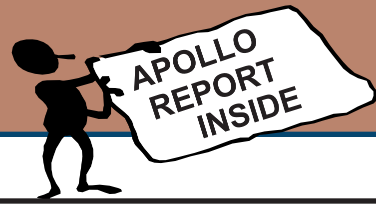
NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$



Winter 2004/2005

SEC RECOMMENDS NEW SYSTEM FOR FILING

The Securities and Exchange Commission's Division of Market Regulation has endorsed DisclosureUSA, a new Internet based electronic filing system. DisclosureUSA allows issuers, trustees, dissemination agents and other filers to upload documents for immediate transmission, with CUSIP numbers and other indexing information, to each Nationally Recognized Municipal Securities Information Repository (NRMSIR) and any appropriate State Information Depository (SID).

On September 7, the SEC's Division of Market Regulation issued an Interpretative Letter accessible at http://www.sec.gov/info/municipal/tex-asmac090704.pdf authorizing the use of DisclosureUSA by issuers of municipal securities, trustees, dissemination agents and others who make continuing disclosure filings pursuant to Rule 15c2-12.

"I expect DisclosureUSA to dramatically increase the availability of financial and other information from issuers and conduit borrowers of municipal securities to investors," said Martha Mahan Haines, Chief of the SEC's Office of Municipal Securities. "I encourage issuers and other filers to make use of this easy, user-friendly filing method."

Found at www.DisclosureUSA.org, the new filing system received 100% cooperation from all NRMSIRs and SIDs, as each established an FTP site to receive its filings and send electronic return receipts. Members of the general public will be able to ascertain what filings have been made through an index maintained by DisclosureUSA. It will also provide a

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INCREASE IN 2005 CHARITY CARE FUNDING

In August, Governor James E. McGreevey joined health care advocates, hospital administrators and Legislative sponsors to sign S1214/A2406 into law, revising the distribution formula for charity care funding. The new law provides a historic level of funding so New Jersey's hospitals can provide quality health care to New Jersey's 1.4 million uninsured patients.

"Since the 1970's, our hospitals have provided quality health care to citizens of this state, regardless of their ability to pay. But for too long hospitals have borne this burden without adequate support," said Governor McGreevey, "With this new law, we now provide an unprecedented 53% increase in funding for hospitals to care for the uninsured."

Governor James E. McGreevey signing S1214/A2406 into law

The newly enacted S1214/A2406 increases charity care funding to a total of $583.4 million in the FY 2005 budget, which is the single largest increase in State hospital funding in more than a decade. In the year prior, when hospitals received only $381 million in State reimbursements, 70% of the state's hospitals received as little as 12 cents for every dollar of charity care

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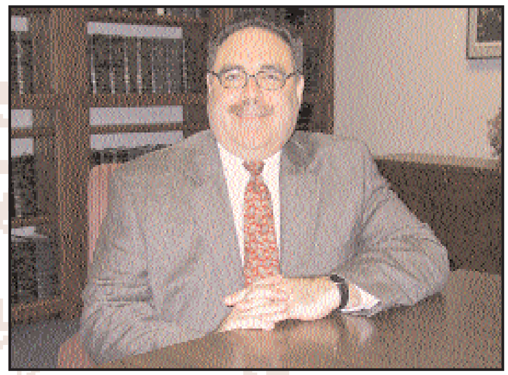
NEW EXECUTIVE DIRECTOR FOR THE AUTHORITY



Mark E. Hopkins
newly appointed Executive Director to the NJHCFFA

On August 2, 2004, the Authority welcomed Mark E. Hopkins to serve as its new Executive Director. Mr. Hopkins brings to the position extensive experience in public finance law having provided legal services to issuers, borrowers and underwriters.

