in treatment as well as costs. In 2011, the Authority began making disbursements to these exchanges, as well as to the NJ Health Information Network which is currently in the planning stages to create a State "backbone" that would connect all of the regional HIEs. As of April 30, 2012, $3,864,775 in grant disbursements have been made to establish these vital exchanges.

While health care organizations successfully adapt to the changes that have already occurred, and those expected in the near future, the staff at the New Jersey Health Care Facilities Financing Authority will be working just as hard to meet the changing and expanding needs of this unique and essential group of borrowers.

Members

The Authority is governed by a seven-member board, three of whom are ex-officio and four public members who are appointed by the Governor with the consent of the Senate and serve staggered four-year terms.

Ex-Officio Members

Mary E. O'Dowd, M.P.H., Chairperson
Commissioner of the Department of Health and Senior Services

Commissioner O'Dowd has wide ranging experience in the health care field with a focus on management and finances. Before being confirmed as Commissioner in June of 2011, she held positions of Deputy Commissioner and Chief of Staff for the Department of Health and Senior Services. During O'Dowd's time as Deputy Commissioner, New Jersey significantly increased its financial support to hospitals through the Department's Charity Care program and also reformed the program to make it more equitable and predictable.

Jennifer Velez, Esq.
Commissioner of the Department of Human Services

Jennifer Velez has served as Commissioner since 2007. She previously served as Deputy Commissioner for Family and Community Services at DHS, during which time she oversaw the divisions that administer the Department's largest programs and was responsible for two-thirds of the Department's $9.4 billion budget. Before joining the DHS Office, Velez served as New Jersey's First Assistant Child Advocate beginning with that position's creation in September of 2003. She had previously served three governors as Senior Associate Counsel and Assembly Liaison in the Office of Governor's Counsel.

Kenneth E. Kobylowski, Esq.
Acting Commissioner of the Department of Banking and Insurance

Ken Kobylowski was nominated by Governor Christie to serve as Commissioner of the Department of Banking and Insurance on January 30, 2012 and is currently awaiting Senate confirmation. Kobylowski has held positions in the Department including Chief of Staff, Acting Director of Banking and Chief Operating Officer. Kobylowski also served as the Department's liaison with other State departments and federal agencies, notably the Federal Reserve and the FDIC. Prior to joining the Department, Kobylowski was in private law practice for 20 years. Before practicing law, Kobylowski began his professional career as a bank analyst at the Federal Reserve Bank of New York.

Public Members

Gustav E. Escher, III, Vice Chairman (term of office expired April 30, 2010)*

Gustav Escher is a Managing Member at First Enterprise, LLC. He previously served as Managing Director at Bergen Capital, a division of Scott & Stringfellow and Vice President of New Jersey Public Finance at PNC Bank. Prior to joining PNC, Mr. Escher was affiliated with several leading investment banks and commercial banks and provided financial advisory services in both the housing and governmental sectors. He also held executive positions at several consulting firms, a State financing agency and a local governmental unit.

Munr Kazmir, M.D., Treasurer (term of office expires April 30, 2015)

Dr. Munr Kazmir heralds a lifetime of leadership as a CEO, entrepreneur, physician and philanthropist in the health care industry. He is the founder and CEO of Quality Home Care Providers, Direct Meds Pharmacies, Inc., and Easy Carry Inc. Over the past 30 years, Dr. Kazmir has been recognized domestically and internationally for his humanitarian efforts. Dr. Kazmir has served on the Medicare Coverage Advisory Committee and The National Advisory Council for the Agency for Healthcare Research and Quality.

Suzette T. Rodriguez, Esq., Secretary (term of office expires April 30, 2013)

Suzette T. Rodriguez, Esq. is in-house Associate Counsel for Jackson Hewitt Tax Service Inc., where she is responsible for managing defensive and affirmative litigation matters. She had previously worked in the Labor and Employment Departments of LeClairRyan in Newark, NJ and Wong Fleming in Princeton, NJ. Ms. Rodriguez is currently the Deputy Regional President (Region III) of the Hispanic National BarAssociation and the Immediate Past President of the Hispanic Bar Association of New Jersey. She also serves as an Advisory Board Member for the New Jersey Law and Educational Empowerment Project (NJ LEEP).

The Authority currently has one Public Member vacancy.

** Members continue to serve until they are reappointed or replaced.*

Ex-Officio Designees

Ex-Officio Members may designate long-term representatives to attend meetings and vote on their behalf:

William Conroy
Acting Deputy Commissioner
Department of Health and Senior Services

Robert Bollaro
Manager, Division of Medical Assistance & Health Services
Department of Human Services

Maryann Kralik
Manager of Policy & Planning
Department of Banking and Insurance

Financing Programs

The Authority currently offers six different financing programs through which it may lend funds to New Jersey's health care organizations:

Stand-Alone Bond Financings
The Authority's most frequently used financing options include publicly offered bond issues and private placement of bonds or notes. Bond issues can be structured with fixed or variable interest rates and with or without credit enhancement or ratings.

Capital Asset Program (CAP)
The Capital Asset Program (CAP) is designed to take advantage of bonds issued prior to the 1986 changes in the tax laws. Loans under the program are continuously repaid, making fresh funds available for other health care organizations in need of capital.

FQHC Loan Program
The Federally Qualified Health Center (FQHC) Loan Program is designed to help start-up FQHCs cover the costs needed to get up and running at a lower rate than available through conventional bank borrowing.

