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AUTHORITY NOTE$

New Jersey Health Care Facilities Financing Authority April 1998

GOVERNOR SIGNS AUTHORITY LEGISLATION INTO LAW

On January 19, 1998, Governor Christine Todd Whitman signed legislation, which broadens the Authority's statutory power and permits the Authority to better serve the needs of the state's health care organizations. P.L. 1972, c. 29, as amended, expands the range of health care organizations and projects eligible for Authority financing. It permits the Authority to provide financing for health care organizations or components thereof without regard to (1) whether the organization is a direct deliverer of health care services or a provider of support services; or (2) corporate tax status. The statute permits any for-profit or not-for-profit health care organization or related entity to borrow funds through the Authority for capital projects, equipment acquisition and/or working capital. In addition, the requirement that the Commissioner of Health and Senior Services approve costs for those portions of projects that do not require a certificate of need has been eliminated.

The Authority has long advocated the expansion of its statute in an effort to address the diverse and evolving financing needs of the state's entire health care community. During the next several months, the Authority will work to implement this legislative expansion.

The Authority is very appreciative of all who wrote letters of support, contacted legislators, testified

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AUTHORITY DEVELOPS COMP PROGRAM

The Authority recently authorized the development of a new variable rate financing program to benefit New Jersey's health care organizations. The new program, which complements the Authority's other financing vehicles, will enable qualified health care borrowers to access the tax-exempt and/or taxable capital markets at low interest rates and with lower issuance costs. As in other variable rate issues, both credit and liquidity support would be provided in the form of a bank letter of credit or a bond insurance policy.

The Composite Program **("COMP Program")** is being developed based upon a demand study that was undertaken by PNC Capital Markets which identified a current demand of more than $35 million. The Authority authorized staff to proceed with the preparation of bond issues for contingent sale in the second quarter of 1998. The Authority will consider additional issues as borrower need for financing occurs.

The **COMP Program** offers a number of advantages to borrowers including the:

- use of variable rate debt which has historically provided the lowest cost of capital and which can be redeemed at any time without penalty;

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NEW BOARD MEMBER

Dr. Shing-Fu Hsueh was recently appointed by Governor Christine Todd Whitman to serve as a member of the New Jersey Health Care Facilities Financing Authority. Dr. Hsueh serves as Program Director - Brownfields, Office of State Planning, in the Department of Treasury. He is an Adjunct Professor at Rutgers University-College of Engineering and serves as Council President in West Windsor Township where he resides. Dr. Hsueh succeeded Thomas Higgins whose term had expired.

YEAR END REVIEW

At the December Authority Board meeting, Executive Director Edie Behr recapped the year's accomplishments and identified goals for 1998. She noted that 1997's activities were driven primarily by a rapid consolidation of health care providers and low interest rates. When added to the Authority's mission of maintaining access to low-cost capital and its primary objectives of cutting costs, increasing flexibility, efficiency and communication, "1997 added up to an incredibly productive year — a very fitting tribute to the Authority's 25th year of service".

As evidence of the Authority's success in maintaining access to capital, Ms. Behr pointed out that nine bond financings totaling $455,935,000 in par value had been closed during the year. Through these nine bond issues as well as four Capital Asset Program loans, new money was raised for a start-up assisted living facility, a parking garage, a cancer center, and to establish and equip a cardiac catheterization unit. The majority of bond proceeds, however, were used to refinance outstanding debt. Net present value savings associated with these refundings totaled more than $24.5 million.

Financings completed during 1997 incorporated a number of "firsts" for the Authority. For example:

- the Authority issued auction bonds and forward delivery bonds;
- debt was issued under the IRS acquisition debt regulations;
- the Authority closed its first financing for an assisted living facility;
- the sale of bonds on a stand-alone, variable rate basis was approved and represents the first stand-alone, variable rate demand note issue approved by the Authority since 1985.

In order to assist borrowers in their consolidation efforts, the Authority approved or acknowledged the merger of 15 institutions into new corporations and approved the expansion of several obligated groups during the year.

With support from the Department of Health and Senior Services and especially Commissioner Fishman, the Authority actively pursued the passage of legislation which would permit the Authority to better serve the needs of the state's health care organizations. Ms. Behr noted the extensive efforts made in contacting hospitals, trade associations, attorneys, investment bankers and legislators asking for support. (see Governor Signs Legislation article on page 1)

The Authority rebated a total of $1,250,000 to participants in the Capital Asset Program, Series A-D pool and collapsed the Capital Asset Program, Series E.

Through its advocacy efforts and involvement in the National Council of Health Facilities Financing Authorities, the Authority participated in a successful effort to persuade Congress to repeal the $150 million cap on tax-exempt financing for nonhospital 501(c)(3) organizations and to leave the 2% de minimus rule alone.

