NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$

Summer 2007

FROM GOVERNOR JON S. CORZINE

In this space, *Authority Note$* readers usually find a column from the Governor. Instead, at this time, the Authority staff and Membership would like to use this space to send Governor Jon S. Corzine our best wishes for good health and a speedy recovery following his accident.

Just days before the unfortunate event, the Governor graced our offices for a meeting of the *Commission on Rationalizing New Jersey's Health Care Resources*. Ever impressive, he was refined yet approachable, well-informed yet inquiring. He spoke with eloquence and sincerity on an issue dear to him, the health of New Jersey's hospital system and solutions to its current financial strife.

One would never guess that he would soon be in such close contact with those facilities and his own needs for their services.

Staying true to his honor, shortly after the Governor regained consciousness, he issued a statement that he would fund his own medical bills out of pocket to spare taxpayers the cost filtered through his State-issued health care coverage. The bills for such treatments will, no doubt, be exorbitant, and this is a noble and impressive offering from the Governor.

Such an offering is not expected of anyone provided with the benefit of health care insurance, especially one with an uncertain future of rehabilitation needs.

We, at the Authority, commend the Governor for his continued inspiration as both a leader and a patient, and we look forward to his full return to office, where he will no doubt continue to seek ways to heal the system that helped to heal him. §

Update: COMMISSION ON RATIONALIZING NJ's HEALTH CARE RESOURCES

The Commission's first meeting, with Uwe Reinhardt at the table head and Navigant on the right.

The *Commission on Rationalizing New Jersey's Health Care Resources* continues its mission to develop a comprehensive plan to chart the future course of New Jersey's health care network. Governor Corzine created the Commission through Executive Order No. 39, and stated, "We need to take a thoughtful look at whether all our hospitals are necessary, whether they are suitably located to meet health care needs, and whether State funding is being spent efficiently and properly."

Briefly put, the tasks of the Commission are to:

- identify the common features of New Jersey's financially distressed hospitals,
- compare future healthcare demand with existing capacity,
- develop criteria to identify the essential acute care hospitals in New Jersey,
- develop criteria to determine the appropriate level of oversight and accountability for State financial assistance,
- publish a State Health Care Resource Allocation Plan to use when reviewing requests for new health care assets and services, and
- produce a written report of findings and recommendations due December 2007.

The Commission first met on January 26, 2007, when it worked with Authority-hired Navigant Consulting to establish a strategy. The Commission continues to meet monthly at the Authority's offices, where Governor Jon S. Corzine met with the members on March 30th to express his gratitude for their service. At the April 30th meeting, New Jersey's major hospital

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HATP KEEPS CENTRALIZED CARE IN PASSAIC:

The St. Mary's Story

The Hospital Asset Transformation Program ("HATP") was enacted in 2000 to create a financing vehicle through which the Authority and the State could team up to help hospitals that need to terminate services at certain locations. On April 11, 2007, the program was used for the first time to solve a hospital crisis in Passaic.

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MESSAGE FROM THE EXECUTIVE DIRECTOR

The Authority has long touted its ability to tailor each transaction to the needs of the borrower, and in no year have we lived up to that promise as much as in 2007. So far, we have completed six bond transactions, not one of which could be described as cookie-cutter.

Our first issue this year was the inaugural issue of the Authority's newly revamped Equipment Revenue Note Program. The second issue involved interim private placement bonds designed to allow the acquisition of a hospital being sold pursuant to a bankruptcy court order, and the third transaction cut the ribbon of the Hospital Asset Transformation Program. The three remaining issues involved, respectively, an interstate composite transaction, a two-lot structure (as opposed to two series), and taxable bonds with a convertible feature.

Having issued more than $400,000,000 of bonds already in 2007, the Authority has tailored each issue to the special needs of the borrower. Project Management staff has been particularly busy selecting the best structure to suit each transaction while making alterations as needed.

Further, the extra work of these "special orders" trickles down to every level of Authority personnel, whether it be coordinating more working group meetings with outside professionals, finding new ways to file information appropriately, or selecting new language to describe a transaction. Each member of our staff has stepped up his or her game to new levels this year with respect to addressing borrower needs. I have always been proud of this staff, and this year I particularly applaud their ingenuity and dedication.

