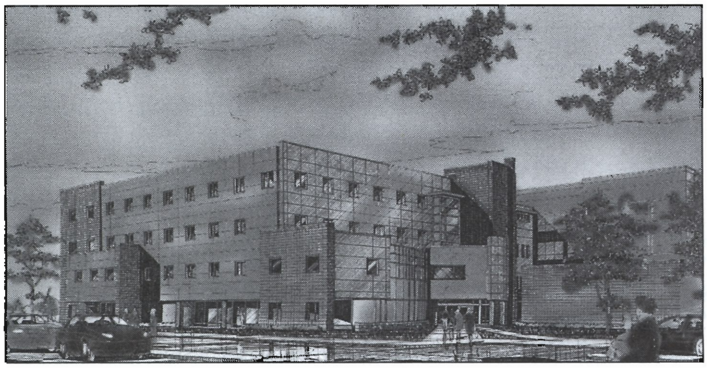
NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$

September 2001



An architect's rendering of Southern Ocean County Hospital

AUTHORITY SELLS TWO ISSUES OF ASSET GUARANTY BACKED BONDS

After an eight-month hiatus from the market, the Authority's gearing up for a busy summer and fall. The first two bond issues of 2001, sold on behalf of **Southern Ocean County Hospital** ("SOCH"), in Manahawkin, and **The House of the Good Shepherd** ("HGS"), in Hackettstown, were both insured by Asset Guaranty Insurance Company ("Asset Guaranty"). Based on Asset Guaranty's "AA" ratings and an unusual demand for New Jersey paper, both transactions were sold with very aggressive yields. The $25,815,000 financing on behalf of SOCH carried an all-in true interest cost of 5.616% and the $19,810,000 financing on behalf of HGS carried an all-in true interest cost of 5.677%.

Proceeds for the SOCH transaction will be used to construct a four-story 90,000 square foot building attached to the main facility. The building will house a new 20-bed post-acute care unit, and a 10-bed critical care unit as well as support areas including a cafeteria, kitchen and medical records department. The renovation portion of the project will improve and equip a new endoscopy suite and provide increased space for outpatient radiology and diagnostic procedures. The bonds received underlying ratings of "Baa1" and "BBB" from Moody's Investors Service, Inc. and Fitch IBCA, respectively.

The House of the Good Shepherd is a not-for-profit 501(c)(3) organization providing nursing care, residential health care, comprehensive personal care and independent living services to older residents. HGS is undertaking a major renovation, construction and expansion project to convert their existing residential health care beds to comprehensive personal care beds and to construct 32 new assisted living units. Proceeds of the transaction will be used to: (1) finance the construction and equipping of the assisted living units, (2) finance renovations to the existing structures, and (3) refinance approximately $1.2 million of existing taxable debt.

The Authority also sold $200 million in bonds on behalf of Jersey City Medical Center and is scheduled to close later this month. In addition, the Authority expects to sell bonds on behalf of JFK Assisted Living, Kennedy Memorial Hospitals – University Medical Center, and Saint Barnabas Health Care System during September.

NEW AUTHORITY CHAIR

Dr. George T. DiFerdinando was appointed Acting Commissioner of Health and Senior Services by Governor DiFrancesco on August 10, 2001. Prior to his appointment, Dr. DiFerdinando was Deputy Commissioner of Public Health Services for the Department of Health & Senior Services. He was previously Director, Division of Family and Local Health, New York State, during which he directed the State's efforts to control the tuberculosis epidemic, and served as Medical Director for the Sexually Transmitted Disease Control Program.

Dr. DiFerdinando received his undergraduate degree in psychology from Oberlin College and his master's degree in public health and medical degree from the University of North Carolina at Chapel Hill. He resides in Princeton, New Jersey.

Edie Behr welcomes Dr. DiFerdinando to the Authority.

AUTHORITY RELEASES POST-ACUTE CARE REPORT

A report addressing issues contributing to New Jersey's higher than average length of stay was recently released by a Post-Acute Care Work Group ("Work Group"). The Work Group, consisting of representatives from more than 25 state organizations and associations, met over a period of six months to discuss information provided by the members. Additional data was provided by representatives of Mathematica Policy Research, Inc., the firm retained by the Authority to provide consulting services to the Work Group.

While the report did not reflect any single conclusion or solution, it determined that issues related to access and availability of post-acute care options, among other factors, do affect New Jersey's relatively high average length of stay. In coming to this conclusion, the Work Group compared New Jersey to four other states with similar demographic and socioeconomic characteristics, but with lower average Medicare lengths of stay. Although the Work Group could not determine whether any differences were due to limited capacity, practice patterns, lack of information, or other factors, it concluded that limited choices for post-acute care were a factor affecting excessive length of stay. Furthermore, New Jersey Medicare beneficiaries use less Medicare-covered skilled nursing care and less Medicare-covered home health care than those in the comparison states.