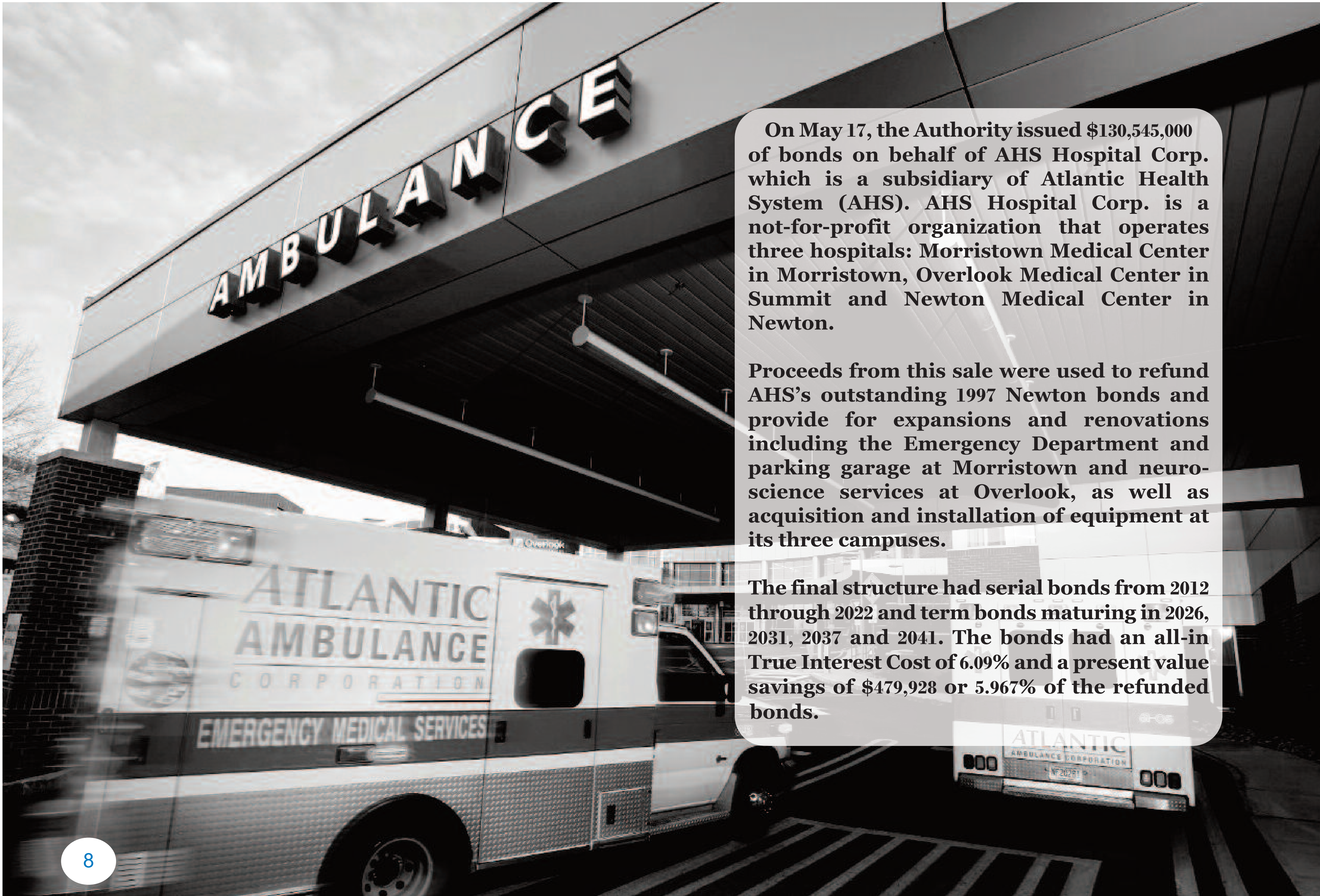
Equipment Revenue Note Program
The Equipment Revenue Note Program (ERN) is designed to offer both an easy and efficient method of financing and refinancing equipment.

Master Leasing Program
The Master Leasing Program is designed to meet the unique needs of New Jersey's health care systems, although stand-alone facilities may also participate. In the case of a system, the various members of the system can access tax-exempt equipment leases through a pre-arranged master lease financing. The Authority approves the system for a total dollar amount, and the system's members enter into leases over a 10-year period aggregated up to that dollar amount. The system must enter into a master lease agreement with each separate lessor/equipment vendor.

COMP Program
The Variable Rate Composite Program (COMP) is designed to lower the costs of issuance for smaller borrowings. Under the program, bonds can be marketed for several borrowers at once, yet each borrower is only responsible for its own series of bonds. The standardization of documents and simultaneous marketing of the bonds reduces the costs of issuance for access to capital markets.