In order to join the Authority staff, Mr. Hopkins resigned from his post as Deputy Attorney General where he represented the New Jersey Educational Facilities Authority and the New Jersey Housing and Mortgage Finance Agency as issuer counsel. Prior to serving in the Attorney General's office, Mr. Hopkins represented the State, counties, municipalities, state and county authorities, investment banking firms and borrowers in project financings for governmental entities, non-profit organizations, acute and sub-acute healthcare providers, housing operators, public and private academic entities, cultural organizations, port operators, water facility operators and small manufacturers as an associate at the law firm of McCarter & English in the Public Finance Practice Group.

"In my years as a bond counsel and as a Deputy Attorney

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MESSAGE FROM THE EXECUTIVE DIRECTOR

Mark E. Hopkins

Long before my appointment as Executive Director, I witnessed the Authority's excellent reputation earned throughout the State and health care industry. As a bond counsel and a Deputy Attorney General, I recognized the Authority's outstanding work, and I am honored to be part of an organization with such a capable staff on such a noble mission.

In pursuit of that mission, staff and I have begun to investigate new products and revisit old policies. I intend to keep the Authority as a fluid entity that changes with the needs of our borrowing community and its investors. For example, we responded to the currently less threatening pension funding environment by easing the Authority's Pension Reporting Requirements.

By continuously reevaluating our programs, we will maintain a varied and contemporary portfolio of financing and analysis opportunities for New Jersey's health care system.

To do so, we have resumed the CFO Advisory Panel program to solicit ideas on financing vehicles and Authority programs that would further assist the State's healthcare providers. At the time of this print, a Panel meeting has been scheduled to discuss measures hospitals can take to prepare for and protect themselves from terrorist attacks, as well as possible financing vehicles the Authority can create to help hospitals finance their preparedness measures.

Internally, we've updated the employee review process and other human resource procedures to ensure that each employee has a clear indication of his/her responsibilities and can work in cooperation with other staff members. I must add, this was not a need-driven change, as each member of the staff has demonstrated a work ethic beyond their job descriptions to provide his/her best in product and service.

I have also begun to meet with people across the industry to introduce myself and to hear how their respective trades could most benefit from the Authority. My door is open; if you have a concern you would like to discuss or would just like to make my acquaintance, I encourage you to contact the Authority to arrange a meeting.

I look forward to working with the Authority, and the health care and finance industries as a whole, to provide low cost, efficient financing and more for the health care organizations of New Jersey. §

COMMISSIONER LACY TO RESIGN

Dr. Clifton R. Lacy, Chairman of the Authority, has announced plans to resign from his post as Commissioner of the State Department of Health and Senior Services following the Gubernatorial transition.

As Commissioner of Health and Senior Services, Dr. Lacy was responsible for public health protection and services, health planning and regulation, oversight of health care institutions and managed care companies, hospital financing, public health and environmental laboratory services, senior services, health care policy and research, minority and multicultural health, and preparedness for and response to the health-related aspects of terrorism.

The end of his tenure as Commissioner also brings the end of his service as Chairman of the Authority. "The staff of the Authority is grateful to Dr. Lacy for his leadership and vision," stated Executive Director Mark Hopkins. "His intelligence, approachability and sense of wit served the Authority and the State well through some difficult times."

Dr. Lacy was appointed to serve as Commissioner in early 2002. Under Dr. Lacy's guidance through October of 2004, the Authority issued $1,616,153,741 worth of bonds and $23,800,000 worth of Capital Asset Loans on behalf of New Jersey's health care providers.

The date of his resignation has not yet been specified. The Commissioner assured Senator Codey that he would remain in his position as Commissioner to assist in the search for a new Commissioner as well as to ensure a smooth and orderly transition.

In a statement the Commissioner

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CHARITY CARE

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they provided. Under the new law, no hospital will receive less than 43 cents on the dollar for charity care services.

S1214/A2406 revises the distribution formula for charity care subsidies to provide for a more equitable distribution of subsidy payments. The revised formula weights payments to hospitals in a way that protects and preserves the hospitals that provide the greatest relative amount of charity care in relation to their total revenue. The formula determines each hospital's "relative charity care percentage" (RCCP) and then ranks the hospitals from highest to lowest. The hospitals with the eleven highest will receive payments equal to 96 cents for every dollar of care provided to uninsured patients (priced at Medicaid rates).