The Authority Members, too, will be responding to borrower requests this summer. Members, staff and outside experts will attend an Authority retreat to review and possibly revise Authority policies that have been the subject of requests for waiver over the past year. I look forward to these sessions with the optimism that we will find solutions to the issues that create the most difficulty for our borrowers as we continue to seek ways to optimize the Authority borrowing and bondholding experience. §

RATIONALIZATION COMMISSION

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Governor Corzine addressing the Commission

associations were invited to address the Commission.

The Authority's own Steve Fillebrown has been so instrumental in working with Navigant in reviewing, standardizing and cleaning the hospital data that he was selected by the Commission to staff its Reimbursement/Payer subcommittee.

For more information, including meeting updates from the Commission's Executive Director, Michelle Guhl, and a presentation of Navigant's suggested methodology, go to the Commission's website: www.state.nj.us/health/rhc §

The 12-member Commission is headed by **Uwe E. Reinhardt**, a world-renowned authority on health care economics and a Princeton University professor. The other eleven Members, all appointed by the Governor, are:

Joel C. Cantor, Sc.D.
Rutgers University
Debra P. DiLorenzo
Chamber of Commerce of Southern NJ
Steven M. Goldman
Department of Banking & Insurance
Gerry E. Goodrich, J.D., M.P.H.
Cornell University
David P. Hunter, M.P.H.
Health Care Consultant
Fred M. Jacobs, M.D., J.D.
Department of Health & Senior Services
Risa Lavizzo-Mourey, M.D.
RWJ Foundation
JoAnn Pietro, R.N., J.D.
Wahrenberger, Pietro and Sherman
Jennifer Velez, Esq.
Department of Human Services
Peter R. Velez, M.P.H.
Newark Community Health Centers
Bruce C. Vladeck, Ph.D.
UMDNJ

FINANCING NOTE$

On April 19th, the Authority closed a $101,395,000 series of bonds on behalf of **Catholic Health East** ("CHE") in a unique composite issuance. In this transaction, bonds were simultaneously marketed and issued through six different authorities in four different states for a grand total of $333,430,000.

CHE, the sole borrower named in the issue, has facilities located in eleven eastern states. In New Jersey, CHE operates Our Lady of Lourdes Medical Center in Camden, Lourdes Medical Center of Burlington County in Willingboro, and Saint Francis Medical Center in Trenton.

The purpose of the transaction was to help CHE achieve savings through the advance refunding of its outstanding debt. The Authority was the only New Jersey conduit involved, refunding its own debt as well as debt issued through the Camden County Improvement Authority.

The other authorities involved include:

- The Development Authority of Fulton County in Georgia ($93,515,000);
- The Development Authority of the Unified Government of Athens in Georgia ($20,560,000);
- The Massachusetts Health and Educational Facilities Authority ($51,475,000);
- The Montgomery County Higher Education and Health Authority in Pennsylvania ($17,135,000); and,
- The Saint Mary Hospital Authority in Pennsylvania ($49,350,000).

The Series 2007E Authority bonds were structured in a multi-modal form to allow for conversion under certain conditions, providing CHE with added flexibility to respond to market changes. Initially, the bonds were issued as variable rate index bonds with an interest rate calculated at 67% of 3-month LIBOR, plus a spread.

Uninsured, the bonds were issued on CHE's own investment-grade rating of "A1" by Moody's, "A" by Standard & Poors and "A+" by Fitch.

Because this is a relatively new structure in the tax-exempt area, the market is driven by a limited number of investors. Fortunately, the investors were interested in this financing and the senior manager offered to purchase the Authority's bonds at a spread of 80 basis points. The spreads for the other issuers ranged from 81 to 83 basis points.

The All-in True Interest Cost for the New Jersey bonds is 4.46%, and early predictors show a savings of approximately $4.8 million on CHE's New Jersey debt, or 4.6% of the refunded bonds.

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AHS Morristown Project: arial view of construction (left); redering of new heart hospital (right)

On May 3rd, the Authority closed a $101,000,000 transaction on behalf of **AHS Hospital Corp.** ("AHS"), whose parent organization is Atlantic Health System. AHS operates three divisions commonly referred to as Morristown, Overlook, and Mountainside.