2011 Financings

Atlantic Health System

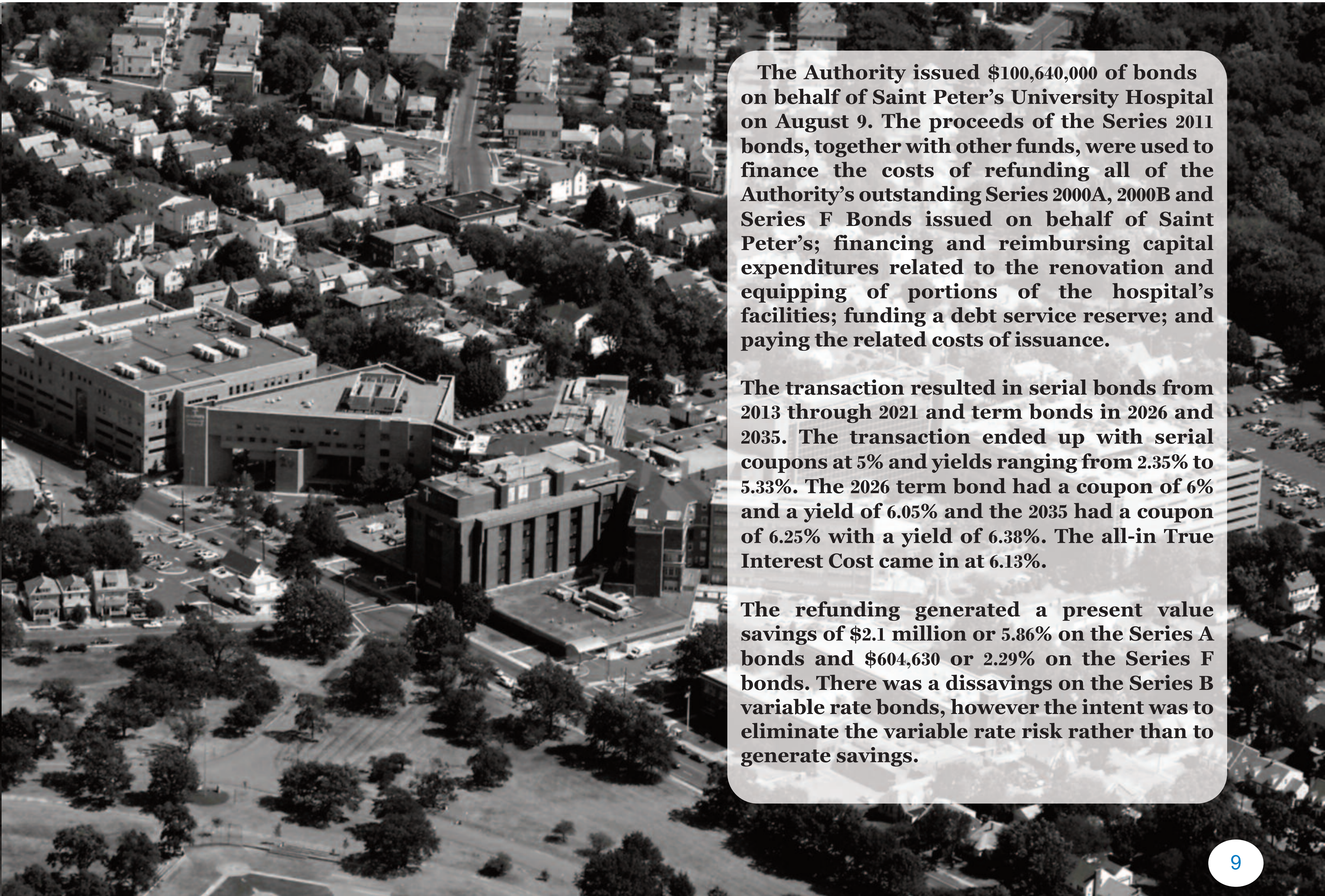


On May 17, the Authority issued $130,545,000 of bonds on behalf of AHS Hospital Corp. which is a subsidiary of Atlantic Health System (AHS). AHS Hospital Corp. is a not-for-profit organization that operates three hospitals: Morristown Medical Center in Morristown, Overlook Medical Center in Summit and Newton Medical Center in Newton.

Proceeds from this sale were used to refund AHS's outstanding 1997 Newton bonds and provide for expansions and renovations including the Emergency Department and parking garage at Morristown and neuroscience services at Overlook, as well as acquisition and installation of equipment at its three campuses.

The final structure had serial bonds from 2012 through 2022 and term bonds maturing in 2026, 2031, 2037 and 2041. The bonds had an all-in True Interest Cost of 6.09% and a present value savings of $479,928 or 5.967% of the refunded bonds.