"With profit margins stagnant or falling in the last two years, this additional $200 million in revenue couldn't have come at a better time," said Steve Fillebrown, Director of Research and Investor Relations at the Authority.

Though the increase is a tremendous boost for the hospitals that have long shouldered the burden of uninsured services, Health and Senior Services Commissioner Clifton R. Lacy, M.D. reminds New Jerseyans that the new law goes well beyond the hospitals' bank accounts. "Charity care is an essential part of New Jersey's safety net for the uninsured," said Commissioner Lacy, "(The law) should not be narrowly viewed as support for hospitals but broadly viewed as an investment in the health and well-being of the residents of New Jersey." §

Commissioner Lacy speaking in August at the signing of the charity care law S1214/A2406

The Authority's 2003 REPORT ON ANNUAL OPERATIONS can be found online at http://www.state.nj.us/njhcffa.

FINANCING NOTE$

On September 22, 2004, the Authority closed a $50,000,000 transaction on behalf of **Robert Wood Johnson University Hospital** ("RWJUH"). Based upon the letter of credit provided by Wachovia Bank, Moody's Investors Service rated the bonds "Aa2/VMIG1".

The Bristol-Myers Squibb Children's Hospital of Robert Wood Johnson University Hospital

The bonds are structured as a variable rate issue with a seven-day reset. Wachovia Bank, the underwriter, offered the bonds to the market at an initial rate of 1.45% based upon an expectation that the Bond Market Association index for the week would approximate 1.48%. Wachovia offered to underwrite at the 1.45% level, and after discussions with RWJUH, the Authority accepted. The bonds have a final maturity date of July 1, 2029.

The proceeds of the RWJUH issue will be used to fund the construction of an approximately 56,000 square foot expansion of The Bristol-Myers Squibb Children's Hospital; fund the renovation of approximately 43,000 square feet of obstetrics space in both the Tower Building and the 1958 Building; and, fund the procurement of capital equipment.

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On October 28, 2004, the Authority Members approved two contingent bond sales. **Recovery Management Systems, Inc.** ("Recovery") was approved for an issuance in an amount not to exceed $14.5 million. Recovery was formed to own and operate a facility to be used by two non-profit organizations: Discovery, which provides residential and outpatient substance abuse treatment programs, and The New Hope Foundation, which serves those in need of treatment for alcoholism, drug addiction and compulsive gambling.

The bonds are enhanced by a Commerce Bank direct pay letter of credit, and, as a result, the issue is expected to be rated A2/VMIG-1 by Moody's Investors Service. The bonds will initially be issued in a weekly variable rate mode, however, the documents allow for a conversion. Discovery and New Hope entered into a guaranty agreement with Commerce Bank to further secure the letter of credit.

The proceeds of the bonds will be used to construct and equip a 260-bed facility to house two separate residential treatment programs including common areas such as recreational, medical, reception and commissary facilities. Recovery has purchased a 10-acre parcel from the State on which Marlboro Psychiatric Hospital was located.

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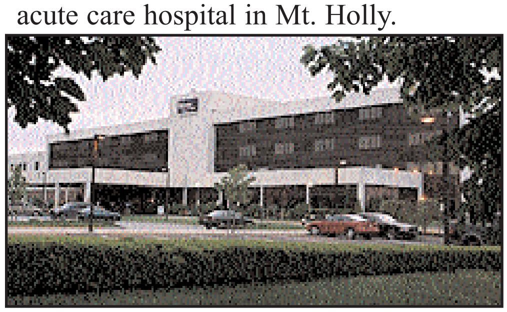
Also approved in October was a contingent bond sale on behalf of **Virtua Health, Inc.** ("Virtua") in a total amount not to exceed $60,000,000. Virtua is the parent company of Virtua-West Jersey Health System, which operates general acute care hospitals in Berlin, Marlton and Voorhees, as well as Virtua-Memorial Hospital Burlington County, which is an acute care hospital in Mt. Holly.



