



# AUTHORITY NOTES

2019 Series A

MAY

## The First NJHCFFA Hospital CFO/Bond Analyst Roundtable

The New Jersey Health Care Facilities Financing Authority has been undergoing a slow and (mostly) quiet evolution over the last eight years. First, it reduced its staff by 15.4% through attrition, from 26 in 2011 to 22 by 2017. In September 2016, in reaction to several large health system mergers and, anticipating as a result, larger but fewer financings, the Authority reduced its annual fee percentage by over 40%, but eliminated the cap on that fee in order to maintain its revenue base. In August 2018, the Authority reduced the number of meetings required for bond approval from three to two.

Effective on March 15, 2019, the Authority adopted significant changes to its standard loan ratios and covenants in response to comments received from borrowers, including: (i) reducing the Debt Service Coverage Ratio for “A” rated borrowers; (ii) eliminating the Cushion Ratio and Cash Transfer Test and replacing them with a Days Cash on Hand requirement; (iii) allowing highly-rated borrowers some flexibility in making debt service payments; (iv) significantly reducing the confidence level requirement on captive insurance companies; (v) removing the requirement for monitoring based on triggering events for investment grade rated borrowers; and (vi) reducing the number of days to

appoint a consultant from 75 to 60 in an event of default. These changes are discussed in further detail in the article entitled “Changes to NJHCFFA Standard Ratios and Covenants Requested by Borrowers” on page 2.

On Tuesday, June 4, 2019, the Authority will be discussing additional policies at a roundtable of hospital Chief Financial Officers and bond analysts from the largest holders of Authority bonds. The roundtable will be held at the Forsgate Country Club in Monroe from 9:00 a.m. to 4:30 p.m.

Following a continental breakfast and registration there will be a two-hour roundtable to discuss Authority policies and issues such as:

(i) advantages/disadvantages of taxable bonds; (ii) mortgages and title insurance requirements; (iii) requirement for surety bonds on construction projects; (iv) advantages/disadvantages of Authority ratios, covenants and ongoing surveillance; (v) the requirement that all project approvals have been received prior to Authority approving the issuance of bonds; (vi) whether a mandatory redemption provision is advisable as an alternative in certain cases; and (vii) how to secure a perfected interest in borrowers’ accounts, e.g. control agreements or trustee-held

operating accounts.

From 11:30 a.m. to 12:00 noon there will be breakout session in three separate rooms where bond analysts can meet with individual hospitals. Following lunch there will be a second half-hour breakout session where bond analysts can meet with individual hospitals.

At 1:30 p.m., a second two-hour roundtable will be held to discuss issues raised by hospitals and bond analysts such as:

(i) the effect of the elimination of tax-exempt advance refundings and alternatives thereto; (ii) the demand for variable rate bonds versus fixed rate bonds; (iii) the impact of changes in accounting for leases; (iv) the new disclosure requirements and other ways to improve hospital disclosure; (v) a discussion of issues facing New Jersey hospitals in particular; (vi) predictions on the continued pace of hospital consolidation and the effects of current hospital consolidation on costs and quality; (vii) an explanation of the role of the hospital’s board; (viii) hospitals’ strategy around value-based care; (ix) the impact on hospitals from payor vertical integration; (ix) the anticipated impact from industry disruption such as Haven/Amazon; (x) how the local, state and federal political climates are effecting hospitals; (xi) what will

(continued on page 2)

happen when LIBOR is no longer available as an index rate; (xii) what do bondholders look for in borrower profiles and what terms do they like; (xiii) how do New Jersey health care bonds trade in the market compared to other states; (xiv) are hospitals finding themselves able to breakeven on Medicare reimbursement; (xv) how do hospitals see commercial reimbursement evolving and how are they adapting; and (xvi) what do hospitals see as the potential impact of Medicaid for All or other access expansion legislation ideas.

The day will end with two additional half-hour breakout sessions where bond analysts can meet with individual hospitals.

As of this writing 13 hospital systems representing 31 of New Jersey's 60 nonprofit hospitals and analysts from ten firms representing over 25% of the total Authority bonds outstanding have indicated they will be attending. Briefing materials on the Authority's operations and current policies will be provided to attendees prior to the roundtable. If you are interested in attending the roundtable on June 4th please contact Executive Director Mark Hopkins at:

[mhopkins@njhcffa.com](mailto:mhopkins@njhcffa.com).