Saint Peter's University Hospital

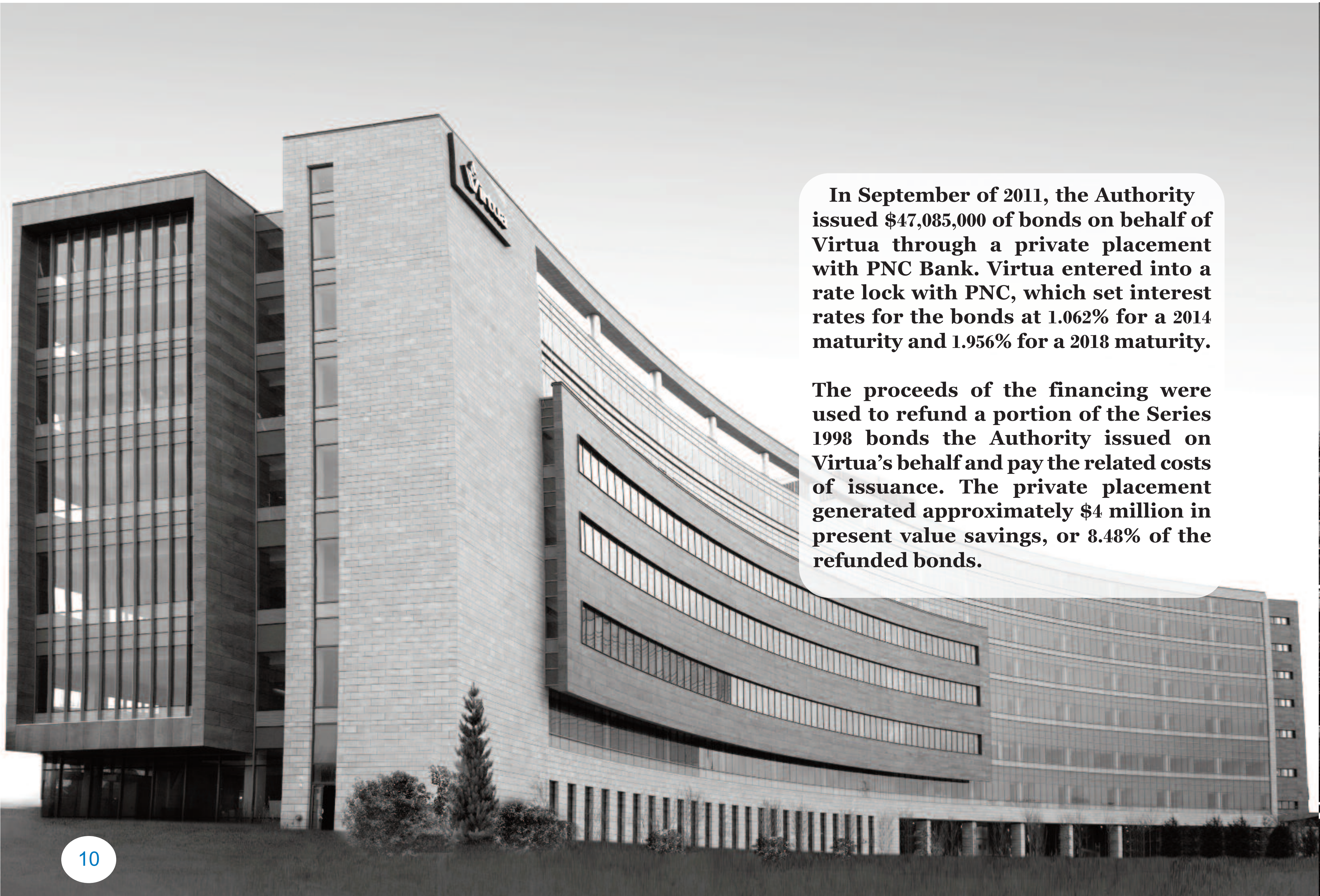


The Authority issued $100,640,000 of bonds on behalf of Saint Peter's University Hospital on August 9. The proceeds of the Series 2011 bonds, together with other funds, were used to finance the costs of refunding all of the Authority's outstanding Series 2000A, 2000B and Series F Bonds issued on behalf of Saint Peter's; financing and reimbursing capital expenditures related to the renovation and equipping of portions of the hospital's facilities; funding a debt service reserve; and paying the related costs of issuance.

The transaction resulted in serial bonds from 2013 through 2021 and term bonds in 2026 and 2035. The transaction ended up with serial coupons at 5% and yields ranging from 2.35% to 5.33%. The 2026 term bond had a coupon of 6% and a yield of 6.05% and the 2035 had a coupon of 6.25% with a yield of 6.38%. The all-in True Interest Cost came in at 6.13%.

The refunding generated a present value savings of $2.1 million or 5.86% on the Series A bonds and $604,630 or 2.29% on the Series F bonds. There was a dissavings on the Series B variable rate bonds, however the intent was to eliminate the variable rate risk rather than to generate savings.