Virtua West Jersey Hospital in Marlton

The proceeds will be used to refinance an outstanding Capital Asset Loan and fund various new money projects including a new ICU, expanded lobby, cardiac catherization lab, and a new wing to house a 24-bed post-interventional care unit at the Marlton campus; interior renovations including labor and delivery suites, a postpartum unit, a neonatal and pediatric intensive care unit, and expanded operating rooms at the Voorhees campus; and interior renovations and restoration work including an intensive care unit, a progressive care unit and a pulmonary and adult care unit for the elderly at the Berlin campus. The proceeds will also be used for information technology enhancements at all the hospital campuses within the System.

The bonds will be structured as a variable rate financing, secured by a Wachovia Bank direct pay letter of credit, and are expected to receive an "Aa2/VMIG1" rating from Moody's. Initially, the bonds will be priced in a weekly mode, though they have the ability to be converted to a credit enhanced fixed rate.

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The Children's Therapy Center

On October 28, the Authority also approved the issuance of a $1.5 million loan to the Cerebral Palsy Center of Bergen County, also known as **The Children's Therapy Center.** The funds were provided through the Authority's Capital Asset Loan Program ("CAP"), which is designed to take advantage of bonds issued prior to the 1986 changes in the tax laws. When loans under the program are repaid, funds become available for other health care organizations in need of capital.

The loan will be used to finance construction of a 7,000 square foot addition to the Center's existing facility and renovate existing space. The project includes the construction of new classrooms, the expansion of occupational, physical and speech therapy treatment areas, the addi-

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AUTHORITY EASES PENSION REPORTING REQUIREMENTS

Due to improved pension regulation and market conditions, the Authority has eased its pension reporting requirements.

Throughout 2002, a number of hospital pension funds incurred significant investment losses. This resulted in major funding requirements for many Authority borrowers. The Authority responded to protect both the borrowers and the bondholders.

On January 21, 2003, the Authority outlined a new set of pension reporting requirements, which required borrowers to submit their annual Pension Audit and their IRS Form 5500 to the Authority in order to ensure that the pension plans were properly funded. Fortunately, the Authority was not the only organization to notice and react to pension funding weaknesses.

The Financial Accounting Standards Board issued FAS 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. According to www.fasb.org, this Statement "standardized disclosure requirements for pensions and other postretirement benefits to the extent practicable, required additional information on changes in the benefit obligations and fair values of plan assets that facilitate financial analysis, eliminated certain disclosures that are no longer as useful, (and) suggested combined formats for presentation" of disclosures. FAS 132 impacts the financial statements of years ending after December 15, 2003.

Combined with the new Statement, 2003 also enjoyed improved market conditions, which benefited the plans and the related sponsor's financial condition.

Recognizing the overall improved state of pension funding, the Authority eased its reporting requirements. Instead of the annual provision of a Pension Audit and IRS Form 5500, borrowers could add language to their quarterly CFO certificate (submitted to the Authority by its borrowers) stating that the Pension Audit and IRS Form 5500 have been reviewed by the CFO, and that the hospital is in compliance with the funding requirements set forth by ERISA.

The Authority is proud of its ability to continuously adjust and improve its practices for the betterment of the borrowers and bondholders. As stated by Executive Director Mark Hopkins, "The Authority strives to impose the least onerous requirements on its borrowers while ensuring sufficient security for its bondholders."

This change in requirements is effective September 30, 2004. If you have any comments or questions regarding the change, contact Susan Tonry, the Authority's Compliance Manager and Assistant Director of Operations, at STonry@njhcffa.com.§

S&P INTRODUCES DDPs:

Weighs Risk of Debt Derivatives

In September 2004, Standard & Poor's Rating Services ("S&P") introduced a new line of evaluations, called Debt Derivative Profile ("DDP") scores, to "provide the public finance market with a simple measure of the complexities of municipal debt-related derivatives by translating that exposure into an easily understandable measurement of risk."

