

MOODY'S COMPLETES CREDIT REVIEWS

Moody's Investors Service recently completed its review of 23 outstanding New Jersey hospital bond ratings, the debt for which totals approximately \$855 million. As a result of its review, bonds for five of the hospitals were upgraded, three were downgraded and fifteen hospital bond ratings were confirmed. In reviewing the hospitals, Moody's noted that "a hospital's competitive profile and strategic plan, liquidity position and payor mix became more important credit factors in evaluating a hospital's ability to operate under the new, deregulated system." While the upgrades reflect significantly improved liquidity and financial performance, the downgrades reflect continued liquidity problems.

The ratings contrast with the national trend of 16 upgrades and 33 downgrades. Moody's attributes the national downgrades "primarily to managed care's growth in many markets and limited reimbursements from governmental insurance programs. The upgrades reflect certain specific situations where a hospital has a financial performance track record that has consistently improved. In addition, deregulation in New Jersey has improved financial performance of certain hospitals in that state."

CAPITAL ASSET PROGRAM

The Capital Asset Program continues to offer borrowers a number of advantages such as cost
(continued on page 6)

SERIES A-D CAPITAL ASSET PROGRAM FUNDS AVAILABLE FOR LOANS

For those providers who have made inquiries about the availability of funds in the CAP's Series A-D pool, \$9.5 million is currently available. The year-to-date average loan rate to borrowers is 4.18%. It is recommended that you forward your applications post haste. If you need an application or have questions regarding the program, call Suzanne Walton at the Authority's offices (609) 292-8585.



AUTHORITY WELCOMES NEW BOARD MEMBERS

NEW BOARD MEMBERS

Green P. White of Glen Ridge and Robert J. Rahl of Lawrenceville, pictured above, have been appointed by Governor Christine Todd Whitman to serve as members of the New Jersey Health Care Facilities Financing Authority. Ms. White, President of the financial advisory firm, Municipal Advisory Partners, Inc. located in Montclair, is the first woman appointed to serve as a public member of the Authority. Ms. White fills the unexpired term of the late Morton Howard.

Mr. Rahl, a certified public accountant, is a partner in the firm of Druker, Rahl and Fein, Business Consultants and Certified Public Accountants, located in Princeton. He is also President and Founder of Health Care Management Partners and Chairman of the Medical Practice Group at his firm. Mr. Rahl replaces Charles Fallon of Middletown whose term had expired.

In a related action, Noreen White and Robert Rahl were also elected Vice Chairperson and Treasurer respectively of the Authority. Other officers elected at the June meeting include: Theodore A. Schwartz, Secretary and Assistant Treasurer; Judith A. Dill and June A. Duggan, Assistant Secretaries; and Thomas S. Higgins, Assistant Treasurer. Len Fishman, Commissioner of Health, serves as Chairperson of the Authority.

NEGOTIATING CAPITATION CONTRACTS – A FEW THOUGHTS

Many providers will be negotiating capitation contracts for the first time. H. Lee Schwartzberg, Jr., an attorney with the Health Law Group at Fox, Rothschild, O'Brien & Frankel, a law firm with offices in New Jersey and Pennsylvania, offers the following approaches which reduce the risk assumed by providers when negotiating capitation contracts:

- Provide for guaranteed minimum payments, particularly when extra personnel need to be hired to meet the expected caseload.
- Alternatively, provide that if the number of individuals covered by a capitation agreement does not reach a certain threshold which would adequately compensate for the risk of patients who "overutilize", the provider should be compensated on a fee-for-service or discounted fee-for-service basis.
- Provide for an opportunity to renegotiate the agreement in the event of material changes in patient population or the net income generated for the provider. The agreement should state that if a new arrangement cannot be reached in these circumstances, the provider may terminate the arrangement.
- Give the health care provider the opportunity to terminate the contract at predetermined intervals, such as after 90 days and at least 90 days before each anniversary date.
- Include a stop-loss clause which provides that expenses in excess of a certain amount do not have to be absorbed by the provider.
- For certain areas of practice, capitation rates should vary based on age and gender.