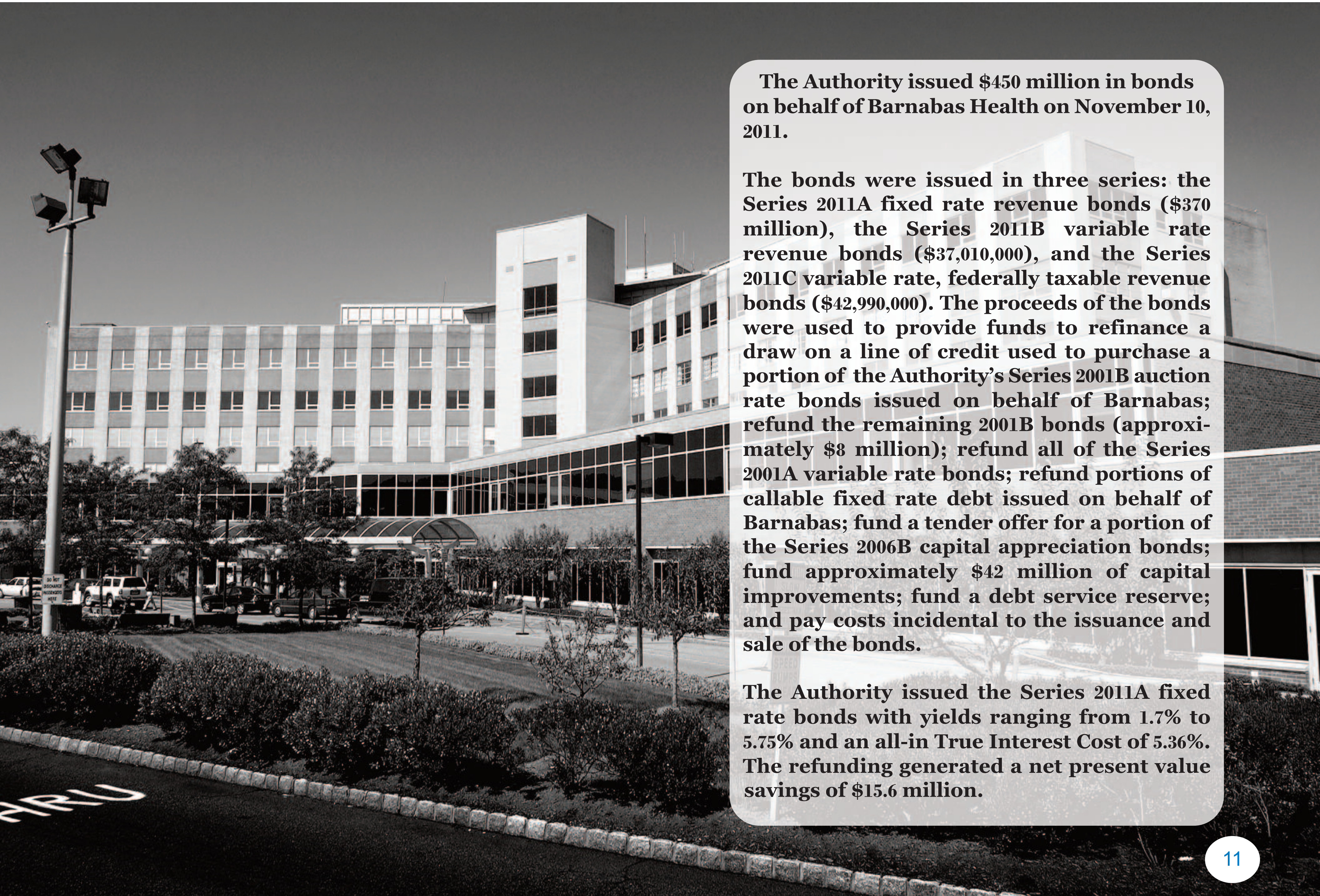
Virtua



In September of 2011, the Authority issued $47,085,000 of bonds on behalf of Virtua through a private placement with PNC Bank. Virtua entered into a rate lock with PNC, which set interest rates for the bonds at 1.062% for a 2014 maturity and 1.956% for a 2018 maturity.

The proceeds of the financing were used to refund a portion of the Series 1998 bonds the Authority issued on Virtua's behalf and pay the related costs of issuance. The private placement generated approximately $4 million in present value savings, or 8.48% of the refunded bonds.