The recent jump in municipal market debt derivatives such as swaps and caps have altered issuers' credit profiles. The DDP scores will make municipal derivatives and their impact on a borrower's credit rating more transparent.

While the derivative impact is already

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FINANCING AUTHORITY SUMMIT CHARITY SELECTED

In early 2004, the Authority coordinated the **Financing Authority Summit: *Partnering New Jersey's Healthcare Leaders***, funded entirely by outside corporate sponsors.

The Authority, the sponsors, and the Executive Commission on Ethical Standards agreed that all proceeds beyond the cost of the event would be allocated to a charity selected by Commissioner Lacy as Chairman of the Authority.

The charity selected to receive the surplus is the Stem Cell Research Institute, and, as such, it will receive a gift of $41,794.01. The Authority and the New Jersey Department of Health and Senior Services support the Institute's groundbreaking research as well as the Administration's efforts to make the Institute possible.

Ed Tetelman, Acting Public Guardian (left) and Commissioner Lacy attending the Financing Authority Summit

Richard P. Kusserow (former U.S. Department of Health and Human Services Inspector General) speaking at the Summit

The Authority would once again like to thank the sponsors, without whom the event and the donation would not have been possible:

-Merrill Lynch & Co.
-McCarter & English, LLP
-NW Financial Group, LLC
-Ziegler Capital Markets Group
-UBS Financial Services, Inc.
-Bank of America
-Commerce Capital Markets, Inc.
-Goldman Sachs & Co.
-J.B. Hanauer & Co.
-Cambio Health Solutions
-Wachovia Bank
-JPMorgan Chase §

a factor of S&P analyses, DDPs code existing municipal swap rating criteria into a separate easy-to-understand risk score.

Ranging from 1 to 5, the DDP score will indicate a borrower's potential financial loss from derivatives due to early termination resulting from credit or economic circumstances. A score of 1 represents the lowest risk; 5 represents the highest.

The DDP scoring system considers **four** components:

1.**Issuer Termination and Collateral Posting Risk-** the risk that the borrower will default under a swap or trigger a collateral posting under credit support documents

2.**Counterparty Termination Credit Risk-** the risk that a counterparty will default and terminate a swap and the issuer will lose a positive swap valuation

3.**Economic Viability of the Derivative Portfolio-** the risk that the borrower could have an incentive to restructure or voluntarily terminate a transaction due to ineffectiveness of the swap over the longer term

4.**Quality of Swap and Debt Management Policies and Procedures-** S&Ps assessment of management experience and the quality of its swap and debt management plan

Other factors that influence a DDP score include:

·Borrower's rating and outlook, indicating its tolerance for a high DDP score
·Swap exposure, indicating the absolute level of involvement with swaps
·Reserve level's value-at-risk, assuming the potential worst-case market value loss in a derivatives trade
·Net variable rate exposure, measuring the potential damage from high interest rates to a borrower's revenue stream and reserve levels

Investment grade borrowers are expected to score a 1, 2, or 3. While higher rated borrowers can withstand higher DDP scores, a high DDP would likely be a negative factor for lower rated borrowers.§

S&P states: "It is important to note that the expectation of public finance issuers is that swaps and other derivatives are used as hedges and will be related to debt instruments. Hedges are designed to offset risk. Derivatives entered into to generate revenues or relieve rate pressures are viewed as essentially gambling on interest rates and are viewed negatively in the overall analysis."

SELF-INSURANCE ANNUAL RATING MEETINGS BEGIN

In October 2004, Susan Tonry, the Authority's Compliance Manager, attended the first two rating meetings under the Authority's new self-insurance rating mandate. After the two meetings, Ms. Tonry was pleased that the collaboration proved an effective tool to create the best program for the hospitals' needs.

Remember: If you are creating a self-insurance or captive program, you must contact the Authority for info on the approval process.

In 2003, the Authority began a new monitoring policy to ensure the security of its borrowers' self-insurance programs, including captive insurance companies and trusts. The Authority's new policy requires that all borrowers with a self-insurance program obtain an annual rating from A.M. Best Company.