The bonds were issued in two equal lots of $50,500,000, both insured by Ambac Assurance Corporation resulting in a "AAA" rating from both Moody's and S&P. While a multi-modal bond structure provides AHS with flexibility to react to market changes, the bonds were initially issued as periodic auction rate securities (called PARS) managed by Goldman Sachs. At the onset, Lot A's bonds will reset every business day and have a final maturity of July 1, 2023 and Lot B will reset weekly with a final date of July 1, 2036.

Both lots received the low initial interest rate of 3.60%.

The proceeds will be used to effect a current refunding of Series 1997A Bonds and to provide funds for renovations and capital expenditures at AHS' Morristown, Overlook, and corporate locations. More specifically, in addition to helping AHS replace a roof at the

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FITNESS"FIRST" USE OF NEW <u>ERN</u> PROGRAM;

Fast Access to $1 Million +

On March 23rd, FITNESSFirst became the first borrower to use the Authority's newly revamped Equipment Revenue Note ("ERN") Program. Using this easy and cost-effective method, the Authority and Banc of America made $1,376,000 available to FITNESSFirst with a quick turnaround and a low fixed interest rate of just 3.92%.

"The ability to obtain tax exempt financing through this program was very beneficial to our facility," said Greg Adams, Senior Vice President and Chief Financial Officer of Holy Name Hospital.

In 2006, staff remodeled the ERN Program to reduce issuance time for smaller equipment financing and/or refinancing projects in response to requests from hospital CFOs. After months of designing and tweaking, the ERN emerged as the Authority's most efficient vehicle for smaller projects.

While a traditional stand-alone bond issue or private placement can require up to three months or more, the ERN Program allows qualifying projects to access up to $15 million in capital in as little as six weeks from the issue's inception.

Also, once the borrower has completed an ERN transaction, the borrower can issue additional notes under those documents so that multiple equipment financings can occur without significant drafting time.

"The financing was fast and efficient," said Mr. Adams, "and since the majority of the paperwork is standardized and pre-approved, we simply had to negotiate the terms with our bank." Banc of America Public Capital Corp, with whom this issue was privately placed, worked closely with the Authority to further streamline the financing process, even reworking their loan documents to conform to the Authority's policies and procedures.

FITNESSFirst, an LLC whose sole member is Holy Name Hospital, is a medically-based, hospital-operated fitness center with sessions targeted to individuals with specific health conditions (such as diabetes or cardiac or joint diseases) and patient-physician partnerships, which ensure that an individual works within the context of his/her own health history and doctor recommendations. §

left to right: Greg Adams from Holy Name Hospital, Suzanne Walton from the Authority, and Ronald Haase from Banc of America Capital Corp.

NJHCFFA STAFF NOTES

Junior Authority Employees from left to right:
Erica Tantorieas, Brigid Tonry, Sean Tonry and Jonathan Donahue

Congratulations to **Dennis Hancock**, Deputy Executive Director and Director of Project Management, who has been named to the Board of the Healthcare Financial Management Association ("HFMA"), which is the nation's leading membership organization for healthcare financial management executives and leaders.

HFMA helps healthcare finance professionals meet industry challenges by: providing education, analysis, and guidance; building and supporting coalitions to ensure accurate representation of the profession; educating industry decision-makers on the intricacies and realities of maintaining fiscally healthy healthcare organizations; and working with a broad cross-section of stakeholders to improve the healthcare industry by identifying and bridging gaps in knowledge, best practices, and standards.

Dennis Hancock

Mr. Hancock will serve as a Board Member for the Association's 2007-2008 year, specifically serving as the Board liaison to the publications committee.

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On April 26th, the Authority had four new employees for national *Bring Your Child to Work Day*. The work duties of the junior employees varied, ranging from performing bank deliveries and "seeing inside the vault" to typing envelopes and even attending an official monthly meeting of the Authority.

Members and staff would like to thank the hard work of: **Erica Tantorieas** (Mae Jeffries-Grant's granddaughter), **Jonathan Donahue** (Lorraine Donohue's grandson), **Brigid Tonry** and **Sean Tonry** (Sue Tonry's children). Commissioner Fred M. Jacobs, Chairman of the Authority, commended *Bring Your Child to Work Day* for "giving kids a peek at the important work done by their parents."

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Steve Fillebrown, Director of the Research, Investor Relations and Compliance who also serves on the Board of Directors for the National Council of Health Facilities Finance Authorities, attended the National Council's spring conference on April 25th in Kohler, Wisconsin.