### Changes to NJHCFFA Standard Ratios and Covenants Requested by Borrowers

Below is a summary of the Authority's changes to standard loan agreement ratios and covenants that became effective on March 15th as a result of requests from Authority borrowers and discussions with Authority bondholders:

**1. Debt Service Coverage Ratio:** Reduced the minimum Debt Service Coverage Ratio requirement in our Loan Agreement from 1.25 to 1.10 for entities rated in the "A" category or above by any of Fitch Ratings, Moody's or Standard & Poor's at the time of issuance. For borrowers rated below the "A" category the Debt Service Coverage Ratio requirement remains at 1.25.

**2. Cushion Ratio and Cash Transfer Test:** Eliminated from our Loan Agreement the requirement that borrowers maintain a Cushion Ratio of 1.25 plus the Cash Transfer Test (which prohibits the transfer of cash outside the obligated group without adequate consideration if it brings Days Cash on Hand below the Standard & Poor's "BBB" median (currently 159 days)) and replaced them with the following sliding Days Cash on Hand requirement that will change as the borrower's rating category changes, so long as the bonds are outstanding:

- a. 60 Days Cash on Hand for "AA" category rated borrowers;
- b. 75 Days Cash on Hand for "A" category rated borrowers;
- c. 90 Days Cash on Hand for "BBB" category rated borrowers; and
- d. 120 Days Cash on Hand for unrated borrowers or for those with below investment grade ratings.

**3. Loan Payments:** Bond payments are typically made semi-annually for interest and annually for principal. However, the Authority has typically required borrowers to make monthly loan payments equal to 1/12th the principal due on the next annual bond

principal payment date and 1/6th the interest due on the next semi-annual bond interest payment date. In the last several years we have permitted highly-rated borrowers, on a case-by-case basis, to make loan payments equal to the bond principal and interest payments 30 days before the bond principal and interest payments were due. The standard payment provision now permits sliding payment schedules changing as the borrower's rating changes, so long as the bonds are outstanding:

- a. Borrowers rated in the "A" category or higher may make loan payments five (5) business days before the bond debt service payments become due;
- b. Borrowers rated in the "BBB" category may make their loan payments 30 calendar days before the bond debt service payments are due; and
- c. Borrowers rated below the "BBB" category or not rated must make monthly payments of 1/6th of the next semi-annual bond interest payment and 1/12th the next annual bond principal payment.

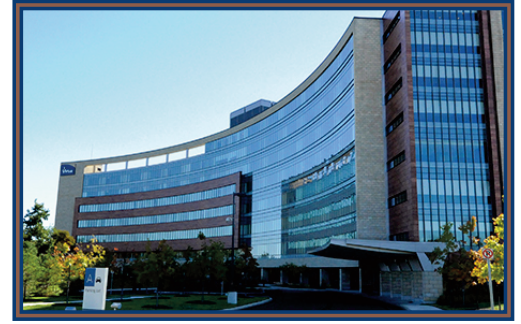
**4. Confidence Level Funding on Captive Insurance Companies:** Eliminated the Authority's requirement that self-insurance trusts and captive insurance companies have funded reserves sufficient to satisfy the 75% confidence level but rather only have enough in reserve to satisfy all the requirements of its captive's domicile, provided, however, that a promissory note from the borrower or any affiliate or other related entity cannot be counted as part of the funded reserves used to satisfy the domicile's requirements.



# Authority Financings

## Virtua Health Issue, Series 2019

On April 4, 2019, the Authority closed on \$205,435,000 of bonds on behalf of Virtua Health, Inc. The proceeds of the transaction were used to currently refund the Authority's Series 2009A bonds and pay the related costs of issuance. The 2009 A bonds were issued to construct Virtua Vorhees Hospital.



The bonds were privately placed with TD Bank, N.A.

The All-in-True Interest Cost for the bond issue was 3.299107% compared to a taxable rate of 4.33%. Virtua Health realized a Present Value Savings of \$56,438,214 or 24.526091% over the refunded bonds. The estimated savings of the tax-exempt bonds versus taxable bonds was \$10,960,529.83. The present value of a 1 basis point change for the issuance is \$245,567.