Barnabas Health

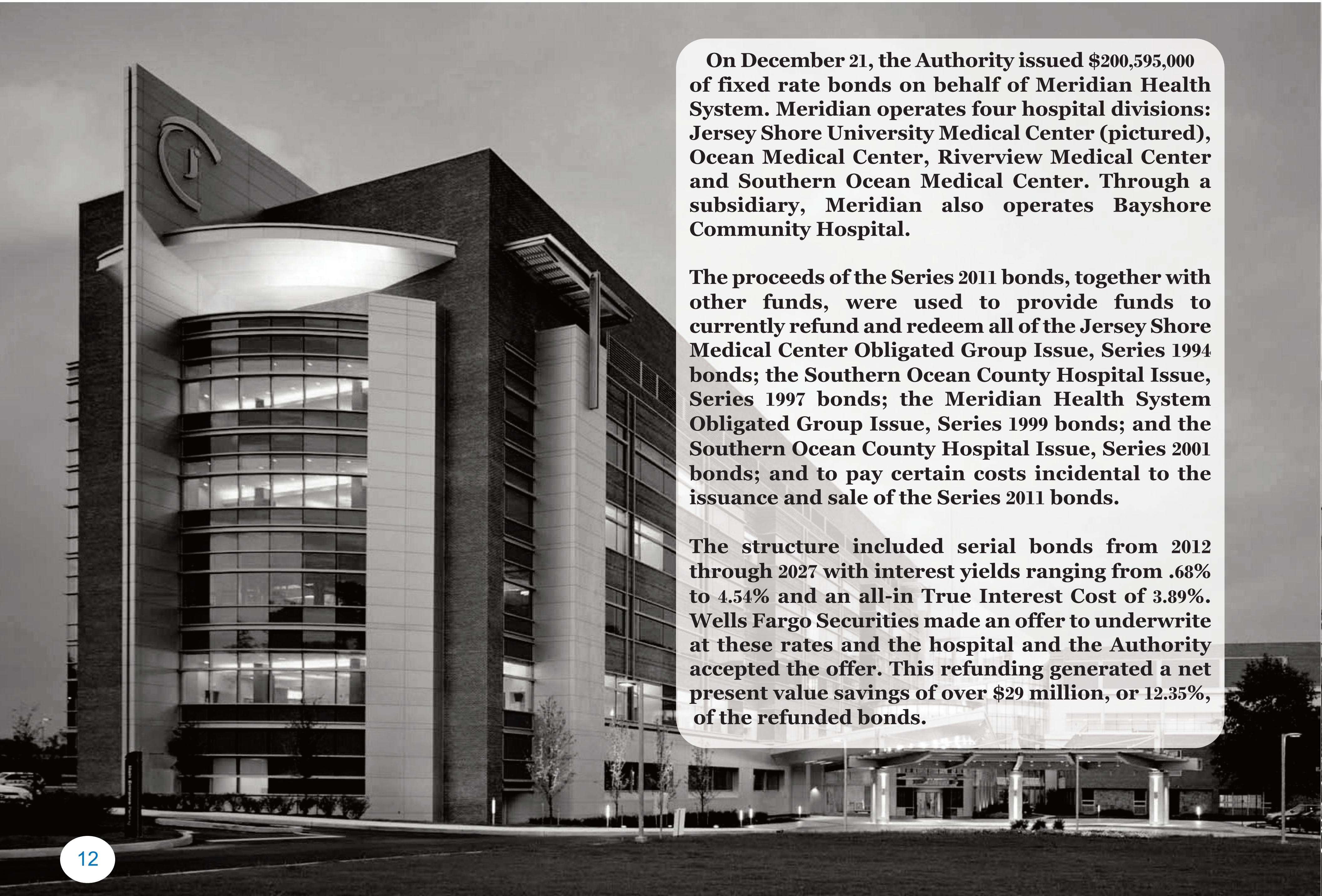


The Authority issued $450 million in bonds on behalf of Barnabas Health on November 10, 2011.

The bonds were issued in three series: the Series 2011A fixed rate revenue bonds ($370 million), the Series 2011B variable rate revenue bonds ($37,010,000), and the Series 2011C variable rate, federally taxable revenue bonds ($42,990,000). The proceeds of the bonds were used to provide funds to refinance a draw on a line of credit used to purchase a portion of the Authority's Series 2001B auction rate bonds issued on behalf of Barnabas; refund the remaining 2001B bonds (approximately $8 million); refund all of the Series 2001A variable rate bonds; refund portions of callable fixed rate debt issued on behalf of Barnabas; fund a tender offer for a portion of the Series 2006B capital appreciation bonds; fund approximately $42 million of capital improvements; fund a debt service reserve; and pay costs incidental to the issuance and sale of the bonds.

The Authority issued the Series 2011A fixed rate bonds with yields ranging from 1.7% to 5.75% and an all-in True Interest Cost of 5.36%. The refunding generated a net present value savings of $15.6 million.

Meridian Health

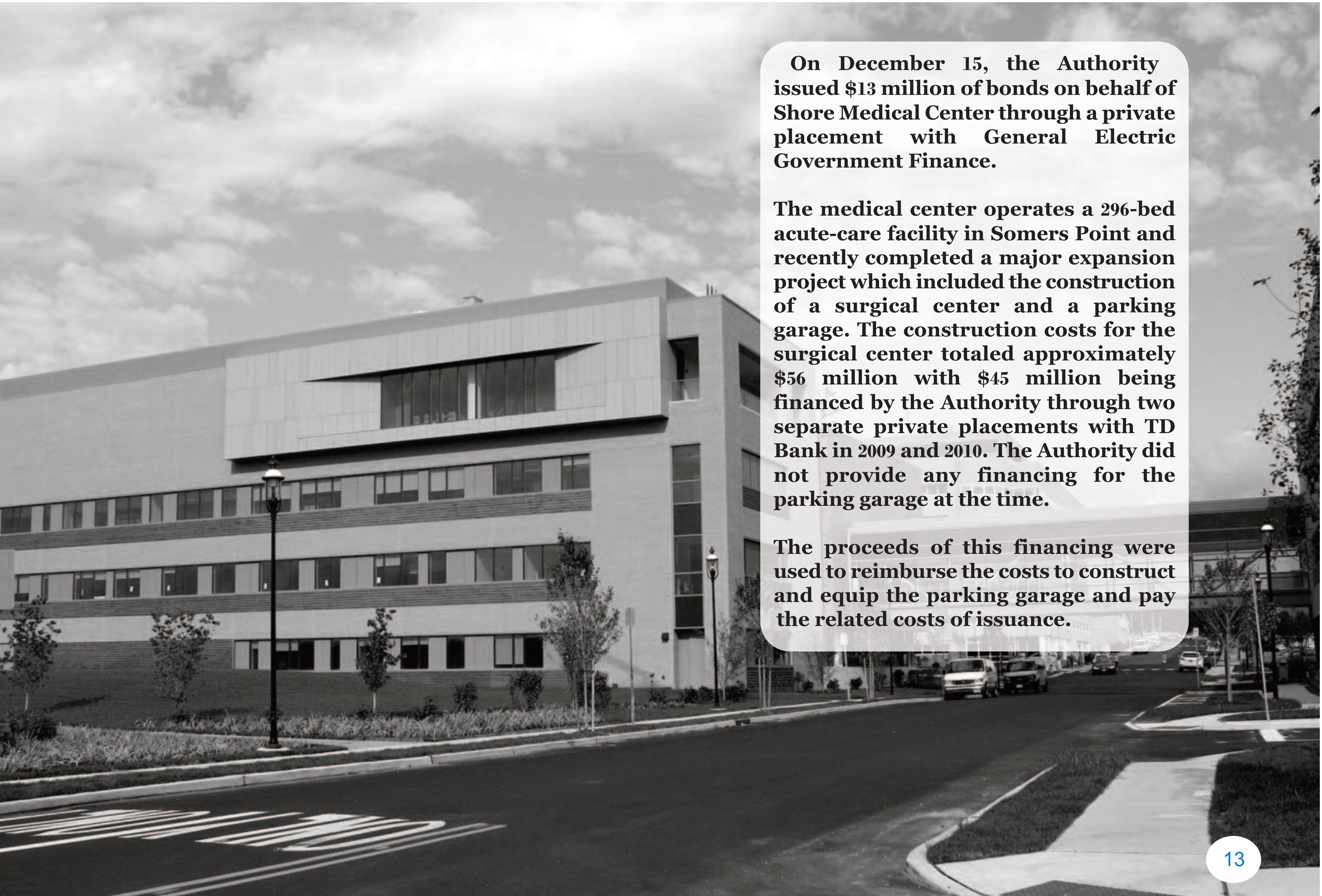


On December 21, the Authority issued $200,595,000 of fixed rate bonds on behalf of Meridian Health System. Meridian operates four hospital divisions: Jersey Shore University Medical Center (pictured), Ocean Medical Center, Riverview Medical Center and Southern Ocean Medical Center. Through a subsidiary, Meridian also operates Bayshore Community Hospital.