At the conference, presentations were given on topics such as HUD 242 Mortgage (by Charles Davis of the US Dept. of Housing and Urban Development), Legislative Happenings (by Chuck Samuels of Mintz Levin), Financing Technology (by David Waldron of LaSalle National Leasing Corp.), Transparency in Health Care Delivery (by George Quinn of the Wisconsin Hospital Association), Economic Review and Forecast (by Tommy O.Huie of M&I Investment Management Corp.), and several others.

Steve Fillebrown

The conference also provides authorities with an opportunity to share knowledge on their respective policies and financing strategies. §

NEW MEMBER ULYSSES LEE

On March 15th, the Authority received a new Public Member when the State Senate confirmed Governor Jon S. Corzine's appointment, Ulysses Lee.

Commissioner Fred M. Jacobs, Authority Chairman, welcomed Mr. Lee to his first Authority meeting on April 26th, stating, "We're pleased to have his talents on our team." Those talents include extensive health care knowledge and field expertise in the areas of insurance, policy and finance.

Currently a Government Relations Counsel and HIPAA Privacy Officer for The Guardian Life Insurance Company of America, Mr. Lee has held various legal positions involving regulatory compliance and litigation. He is also a board member of the NJ Small Employer Health Coverage Program and the NJ Individual Health Coverage Program.

Mark Hopkins welcoming Ulysses Lee

Beyond New Jersey, Mr. Lee is a board member of both the District of Columbia Regulatory Trust Fund Bureau and the New Hampshire Small Employer Health Reinsurance Pool.

Mr. Lee earned his undergraduate degree from Rutgers, a law degree from Howard and a Masters in Public Health from Columbia with a concentration in Health Policy, Finance and Management.

"The breadth of his skills and experience make him a very valuable asset for this Authority and the health care finance needs of New Jersey," says Mark Hopkins, Authority Executive Director.

Mr. Lee's term of office expires on April 30, 2008. §

FINANCING NOTE$

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Overlook division, the proceeds will be used extensively at the Morristown facility, where they will help to relocate the neonatal intensive care unit; renovate and expand the obstetrics, emergency room and nursing units; renovate a parking garage; and, replace patient beds as well as patient care bays in the post-anesthesia care unit. Proceeds will also fund the acquisition of furniture and equipment for various AHS sites.

No funds were designated for upgrades at the Mountainside facility, as AHS has entered into a Definitive Agreement to sell the Mountainside facility to Merit Mountainside, LLC of Louisville, Kentucky. At the time of this printing, the hospital's sale was still undergoing various regulatory reviews.

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On May 17, the Authority closed a $130,400,000 bond transaction on behalf of **Trinitas Hospital**. The financing structure consisted of two series of fixed rate bonds: 2007A ($65,050,000 - tax-exempt), and 2007B ($65,350,000 - taxable convertible to tax-exempt).

The proceeds of the Series 2007A bonds were used to effect a current refunding of the former St. Elizabeth Hospital's Series 1997 Bonds. In addition, Series 2007A proceeds will be used to purchase Series 2000 bonds that had been tendered by holders through an offer made by the hospital working with its investment banker.

The proceeds of the Series 2007B bonds are being used to defease a portion of the remaining un-tendered Trinitas Series 2000 bonds.

As long as Trinitas remains a tax-exempt entity and there are no significant changes to the tax laws that disallow the conversion as structured, the taxable Series 2007B bonds will convert to tax-exempt bonds in 2010. If the bonds cannot be converted, however, the bondholders will be entitled to a gross up provision in the interest rate of the taxable Series 2007B Bonds.

Based upon market conditions in April of 2007 (the time during which the transaction was approved by the Authority), a present value savings to Trinitas was estimated at approximately $9.8 million or 7.7% of the refunded bonds.

With a final maturity date of July 1, 2030, the bonds were issued (under Trinitas' rating of "BBB-" from S&P and "Baa3" from Moody's) in $5,000 denominations and integral multiples of $5,000 in excess thereof. §

ST. MARY'S

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Under the HATP, the Authority can issue State-backed bonds to refund the outstanding bonds of a hospital that, meeting certain pre-set criteria, will terminate acute care services at a location where they are no longer useful. The financial support from the State is, of course, subject to the approval of the State Treasurer and subject to appropriation by the legislature.