In order to provide an accurate rating, A.M. Best submits a list of data requirements to the borrower. The data represents information related to the borrower as well as the captive or trust. Upon review of that data, A.M. Best creates an outline of issues, specific to the program and the borrower, from which representatives of the borrower must craft a presentation to be given at an annual meeting with A.M. Best.

The meeting allows the borrower an opportunity to provide explanations and embellishment to the data that was provided. "When reviewing only raw data, there is little apparent difference between self-insurance programs," says Ms. Tonry. "This meeting allows the borrowers to personalize their programs, telling the stories behind their motivations and intentions."

Susan Tonry, the Authority's Compliance Manager

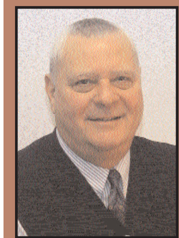
Initially, "mandated presentations" sound intimidating, especially since management is a factor considered in the rating process, but the meeting actually exists to provide the borrowers an arena in which to explain back-stories, such as trial and errors, and emphasize successes. As such, the tone of the meetings is very comfortable, with a spirit of cooperation eminent throughout.

The initial presentations were followed by a Q&A session, in which all of the questions from A.M. Best were straightforward and relaxed. The goal is to get a good understanding of the program and the hospital(s) for which it was created, not to seek out shortcomings. Following the Q&A, A.M. Best may suggest ways, specific to the program, in which it can improve.

Ms. Tonry states, "The first two meetings have demonstrated a total collaboration between the borrower and the rating agency, both wanting the most sound program for the hospital's continuing needs."

The meetings to date have accomplished the goals that the Authority's monitoring program intended, in that each program can be rated effectively. As a result, Authority bondholders can feel secure that the borrowing hospital has prevented an unexpected financial fallout due to insurance issues. §

NJHCFFA STAFF NOTES



Anthony M. Gennari

Congratulations to **Anthony M. Gennari**, Assistant Account Administrator who has completed his fifth year of service with the Authority, and to **Ronald S. Marmelstein**, Account Administrator who just completed his fifteenth year with the Authority. Mr. Gennari and Mr. Marmelstein were acknowledged before staff for their dedication and determination.

Ronald S. Marmelstein

Administrative Assistant **Margaret A. Smith** (affectionately known as "Peggy") has moved to London after ten years of employment with the Authority. Staff and the Members wish her and her family the best of luck.

Margaret A. Smith

Barbara Koozin

At the same time, the Authority issues a warm welcome to **Barbara Koozin** who joined the staff in September as the newest Administrative Assistant working in the Division of Operations.

PRESENTATIONS BY NJHCFFA STAFF

Authority staff members are often asked to share their insight through presentations at various conferences and seminars throughout the year.

Steve Fillebrown giving a presentation on DisclosureUSA

On September 29, 2004, **Steve Fillebrown**, Director of Research and Investor Relations for the Authority and Muni Council participant, spoke about the DisclosureUSA electronic filing system at the annual joint fall conference of the National Association of Higher Educational Facilities Authorities (NAHEFA) and the National Council of Health Facilities Finance Authorities (NCHFFA) held in Indianapolis, Indiana.

On October 28th, Mr. Fillebrown spoke again at the *New Jersey 2004 Institutional Investors' Conference* held at the New Jersey Performing Arts Center in Newark. This time he presented on the current and future state of health care financing in New Jersey.

If you would like more information about the presentations, or would like an Authority staff member to present at an event, please contact:

Stephanie Zschunke
NJHCFFA Communications
szschunke@njhcffa.com

NEW EXEC. DIR.

(continued from page 1)

General, I saw first hand the outstanding work being done by the Authority," said Mr. Hopkins, "I am honored to be a part of the staff and its mission."

Mr. Hopkins earned a Bachelor of Arts degree from Rutgers College in New Brunswick. He earned his Juris Doctor Degree with high honors from Rutgers University Law School at Camden.