Ms. Behr stated that 1998 would bring many new challenges and a host of new opportunities that would be met with enthusiasm. If the Authority's enabling statute were expanded, she asserted that the Authority would have to move rapidly to implement the expanded statute. In any event, the Authority would continue to respond to the needs of the health care organizations of New Jersey. She said that the Authority would continue to reach out to new borrowers and to find ways to access the market for those who have had difficulty. She closed by affirming that the Authority would continue to strive to reduce costs for all.

COMP PROGRAM

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- costs of issuance are to be shared by all borrowers thereby reducing each participant's issuance costs;
- time investment by management will be less than for a stand-alone bond issue primarily due to the use of standardized documentation and minimal disclosure requirements; and,
- selection and negotiation of the credit enhancement package is under the borrower's control.

PNC Capital Markets has been selected to serve as senior managing underwriter and remarketing agent for the initial offering of bonds under this program. Although bonds for each borrower will be marketed simultaneously, each borrower will be responsible only for its own series of bonds. There will be no cross-collateralization. To obtain additional information on the **COMP Program,** call Dennis Hancock, Deputy Executive Director and Director of Project Management, at the Authority (609-292-8585).

GOVERNOR SIGNS AUTHORITY LEGISLATION INTO LAW

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before various committees and provided other means of support to the Authority in its effort to broaden its statutory authority. Without this broad support, passage of the legislation would not have been possible. This legislative expansion will allow the Authority to continue to provide access to the financial resources necessary to ensure the health and well being of the citizens of New Jersey.

The Securities and Exchange Commission requires borrowers whose publicly issued bonds were issued after July 3, 1995 to provide continuing disclosure information on an annual basis to each nationally recognized municipal security information repository ("NRMSIR"). With the recent withdrawal of R.R. Donnelley Financial as a nationally recognized municipal securities information repository, there are four remaining NRMSIRs: Kenny Information Systems Inc., Thomson NRMSIR, Bloomberg Municipal Repositories, and DPC Data Inc. For more information on the NRMSIRs, call your account administrator (Wanda Lewis, Robert Day or Ronald Marmelstein) at the Authority's office (609-292-8585).

RATING AGENCY EXPANDS HEALTH CARE ANALYSIS

In response to changing conditions in the health care environment, Standard & Poor's Corporation ("S&P") has added new ratios and indicators to its analysis of health care credits. With outpatient activity becoming a larger share of volume, S&P will now collect statistics on home health visits, outpatient surgery, emergency room visits and outpatient clinic visits. **The agency will also use adjusted admissions (total admissions divided by inpatient percent of revenues) so that ratio will reflect outpatient volume.** In addition to profitability, S&P will now take a closer look at a borrower's ability to generate cash flow, including changes in working capital and capital expenditures. A new indicator, free operating cash flow (excess income plus depreciation and amortization plus net change in working capital minus capital expenditures), will be used in many of S&P's ratios. The agency has also added indicators to evaluate cost and productivity and to provide a more detailed breakdown of net patient revenue by payer. The new information will be part of credit reviews beginning in 1998. For most borrowers, this means that the 1997 audit will be the first time they are required to provide this new information. However, S&P appears to expect that data for 1996 also will be available with the 1997 audit. Both S&P and the Authority believe that these changes will have little noticeable impact on ratings at this time. The Authority already uses many of these indicators and ratios in its credit analysis and its Apollo financial database. It is currently reviewing the others to determine which should be included.

FINANCING NOTES

The Authority completed a $13,860,000 financing in December on behalf of **Southern Ocean County Hospital.** The proceeds of the Series 1997 Bonds will be used for the renovation of an existing unit for the establishment of a 10-bed maternity unit; additional capital improvements to the land and buildings; a portion of the cost of land acquisition, and construction, renovation and equipping of a one-story, approximately 16,000 square foot building in Little Egg Harbor Township to be used as an ambulatory care facility; and the acquisition and refinancing of certain capital equipment for use in buildings owned by the institution. The negotiated issue was insured by Financial Security Assurance Inc., which resulted in a true interest cost of 5.59%.

A $56,280,000 financing was completed by the Authority in December on behalf of **Capital Health System** (the "Institution"), a corporation formed as a result of the consolidation and merger of Mercer Medical Center and Helene Fuld Medical Center, both of which are located in Trenton. The merger of the two Medical Centers and the formation of Capital Health System, Inc. occurred simultaneously with the bond closing. The proceeds of the bonds were issued to refund the Authority's Revenue Bonds, Helene Fuld Medical Center Issue, Series C and Series D, and to finance or reimburse the Institution for various capital projects at the Institution, including the ambulatory care pavilion, computer equipment, cardiac catheterization equipment, and other miscellaneous major moveable equipment, furnishings and capital budget items.