The city of Passaic was previously served by three hospitals that found themselves in financial strife, largely due to over bedding in the Passaic market. In 2003, **Atlantic Health System** decided to leave the competition and sold its facility, The General Hospital Center of Passaic, to the **Beth Israel Hospital Association of Passaic** ("PBI"), another of the three local hospitals. PBI then sold its own facility to be used for a new public school.

Unfortunately, PBI continued to struggle in the new location, suffering from insufficient admissions. In 2006, PBI filed for bankruptcy.

St. Mary's Hopsital, the third acute care hospital in Passaic, though located more on the outskirts of the city, was interested in buying and relocating to the centralized site of PBI. Unfortunately, St. Mary's, too, suffered long as a result of the competition, and was in a weak cash position to acquire the facility.

Threatened with the prospect of leaving the city of Passaic without a centralized acute-care hospital, the Governor's Office, the Authority, the Department of Health and Senior Services, and the Treasurer searched for solutions. Enter the HATP. Because St. Mary's would be closing its current facility upon relocating to the PBI site, and because it fit the other required criteria, St. Mary's was eligible for the program.

Further complicating the situation, however, was the timeline in which PBI needed to sell its facility according to dates established by the bankruptcy court.

In order to accommodate the compressed timeline, the Authority authorized a private placement of Interim Bonds on behalf of St. Mary's in February of 2007, issuing the bonds with the expectancy that the Interim Bonds would be refunded through the issuance of the HATP bonds, which were still being structured at the time. The Interim Bonds were privately placed with Merrill Lynch, who would serve as the senior managing underwriter for the HATP bonds.

The proceeds of these Interim Bonds were used to: finance the acquisition of PBI in an amount of $36.7 million, from which PBI could pay off its outstanding Authority debt (approximately $22 million of bonds and a $5 million debtor-in-possession loan). The proceeds also refunded $7.4 million of St. Mary's own outstanding Authority bonds. Most importantly, the Interim Bonds allowed PBI to meet its required deadlines and enabled St. Mary's to finalize the acqui-

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NJHCFFA Bond Issues for 2007

Completed Bond Issues	Issue Structure	Par Amount
FitnessFirst Oradell Center, L.L.C.	Fixed rate; Private Placement	$1,376,000
St. Mary's Hospital - Passaic	Interim Bonds; Variable rate; Private Placement	$45,150,000
St. Mary's Hospital - Passaic	HATP Bonds; Fixed rate; Public	$45,425,000
Catholic Health East	Composite Issue; Variable rate; Public	$101,395,000
AHS Hospital Corp.	Auction rate; Public	$101,000,000
Trinitas Hospital	Fixed rate; Public	$130,400,000
	Total Debt Issued in 2007 as of May 17th:	$424,746,000

ST. MARY'S *(continued from page 5)*

sition, which was completed on February 28th.

As expected, on April 11th, the Authority successfully closed on two long-term series of refunding bonds, totaling $45,425,000, issued on behalf of St. Mary's using the HATP. The bonds include a $26,970,000 tax-exempt series with a final maturity of March, 2027 and a $17,420,000 taxable series with a final maturity of March, 2018.

Based on New Jersey's ability to issue State-appropriated bonds, both HATP series received an "A+" rating from Fitch, "A1" from Moody's and "AA-" from S&P. The encouraging ratings helped to yield a low combined all-in true interest cost of 4.77%.

It should be noted that St. Mary's entered into an agreement to pay an amount equal to

350 Boulevard, Passaic, now owned and operated by St. Mary's Hospital

the principal and interest on the bonds, therefore, the HATP bonds will be revenue neutral to the State.

Mark Hopkins, Executive Director of the Authority, complimented all parties for the laborious effort required to make the transaction a success, including Merrill Lynch, bond counsel Cozen O'Connor, the Authority staff, the Governor's office, the Department of Health and Senior Services, and the Treasurer's and Attorney General's offices. "The entire working group did an exceptional job on this incredibly complicated, work-intensive and fast-paced transaction," he said.

Of course, far beyond the satisfaction of a successful bond transaction is the encouraging outset of St. Mary's operations at the new site. Following a smooth transition to its new facility on March 1st, the new St. Mary's location has been operating at or near capacity since the move, averaging approximately 220 filled beds. Prior to the transition, PBI filled on average 120 beds and St. Mary's averaged approximately 80. §

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