Another article, "Stemming the Risk of Capitated Contracts: What Providers Should Consider When Buying Stop Loss Insurance" appeared in the May/June 1995 issue of Health Care Innovations (published by Health Care Communications, Inc., Fort Lee, New Jersey). James Kreig, the author and Senior Vice President of Keenan & Associates, writes about the basic principles of a stop loss policy and discusses the factors that need to be considered before purchasing such insurance. He also identifies some common pitfalls and suggests a number of issues to be addressed when evaluating stop loss coverage.

AUTHORITY MEETING SCHEDULE

October 26, 1995	February 29, 1996
November 30, 1995	March 28, 1996
December 21, 1995	April 25, 1996
January 25, 1996	May 30, 1996 (Annual Meeting)

Meetings are held at 10:00 A.M. in the Authority's headquarters, Station Plaza, Building 4, 22 South Clinton Avenue, Trenton, NJ.

APOLLO

The Apollo reports of audited 1994 data and unaudited data for the first quarter of 1995 have been completed and were distributed to hospitals and other interested parties in late July. The reports reflect modifications to several of the ratio definitions reflecting the growing importance of outpatient volume and payor mix in a deregulated environment. Two new capital ratios have been added to measure financial leverage. A review of the year end and first quarter, 1995 data suggests an overall improvement in the hospitals' financial conditions especially in the area of liquidity.

Developed in 1987 as a management assistance and financial profiling system, the Apollo program has been generating financial and utilization reports on individual hospitals as a mechanism for both monitoring and planning purposes. Originally, hospitals were required to complete their reports manually. Three years ago the Authority simplified its reporting procedures and developed a diskette for the hospitals to report their quarterly and annual data. Utilization of this new, more efficient format has resulted in saving four weeks in the generation of the reports. The new procedure also enables the Authority staff the opportunity to scan each hospital diskette to determine if any viruses appear to be present in hospital management systems. Two hospitals were notified of potential viruses this year after staff completed its scan process.

The Authority makes this system available at no cost to the health care industry and will continue to make modifications in ratios and improvements in the process to keep the Apollo system a valuable tool for borrowers and investors alike.

BOND COUNSEL POOL SELECTED

Six law firms have been selected to serve in a bond counsel pool established to handle all Authority transactions. The firms were selected as a result of a Request for Qualifications ("RFQ") which was distributed to approximately 70 firms by the Office of the Attorney General. The firms are: Ballard, Spahr, Andrews & Ingersoll; Crummy, Del Deo, Dolan, Griffinger & Vecchione; DeCotiis, Fitzpatrick & Gluck; McCarter & English; McManimon & Scotland; and, Riker, Danzig, Scherer, Hyland & Perretti.

PHYSICIAN GROUP PRACTICES

The New Jersey Health Care Facilities Financing Authority held its second Board Retreat of the year in July as part of an effort to examine, on a continuing basis, issues currently facing the Authority. The main focus of this symposium was to discuss physician group practices, a rapidly emerging phenomenon in the world of health care providers.

Nancy A. Brunton, of NB Consulting Associates, presented an assessment of the rapidly changing health-care environment, the development and direction of physician group practices and management service organizations. Her presentation included an overview of integrated healthcare delivery systems and a discussion of the capital financing needs required to develop and operate these new organizations.

A panel discussion followed and consisted of the following:

- Michael Irwin, Smith Barney Inc., presented a case study highlighting the characteristics of a successful integrated health care delivery system;
- Elizabeth Litten, Esq., DeCotiis, Fitzpatrick & Gluck, spoke of the impact of managed care and the health care delivery system on the Authority's outstanding bonds and the legal issues surrounding the financing of these new organizations. She noted that the Authority's bonds would be protected as long as the hospital's 501(c)(3) status is maintained, the financial health of the facility is preserved and the assets pledged to bondholders are protected. She stated that the development, relationship and structure of these new organizations are critical factors in ensuring compliance with state and federal laws and particularly the protection of a hospital's 501(c)(3) status.
- Pauline Clark, Fitch Investors Service, asserted that health care institutions which are not negotiating with doctors in anticipating a capitated payment system are in jeopardy of losing valuable revenues

in the future. She also complimented the Authority on the value of its monitoring practices, and suggested that because of the practices, the Authority is in a stronger position to assess private inurement issues raised in connection with hospital/physician agreements.