The proceeds of the Series 2011 bonds, together with other funds, were used to provide funds to currently refund and redeem all of the Jersey Shore Medical Center Obligated Group Issue, Series 1994 bonds; the Southern Ocean County Hospital Issue, Series 1997 bonds; the Meridian Health System Obligated Group Issue, Series 1999 bonds; and the Southern Ocean County Hospital Issue, Series 2001 bonds; and to pay certain costs incidental to the issuance and sale of the Series 2011 bonds.

The structure included serial bonds from 2012 through 2027 with interest yields ranging from .68% to 4.54% and an all-in True Interest Cost of 3.89%. Wells Fargo Securities made an offer to underwrite at these rates and the hospital and the Authority accepted the offer. This refunding generated a net present value savings of over $29 million, or 12.35%, of the refunded bonds.

Shore Medical Center



On December 15, the Authority issued $13 million of bonds on behalf of Shore Medical Center through a private placement with General Electric Government Finance.

The medical center operates a 296-bed acute-care facility in Somers Point and recently completed a major expansion project which included the construction of a surgical center and a parking garage. The construction costs for the surgical center totaled approximately $56 million with $45 million being financed by the Authority through two separate private placements with TD Bank in 2009 and 2010. The Authority did not provide any financing for the parking garage at the time.

The proceeds of this financing were used to reimburse the costs to construct and equip the parking garage and pay the related costs of issuance.

Capital Asset

South Jersey Hospital, Inc.

In November of 2010, the Authority approved a $30,000,000 Capital Asset Program (CAP) loan for South Jersey Hospital, Inc. to finance several construction/renovation projects and to reimburse the hospital for previously acquired capital equipment. The loan closed on March 1, 2011.

South Jersey Hospital, Inc. currently operates two acute care hospitals: the South Jersey Healthcare Regional Medical Center in Vineland, Cumberland County, and the South Jersey Healthcare Elmer Hospital in Elmer, Salem County, with a total licensed bed capacity of 421 beds. During 2011 it also signed a merger agreement with Underwood-Memorial Health System.

Proceeds of the loan were used to finance the expansion and renovation of the existing Level II nursery to become a Level III Neonatal Intensive Care Unit (NICU), including the addition of six bassinets; to renovate an existing building on campus to house the medical center's Program for All-inclusive Care to the Elderly (PACE); reimburse the medical center for capital equipment; and pay the related costs of issuance.

JPMorgan Chase Bank approved the loan subject to South Jersey Hospital, Inc. providing a note under its Master Trust Indenture. The loan was secured on parity with the existing bondholders and noteholders which included a pledge of gross receipts of the Obligated Group and a mortgage on the Regional Medical Center.

Englewood Hospital and Medical Center

Program Loans

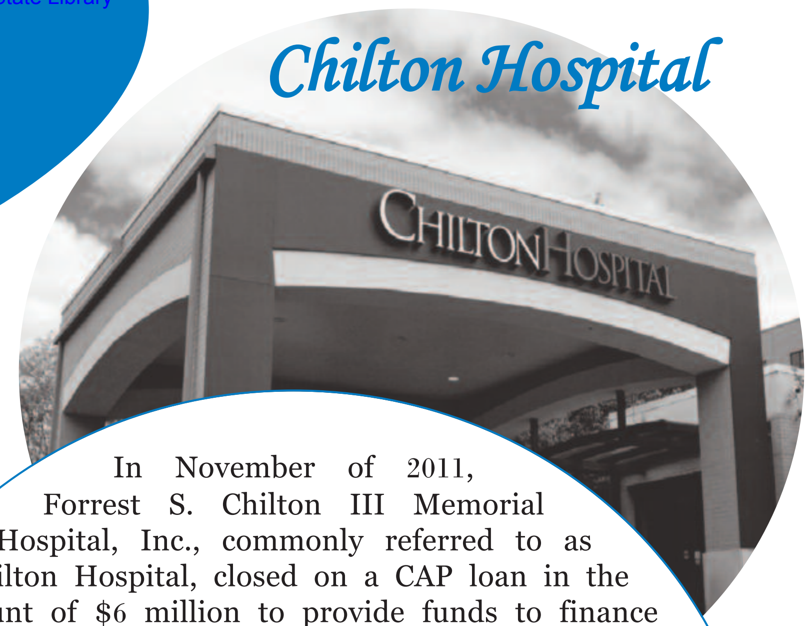
In February of 2011, Englewood Hospital and Medical Center received approval for a CAP loan in the amount of $10 million to provide funds to finance and reimburse the medical center for various capital budget items including, but not limited to, a magnetic resonance imaging machine, infusion pumps, a telemetry system and IT equipment.

Englewood Hospital and Medical Center is a 520-licensed bed, acute care facility located in Englewood. Its service area is primarily comprised of the 22 towns situated in the northern valley of Bergen County and residents in northern Hudson County and southern Rockland County, New York.