As Executive Director, Mr. Hopkins' duties include overseeing the financing for health facility construction, renovation, and equipment purchases through a variety of programs offered by the Authority. He is responsible for the Authority's portfolio of bonds, which is in excess of $5.5 billion, and the compliance of borrowers with the legal covenants in each bond issue. He also presides over data analysis services provided by the Authority. §

LACY RESIGNING

(continued from page 1)

issued to his departmental colleagues, he said, "It has been an honor and a pleasure to serve as Commissioner of Health and Senior Services and to work with our Department's outstanding, dedicated and professional staff. I am very proud of our many accomplishments to improve the public health, health care, and senior services in New Jersey."

Commissioner Lacy was the first Cabinet member to announce plans to leave state government since Gov. James E. McGreevey announced his resignation. As Commissioner, he will be remembered as a strong, effective, and congenial leader of the State's health network. §

2004 Completed Bond Issues	Issue Structure	Par Amount
Underwood-Memorial Hospital	Two tranches: Both 7-day auction rate	$65,300,000
Hackensack University Medical Center	Two tranches: 7-day and 35-day auction rates	$150,000,000
Bayshore Community Hospital	COMP V Program: weekly variable rate	$8,000,000
Beth Israel Hospital Assoc. of Passaic	COMP V Program: weekly variable rate	$13,300,000
Meridian Nursing & Rehab. at Red Bank	COMP V Program: weekly variable rate	$14,725,000
South Jersey Hospital, Inc.	COMP V Program: weekly variable rate	$15,075,000
Atlantic Health System	Taxable bonds in 7-day PARS auction rate mode	$26,300,000
Robert Wood Johnson University Hospital	Weekly variable rate	$50,000,000
	Total 2004 Debt Issued through September 30:	**$342,700,000**

APOLLO REPORTS for YEAR-END 2003 THROUGH 2ND QUARTER 2004

By Steve Fillebrown, Director of Research and Investor Relations


Steve Fillebrown

Below are some observations on the financial condition of New Jersey's hospitals, based on the Authority's APOLLO Reports for the year-end 2003 and for the first and second quarters of 2004.

Trends in NJ Medians

Generally, the medians suggest a weakening of the overall financial condition of the state's hospitals. Few ratios have shown improvement in the last 18 months and many have declined.

Year-end median operating and profit margins, although positive at .30% and 1.22% respectively, dropped from 2002 levels. Further, both ratios dropped slightly through the first and second quarters of 2004. Median debt service coverage ratio dropped through year-end but was essentially stable through the first and second quarters.

The increase in the number of hospitals with negative operating and profit margins is also significant. In 2002, 17 hospitals had negative operating margins and 20 had negative profit margins. For 2003, the comparable figures were 29 and 25 respectively. There were expected declines in profitability as hospitals faced reduced Medicare outlier payments, medical denials, increasing malpractice insurance costs, labor shortages and the end of one-time disproportionate share payments. Gains in the performance of most hospital investment portfolios did not offset these factors.

After three straight years of improvement, median days of unrestricted cash on hand declined from 98 days to 89 days at year-end. The decline continued through the first quarter as the ratio fell to 82 days before rising to 83 days in the second quarter. Relatively stable median ratios for days in accounts receivable and days in accounts payable suggest that revenue cycle management is not responsible for the decline. A more likely explanation is that capital spending in 2003 was about the same as 2002 despite lower profitability.

On balance, leverage ratios changed little in 2003. Median debt to capitalization stayed at 48% while long-term debt to net fixed assets rose slightly from .76 to .78. Through the first and second quarters, there is some decline, as debt to capitalization is up to 49% and long-term debt to net fixed assets rose again to .81.

Fortunately, there are two factors that will hopefully boost financial performance going forward. First, the State budget for fiscal year 2005 includes an additional $200 million in charity subsidies. Second, changes in the way in which Medicare adjusts its reimbursement for wages will increase revenues by $100 million beginning October 1, 2004. It will not be known until next year whether or not these changes are enough to reverse current trends, but they are positive developments, nonetheless.