(continued from page 2)

**5. Triggering Events:** About a decade ago, the Authority enacted a Triggering Events provision that, under certain circumstances, enables the Authority to send a representative to a hospital's board meetings as a non-voting guest who receives the same information as a board member, with the exception of information that is subject to the legal privilege and personnel and health care confidentiality. This provision was a reaction to the revelation that management at certain Authority borrowers were not communicating adequate financial information (of which the Authority was aware) to their board members. Board members have a fiduciary duty to the organization and its creditors and represent the interests of community, who is technically the legal owner of all not-for-profit health care organizations. Under the new Triggering Event policy, as long as a hospital maintains an investment grade rating the Authority will not require attendance at the hospital's

board meetings. If, however, a hospital falls below investment grade and trips a Triggering Event, the Authority shall still be able to send a representative to its board meetings.

**6. Consultant Engagement Upon Default:** The Authority's has had a requirement that if a borrower was in default under certain terms of the loan agreement the Authority could require the borrower to engage a consultant to prepare a report on how to return the borrower to compliance and the borrower is required to implement the recommendations of the consultant. Previously, the consultant was required to be engaged within 75 days of the default. The policy changes shortened the period within which a consultant must be engaged to 60 days. §

## Happy Anniversary!



**On February 22,  
Executive Assistant  
Carole Conover  
celebrated 20 years at the  
Authority.**

***Congratulations Carole!***

April 25, 2019 was the annual *Bring Your Child to Work Day*.



**Administrative Assistant**  
*Cindy Kline with her sons  
Austin and Aaron.*



**Assistant Director of  
Research, Investor  
Relations and Compliance**  
*Taryn Rommell with her  
daughter MiKayla.*



**Controller** *Alpa Patel with  
her daughter Ariana.*



## **NJHCFFA MEMBERS**

### **Ex-Officio Members**

**Dr. Shereef Elnahal**  
Commissioner of Health

**Carole Johnson**  
Commissioner of Human Services

**Marlene Caride, Esq.**  
Commissioner of Banking & Insurance

### **Public Members**

**Suzette T. Rodriguez, Esq.**  
**Munir Kazmir, M.D.**

*The Authority currently has two  
Public Member vacancies.*

## **NJHCFFA SENIOR STAFF**

**Mark E. Hopkins**  
Executive Director

**Frank Troy**  
Director, Division of Research, Investor Relations & Compliance

**Ron Marmelstein**  
Director, Division of Operations, Finance & Special Projects

**William McLaughlin**  
Director, Division of Project Management

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# New Jersey Health Care Facilities Financing Authority

is holding its first

## Hospital CFO/Bond Analyst Roundtable

To discuss issues and policies unique to municipal bonds  
for Hospitals and the largest purchasers of those bonds

Tuesday, June 4, 2019

The Forsgate Country Club

Contact: Executive Director Mark Hopkins at (609) 789-5623 or

Email: [mhopkins@njhcffa.com](mailto:mhopkins@njhcffa.com) if you would like to attend



# New Jersey Health Care Facilities Financing Authority

## Fast Facts:

### Did you know the Authority . . .

- Is the **2nd largest** issuer of solely health care municipal bonds and the **76th largest issuer** of municipal bonds overall in the country?
- Saved borrowers over **\$343 million** over the last five years on a present value basis compared to taxable bonds, with average savings between 73 to 141 basis points despite the low-interest rate environment?
- Is **self-supporting** from fees and does not rely on taxpayer dollars?
- Reduced its own expenses **7.59%** from 2009 through 2018, while inflation increased over 14.1%?
- Has a staff of 22 with an average tenure of over ten years, 3 of whom have Associates degrees, 12 of whom have Bachelors degrees, of which four have with Masters degrees, one has a law degree and one has an M.B.A. (who is also a C.P.A.)?
- Employs a former investment banker, former hospital architect, former bond counsel and a former hospital controller (who was also a CFO of a long-term care company)?
- Provides services to the Department of Health regarding hospital and Federally Qualified Health Center finances and evaluates Certificate of Need applications for financial wherewithal?
- Provides services to the Department of Human Services regarding  
4 long-term care facility finances?