In addition to providing general acute care services, the medical center is one of the primary teaching affiliates of the Mt. Sinai School of Medicine in New York. The affiliation brings to the medical center residents in surgery, pediatrics and pathology, as well as critical care medicine fellows. Englewood Hospital also offers a broad range of clinical programs including the nationally-renowned Breast Care Center, the pioneering Institute for the Advancement of Bloodless Surgery and Medicine, the state's top-ranked Heart and Vascular Institute, the Family Birth Place and, in September of 2009, it completed construction of a new state-of-the-art Emergency Care Center.

JPMorgan Chase Bank, provider of the credit and liquidity support for the CAP Program, performed an independent credit analysis and approved the loan subject to the medical center providing a first priority security interest in the equipment being financed with the loan proceeds.

Chilton Hospital



In November of 2011, Forrest S. Chilton III Memorial Hospital, Inc., commonly referred to as Chilton Hospital, closed on a CAP loan in the amount of $6 million to provide funds to finance upgrades to their information technology system, purchase capital medical equipment, and pay related financing costs.

Chilton Hospital is a 236-licensed bed, not-for-profit acute care community hospital located in Pompton Plains, Morris County. The hospital serves residents from more than 33 communities in Morris, Passaic, Sussex, Bergen and Essex counties and provides medical, surgical, intensive care, ob-gyn and pediatric services on an inpatient basis as well as outpatient and emergency services.

JPMorgan Chase Bank approved the seven-year loan subject to the hospital providing a note under its existing Master Trust Indenture, which was secured by a pledge of gross revenues and a mortgage on the hospital facility.

Staff

Office of the Executive Director
Mark E. Hopkins, Executive Director
Carole Conover, Executive Assistant/Office Manager
Robin Piotrowski, PHR, CPS, Human Resources Manager
Linda Hughes, Communications Specialist
Tracey D. Cameron, Office Management Assistant
Lorraine Donahue, Office Management Assistant

Division of Project Management
Suzanne K. Walton, Director of Project Management
William McLaughlin, Senior Project Manager
Tammy Romsdahl, Administrative Assistant

Division of Research, Investor Relations and Compliance
Stephen M. Fillebrown, Deputy Executive Director and Director of Research, Investor Relations and Compliance
Arvella King, CPA, Assistant Director of Research, Investor Relations and Compliance
Miriam Bolger, Health Information Technology Project and Grant Manager
Emmerson E. Sullens, Information Technology Specialist
Taryn Jauss, Compliance Manager
Hillary Freed, Database Administrator

Division of Operations and Finance
Ronald S. Marmelstein, Director of Operations and Finance
Michael B. Ittleson, Controller
Bernard J. Miller, Jr., Construction Manager
Marjorie P. McAvoy, Account Administrator
Jessica Lucas, Account Administrator
Edwin Fuentes, Account Administrator
Christopher Kulick, Accountant II
Diane Johnson, Senior Assistant Account Administrator
Ellen Lieber, Assistant Account Administrator
Neetu Thukral, Assistant Account Administrator
Kerry Cook, Administrative Assistant

Retirements

In March of 2012, the Authority said goodbye to Lou George, Director of Project Management, who retired after more than 30 years with the Authority.

In Memorium

In January of 2012, the Authority unexpectedly lost Lori Jefferson, who had served as the Health Information Technology Project Manager. She will be missed terribly and the Authority extends condolences to her family and friends.

History

The Authority is the primary issuer of municipal bonds for New Jersey's health care organizations. Created in 1972 by an Act of the Legislature to provide not-for-profit health care providers with access to low-cost capital, the Authority's statutory powers were expanded in 1998 to include financing for all health care organizations or components thereof. Since its inception, the Authority has issued over $18 billion in bonds on behalf of roughly 150 health care organizations throughout the state.

While the majority of its financings have been for acute care hospitals, the Authority can also provide capital for 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, continuing care retirement communities, management service organizations, blood banks, hospices, day care facilities and any related organizations.

Financings by the Year

1973 ~ $12,950,000	1983 ~ $382,288,200	1993 ~ $497,295,000	2003 ~ $684,800,000
1974 ~ $141,970,000	1984 ~ $200,164,027	1994 ~ $789,204,390	2004 ~ $506,700,000
1975 ~ $5,400,000	1985 ~ $933,336,287	1995 ~ $56,305,200	2005 ~ $414,650,000
1976 ~ $32,375,000	1986 ~ 79,985,000	1996 ~ $162,385,000	2006 ~ $813,674,654
1977 ~ $95,893,000	1987 ~ $414,336,984	1997 ~ $475,395,000	2007 ~ $849,066,000
1978 ~ $109,410,000	1988 ~ $324,685,000	1998 ~ 1,390,732,857	2008 ~ $1,272,380,000
1979 ~ $182,117,200	1989 ~ $279,034,283	1999 ~ $536,745,442	2009 ~ $830,840,000
1980 ~ $137,762,500	1990 ~ $612,185,000	2000 ~ $412,263,588	2010 ~ $906,972,666
1981 ~ $329,223,913	1991 ~ $531,859,333	2001 ~ $474,775,000	2011 ~ $987,865,000
1982 ~ $580,381,998	1992 ~ $329,703,375	2002 ~ $529,082,005	

NJHCFFA

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

P.O. Box 366
Trenton, NJ 08625-0366

(609) 292-8585
www.njhcffa.com