__APOLLO__ is an Authority designed and operated database that includes financial information and characteristics on acute care New Jersey hospitals. The Authority uses the data to monitor financial trends among New Jersey's health care providers. Quarterly postings can be viewed on the Authority's website http://www.njhcffa.com/reports.htm.

Differences Across NJ Hospitals

While the deterioration in median ratios is generally across the board, some peer groups have been harder hit than others. For example, not only have median operating and profit margins for mid-sized hospitals (200-399 beds) been worse than large or small hospitals, they have also been negative and declining for the last 6 quarters. Through the second quarter of 2004, the operating margin was (1.64)% and profit margin was (1.23)%. Non-teaching hospitals are showing substantially similar trends. One possible explanation for this is that the reduction in Medicare outlier payments is concentrated in these two peer groups.

Declines in median days cash on hand are more severe for hospitals serving low-income populations. Since December 31, 2002, the median dropped from 75 days down to 43 days by June 30, 2004. The median days cash on hand for the hospitals serving low-income populations is still substantially below the medians for other peer groups. This is likely due to the drying up of disproportionate share payments, which were concentrated at hospitals serving the low-income populations. Note that for both the first and second quarters, median operating margin was negative for this group. §

FINANCING NOTE$

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tion of a parent waiting room and parent/staff conference room and various upgrades to the physical plant.

JPMorgan Chase Bank, provider of the credit and liquidity support for the CAP, performed an independent credit analysis and approved the loan subject to the borrower providing a first mortgage lien on the facility, a gross revenue pledge and a lien on the fund raising pledges and receivables.

The Authority Project Manager leading the transaction, Suzanne Walton, calls the issuance "a real feel good project" in that the funds will go a long way to make a big difference for an additional 38 children in the school-based programs and another 40 children in the Center's clinical programs.

While the Authority's CAP loan will provide $1.5 million, the total projected cost of the project is $2.2 million, therefore, the Center embarked on a 3-year fundraising campaign. To date the Center has received approximately $500,000 in pledges and $300,000 in cash. §

DisclosureUSA

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"tickler system" for filers who opt-in for e-mail reminders of future filing deadlines. There is no charge for the electronic filing.

DisclosureUSA is the product of a cooperative effort of eighteen industry organizations known as the "Muni Council"* and the Municipal Advisory Council of Texas (Texas MAC).

Steve Fillebrown, Director of Research and Investor Relations at the Authority, and John Van Gorkom, Executive Director of the Washington Health Care Facilities Authority, both served on the Muni Council as representatives from the National Council of Health Facilities Finance Authorities. They presented the needs and concerns of health care issuers and served on the education committee, which prepared the system's introductory materials. Ms. Haines commended the Muni Council's members, as well as Texas MAC "for their dedication and commitment to improve secondary market disclosure." §

*The following groups are members of the Muni Council: American Bankers Association; American Bar Association - Section of State and Local Government Law; American Institute for Certified Public Accountants; CFA Institute (formerly the Assoc. for Investment Management and Research); Council of Infrastructure Financing Authorities; Government Finance Officers Association; Healthcare Financial Management Association; Investment Counsel Association of America; Investment Company Institute; National Association of Bond Lawyers; National Association of Independent Public Finance Advisors; National Association of State Auditors, Comptrollers and Treasurers; National Association of State Treasurers; National Council of Health Facilities Finance Authorities; National Council of State Housing Agencies; National Federation of Municipal Analyst; Regional Municipal Operations Association; and, The Bond Market Association. The SEC's Office of Municipal Securities also participated in Muni Council meetings.

NJHCFFA MEMBERS

Ex-Officio Members:

Clifton R. Lacy, M.D., Chairman · Commissioner of Health and Senior Services

Holly Bakke, J.D. ·
Commissioner of Banking and Insurance

James Davy ·
Commissioner of Human Services

Public Members:

Noreen P. White ·

Carmen Saginario, Jr., J.D. ·

Thomas A. Zelante, J.D. ·

Gustav Edward Escher, III. ·

NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

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