The Authority recently completed a $104,460,000 financing on behalf of **Community Medical Center** ("Community"), **Kimball Medical Center** ("Kimball"), and **Kensington Manor Care Center** ("Kensington"). Community, Kimball, and Kensington are part of a group of affiliated health care corporations that comprise the Saint Barnabas Health Care System, currently the largest multi-hospital system in New Jersey. The proceeds will be used to advance refund three series of Authority revenue bonds issued on behalf of Community and Kimball; and to provide funds for the costs of certain capital budget items for Community and Kimball. Although the bonds received an underlying A-plus rating from Standard & Poor's Corporation, the bond issue was rated triple-A by Standard & Poor's Corporation and Moody's Investors Service based on an insurance policy provided by Financial Security Assurance Inc. The Authority used two techniques for the first time in the pricing and marketing of this issue including (1) the use of sealed bids from managers for the 1998 and 1999 maturities to obtain the lowest possible yields; and, (2) bifurcated structures for the serial bonds maturing in 2000 through 2008 in order to attract interest from both retail and institutional investors. In addition, the issue was structured with a springing debt service reserve fund that decreased both the issue size and the costs of issuance. The true interest cost for the issue is 4.83% with present value savings of 13.4% or $14.8 million for the refunding portion.

A $22,725,000 bond issue was completed on behalf of **Bayonne Hospital.** The issue was completed on a negotiated basis, the bonds earned triple-A ratings from two of the rating agencies based upon the issuance of insurance policies for the bonds, and the true interest cost was 5.09%. Some of the unique features of this issue are:

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NEW CHARITY CARE LEGISLATION

On December 19, 1997, Governor Whitman signed legislation that will provide $489 million in funding for charity care and other subsidized health care programs. This package includes $320 million a year for charity care subsidies for hospitals; $101.5 million a year (to be matched by $101.5 million in federal funds) for subsidies to hospitals that provide care to a high percentage of patients with HIV, mental illness, tuberculosis, substance abuse or complications in birth; $20 million for the state's subsidized health insurance program; and $47.6 million (to be matched by $88 million in federal funds) to provide health care coverage for children.

Unlike previous extensions of the subsidies, this law has no sunset provision. It phases out, over a five-year period, reliance on the Unemployment Insurance Fund as a source for the subsidies by increasing contributions from the General Fund. In addition, the law provides that the first $155 million collected from a new cigarette tax will support charity care subsidies.

NOTEWORTHY

In keeping with its Executive Order No. 26 policy, the Authority will once again **review qualifications** for senior managers, co-managers, financial advisors and private placement agents. The Board is expected to take action on recommendations prepared by staff at its meeting on May 21, 1998.

Six law firms have been selected to serve in a **bond counsel pool** established by the Office of the Attorney General to handle Authority transactions for the two-year period commencing January 29, 1998. The firms are: Gibbons, Del Deo, Dolan, Griffinger & Vecchione; DeCotiis, Fitzpatrick & Gluck; Hawkins, Delafield & Wood; McCarter & English; McManimon & Scotland; and Riker, Danzig, Scherer, Hyland & Perretti.

The Authority provides a variety of services to the borrower both during the financing process and following the completion of a transaction. For instance, as a member of the working group, staff members participate in the review of financing documents and oversee the bid process for open market investment portfolios. Following the completion of a financing, staff members, among other things, review on a monthly basis the trust accounts of all borrowers, and purchase securities when funds are available for investment and reinvestment. In carrying out these responsibilities, the Authority **continues its efforts to identify ways to save borrowers money.** Recently, upon reviewing a borrower's monthly statements, it was determined that sufficient moneys were available in the trust funds to redeem the bonds six months prior to maturity. The Authority took appropriate action and contacted the borrower, prepared the appropriate documents, and the redemption occurred on January 1, 1998. The result of these efforts generated savings of $64,000 for the borrower.

FINANCING NOTES

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- principal payments deferred until 2013 when the series 1994 bonds are repaid to even out debt service over time; and,
- the bonds maturing 2027, which yield 5.02%, appear to have the lowest yield for 30-year bonds issued to date by the Authority.

In January, the Authority completed a $29,960,000 financing on behalf of **Christian Health Care Center.** The $19,460,000 1997A Bonds, which were issued with fixed rates, are being used to advance refund the Authority's Series C Bonds. The $10,500,000 Series 1997B Bonds were issued at an initial rate of 3.35% in a weekly mode of variable interest rates. The proceeds from the 1997B Bonds are being used to construct and equip an 80-unit, 92-bed assisted living facility (including 32 beds for dementia) on the Health Care Center's campus. The Series 1997A Bonds earned a "BBB" rating from Standard & Poor's Corporation and the Series 1997B Bonds earned a "A-/A-1" from Standard & Poor's Corporation and "A2/VMIG1" ratings from Moody's Investors Service. The investment grade rating and a true interest cost of 5.82% resulted in net present value savings of approximately $763,000 for the Health Care Center.

ATTENTION CONVENTIONEERS

The Authority will participate in the following annual meetings/exhibitions to be held in Atlantic City.

- **New Jersey Association of Non-Profit Homes for the Aging,** Trump Taj Mahal - May 12 in **Booth 67**
- **New Jersey Healthcare Congress,** Atlantic City Convention Center - May 14 and 15 in **Booth 546**

Please stop by to discuss your capital financing needs!

New Jersey hcffa

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