- In addition, Stuart M. Hochron, a physician and attorney, suggested that doctors will control the emerging new health care system and provided the Authority with information to support the need for financing of these entities in the future.

AUTHORITY/NATIONAL COUNCIL ACTIVITIES

The Authority has been an issuer of bonds for health care facilities in New Jersey since its inception in 1972. Like many other state issuers across the country, the Authority is a member of the National Council of Health Facilities Financing Authorities. The Council, which began as an informal confederation of issuers in the early 1970's, was incorporated in 1987 and focuses its efforts on issues that directly affect the availability of tax-exempt financing for client institutions.

Through its Advocacy Committee, the Council is lobbying for three important changes to the tax code: expansion of bank deductibility, increased number of advance refundings and removal of the \$150 million cap for non-hospital 501(c)(3) corporations.

EXPANSION OF BANK DEDUCTIBILITY

Current tax law restricts bank deductibility of interest expense attributable to investments in tax-exempt bonds to those bonds which are issued by small issuers, those issuing less than \$10 million in tax-exempt bonds during a calendar year. This provision limits a health care facility from obtaining the lowest cost financing for small projects when accessing the capital market through a conduit issuer such as the Authority.

(continued on page 4)

AUTHORITY NOTES has been developed to communicate directly with those who are involved in the financing of New Jersey's health care institutions. It will be published periodically, as needed, to convey changes in Authority policy and practices, tax law and regulations, and to suggest ways to decrease capital expenses and increase revenues. The Authority welcomes your input, ideas and suggestions.

AUTHORITY/NATIONAL COUNCIL ACTIVITIES

(continued from page 3)

The Council is proposing that the \$10 million exemption be applied to the individual borrowing entity instead of to the issuer. This would permit the health care facilities financing authorities to provide tax-exempt financing at preferential rates to those institutions which require less than \$10 million in a given year.

ELIMINATION OF THE \$150 MILLION CAP

Non-hospital 501(c)3 organizations such as health maintenance organizations, universities, skilled nursing facilities, ambulatory care facilities, and community health clinics are currently limited to \$150 million per institution in outstanding tax-exempt bonds. This law has had negative implications for facilities which are considering mergers because the "surviving institution" would be limited to the \$150 million cap. Any bonds in excess of the cap would become taxable retroactive to their date of issuance. The Council is recommending that the cap be eliminated.

INCREASED NUMBER OF ADVANCE REFUNDINGS

Restrictions on the number of advance refundings have been in place for a number of years. Nonprofit borrowers including health care facilities are limited to one advance refunding of bonds for any post-1987 financing and to two advance refundings for tax-exempt bonds issued prior to 1987.

Many institutions are forgoing advance refundings for savings in the event they merge with other institutions and need to advance refund their debt at that time. The Council is working on changes in the law which would permit one additional advance refunding in the case of a merger or consolidation undertaken to reduce excess capacity or create other efficiencies.

The Authority is actively involved in the workings of the Council and participates in a number of committees dealing with issues facing health care authorities across the country. Edie Behr is a member of the Advocacy Committee; June Duggan serves on the Board, the Strategic Planning Committee and the Education Committee; Steve Fillebrown is Chairman of the Rating Agency and Credit Enhancement Committee; and Dennis Hancock is a member of the Finance Committee.

CERTIFICATE OF NEED

The Authority provided testimony before the Health Care Administration Board on September 21 sup-

porting the proposed Certificate of Need reform package. June A. Duggan, Deputy Executive Director, stated that the proposed regulations will be helpful to the Authority. By "streamlining the process and reducing the time between application and approval, the financing data will be more accurate, allowing for a more expeditious financing and completion of the project".

PROPOSED REGULATIONS

The Department of Health's proposed reforms to the Certificate of Need regulations are expected to result in legislative action in 1996 to implement the reforms. The historical purpose of the Certificate of Need program has been to foster quality, access and cost containment of health care. While the reform package continues to focus on both the provision of quality care and access to care, it also allows flexibility for healthy competition in a deregulated environment.

The reform package would streamline the application process, allow more flexibility to develop or expand services, and enhance competition. All in all, the reforms would result in a more efficient program including deregulation of some services, streamlined regulation of remaining services and realignment of the fee structure.

A number of services would be shifted to the expedited review process which would shorten the processing time and reduce the cost of applying for a Certificate of Need. Among those services are: basic obstetrics, pediatrics and the birthing centers, acute renal dialysis, comprehensive outpatient rehabilitation, ambulatory care, ambulatory surgical, residential alcohol and drug services and MRI.

While the new Certificate of Need regulations would result in a more efficient program, it would also accelerate the financing process, the completion of the project, and commencement of both the new services and the receipt of revenues associated with the project.

NEW APPLICATIONS

Certificate of Need ("CN") applications have been received from 36 health care institutions for projects totalling approximately \$155 million. The CN projects being considered will provide an array of new and/or expanded services but will consist primarily of new ambulatory services, ambulatory surgical services, radiation therapy services and birthing centers. The costs for the proposed projects range from \$27,000 to \$38.2 million, with 31 applications costing under \$5 million, eight applications costing between \$5 million and \$8 million and only one exceeding the latter amount. Applicants will make equity contributions totalling

(Continued on page 6)

NOTEWORTHY

- The Authority is currently considering the issuance of variable rate debt on a stand-alone basis in response to the needs of a health care provider.
- CoreStates Financial Corp recently announced the sale of its corporate trust business. The Bank of New York (NJ) will acquire the New Jersey portfolio which includes 23 hospitals. Authority staff is working diligently with the banks to ensure a smooth transition.
- The Authority has been working closely with the New Jersey Congressional delegation as well as the State of New Jersey Washington Office alerting them to the need to preserve the healthcare programs of FHA and their importance to New Jersey health care providers. When Congress returned from its summer recess to face the passage of the federal budget, the Authority received good news that the House Appropriations Committee, in marking up its fiscal year 1996 appropriations bill for programs including FHA, had retained the FHA healthcare programs and had exempted them from the overall moratorium on multifamily programs. Favorable action preserving the healthcare programs is expected in the Senate as well as in the full House of Representatives.
- Standard & Poor's Corporation began its credit reviews of rated New Jersey hospital issues in August.

FINANCING NOTES

- A \$30 million bond issue was sold on behalf of JFK Health Systems to finance the construction of additions to the hospital and the rehabilitation facility and the acquisition of major moveable equipment. The competitively bid transaction, with a final maturity date of July 1, 2025 and insured by Financial Guaranty Insurance Company, resulted in a true interest cost of 5.73% . This series of bonds is the eleventh issue that the Authority has financed on behalf of JFK and its related institutions.
- The proceeds of a \$13.6 million bond issue sold on behalf of Warren Hospital were used primarily to refund the Warren Hospital Series C bonds which resulted in \$1.4 million net present value savings. In addition, the issue provided funds for certain capital improvements at the hospital. In order to obtain insurance for this transaction, the Authority urged the Department of Insurance to expedite its licensing review of Asset Guaranty Insurance Company. The insurer is the seventh company to provide enhancement for a New Jersey health care institution.
- A financing on behalf of Kennedy Health Facilities, Inc., a 120-bed skilled nursing facility in Turnersville was sold by competitive bid on September 21. The



DAUGHTERS AT WORK DAY

On May 25, the Authority was host to Tammy Donahue and Lauryn Hancock, participants in national Parent-Daughter Day which is jointly sponsored by the State of New Jersey and the school systems. Tammy and Lauryn, the daughters of staff members Lorraine Donahue and Dennis Hancock respectively, had the opportunity to meet Authority Chairman and Commissioner of Health Len Fishman, and Executive Director Edie Behr. They spent the day learning about the Authority and its programs and also experienced first-hand a monthly meeting of the Authority Board. Pictured above standing left to right are Lauryn Hancock and Tammy Donahue and seated left to right Authority Chairman Len Fishman and Executive Director Edie Behr.

\$4.55 million bond issue will refund the nursing home's FHA-insured bonds. The Kennedy Health Facilities, Inc. issue is the first FHA-insured, competitively bid nursing home bond issue to be sold in the country and will result in 33% savings to the institution.

PROJECT NOTES

- Monmouth Medical Center has completed construction of its 686-car, multi-story parking garage.
- The construction of a new floor has been completed at Raritan Bay Medical Center's Old Bridge Division which will house 33 inpatient beds. The dedication is scheduled for early November.
- Shore Rehabilitation Institute ("SRI"), having held its official grand opening on May 24, has been at 100% occupancy since June 1. The Institute, located in the Medical Center of Ocean County's Point Pleasant Division, will begin its day hospital rehabilitation program at the end of October. The facility will offer an intensive program of physical, speech and occupational therapy on an outpatient basis to approximately 12 patients.

CAPITAL ASSET PROGRAM

(continued from page 1)

effectiveness, efficiency, flexibility and security options. However, there are a number of other significant benefits to be realized by utilizing the CAPITAL ASSET PROGRAM for capital projects, including:

- no arbitrage rebate;
- no requirement to file secondary market disclosure information with the MSRB or the Nationally Recognized Municipal Securities Industry Repositories (NRMSIR's);
- borrowers are not subject to the \$150 million cap on tax-exempt monies borrowed by nonhospital 501(c)(3) organizations;
- loans for private uses can be made more liberally with the proceeds from the CAP than with the proceeds of new bond issues; and,
- loans from CAP proceeds will not limit the borrowers with regard to the terms of management contracts.

If you would like additional information on the benefits of the CAP or if you have questions regarding a specific project, call Suzanne Walton at the Authority's offices (609) 292-8585.

A FRIENDLY REMINDER

When sending correspondence to the Authority through the U.S. Post Office, please remember to include "CN 366" in the address. The mail that includes the CN number is delivered in a timely manner and permits a prompt response by the Authority staff.

AUTHORITY TO HOLD ALF SYMPOSIUM

The Authority will sponsor a symposium on the financing programs available to not-for-profit assisted living facilities and comprehensive personal care homes on Friday, November 17, 1995 at the Authority's headquarters in Trenton. If you are interested in attending, please contact Chip Dutcher or Bonnie Kisco at (609) 292-8585 for additional information.

CERTIFICATE OF NEED

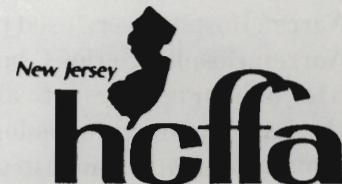
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\$65.4 million for their projects and seventeen will finance their respective projects entirely with equity.

In an effort to encourage the development of assisted living facilities ("ALF's") and comprehensive personal care homes ("CPCH's"), the Department of Health recently extended its "window of opportunity" during which time applicants can apply for a Certificate of Need. Applications filed through June 19, 1996, will receive an expedited review and will not be subject to a need methodology.

To date, the Department has received applications for 66 assisted living facilities and 24 comprehensive personal care homes, representing 6,274 beds and 1,892 beds respectively. Of this amount, twenty Certificates of Need (16 ALF's and 4 CPCH'S) have been approved for a total of 1,774 assisted living facility beds and 293 comprehensive personal care home beds.

Len Fishman, Chairman
Commissioner of Health
Elizabeth E. Randall
Acting Commissioner of Insurance
(Leon Moskowitz, Designee)
William Waldman
Commissioner of Human Services
(Edward Tetelman, Designee)
Noreen P. White
Theodore A. Schwartz
Robert J. Rahl
Thomas S. Higgins
Edith F. Behr, Executive Director



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