Several key recommendations were offered including:

- Promoting growth in the supply of nurses and aides, which might expand the capacity of existing post-acute care options, e.g., home health care;
- Permitting new types of post-acute care providers, such as long-term acute care hospitals;
- Promoting the use of home health services and increasing the number of Medicare-certified home health agencies; and,
- Supporting efforts to align financial incentives of hospitals and physicians.

To obtain a copy of the report, e-mail your request to jvelez@doh.state.nj.us or view it on the NJ Department of Health and Senior Services web site www.state.nj.us/health/hcsa/acutecare/pacs/toc.htm.

APOLLO MEDIANS ON WEB

The Authority recently expanded its web site, www.njhcffa.com, to include the APOLLO medians. The web site now features the statewide hospital medians for the years ending 1995 – 1999 and the quarterly medians for the periods ending 9/30/99 – 9/30/00. Data will be updated as it becomes available.

Now in its 15th year, the Authority's APOLLO Program provides a tool to compare New Jersey hospitals' financial and operating positions on a quarterly and annual basis.

These data have become even more meaningful over the last five-year period in light of the highly competitive environment and the changes that have impacted the revenues and expenses of hospitals in the state. The data also have been beneficial to the investment community, rating agencies, insurers and the Authority for planning and monitoring purposes. To obtain additional information about the APOLLO Program or the medians, please call Steve Fillebrown, Director of Research and Investor Relations at the Authority at 609-292-8585.

REMINDER

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"). Borrowers are required to provide audited financial statements (or unaudited financial statements if audited statements are not available followed by the audited statements, when available), and operating data, generally, 150 days after the end of each fiscal year. There are currently four NRMSIRs: Bloomberg Municipal Repository, DPC Data Inc., FT Interactive Data, and Standard & Poor's J.J. Kenny Repository. For more information on the NRMSIRs, access the SEC web site at www.sec.gov/info/municipal.shtml or call your account administrator (Wanda Lewis, Bob Day or Ron Marmelstein) at the Authority's office (609-292-8585). Please include the bond issue's CUSIP number on all correspondence with the NRMSIRs.

NOTEWORTHY

The Authority recently started printing a list of the bonds' **CUSIP numbers** in new Official Statements ("OS"). CUSIPs are assigned to each maturity of a bond issue and serve to identify the securities whenever needed. The Authority believes that printing the CUSIPs in the OS provides interested parties with a logical and easy reference point for identification.

Not-for-profit health care institutions should take note of **Financial Accounting Standards Board ('FASB') Statement No. 133, Accounting for Derivative Instruments and Hedging Activities**. The Statement establishes accounting and reporting requirements of interest rate swaps or other derivatives on their financial statements. Unfortunately, the Statement may have a not-so-favorable impact on not-for-profits. For a summary (free) or a copy ($12.95) of the Statement, visit FASB's web site at www.fasb.org/public/index.html, and select Summary of FASB Statement No. 133.

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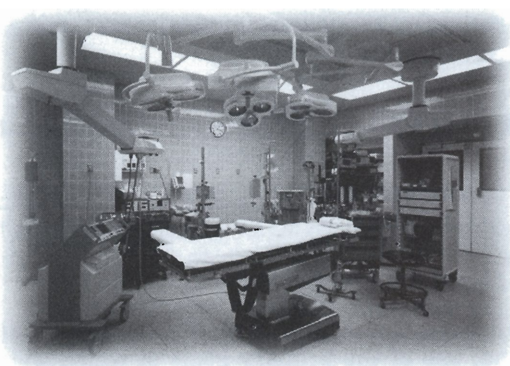
Please welcome Colleen Hargrove, the Authority's new Compliance Manager. Borrowers who need information regarding compliance with bond documents, including financial and operational covenants, can reach Colleen at 609-292-8585.

AUTHORITY CLOSES CAP LOANS

The Authority recently completed Capital Asset Program ("CAP") loans on behalf of two borrowers for construction/renovation and equipment acquisition projects. A $24,478,000 loan was provided to Virtua Health, Inc. ("Virtua"), the parent company of West Jersey Health System, Inc. ("West Jersey"), and Memorial Hospital Burlington County, Inc. ("Memorial"), as well as other health care related organizations including Summit Health in Voorhees. West Jersey operates three general acute care hospitals that are located in Berlin, Marlton and Voorhees. Memorial operates an acute care hospital located in Mt. Holly.

The CAP loan was completed to finance and/or reimburse Virtua for costs associated with several new projects at the Marlton, Mt. Holly, and Voorhees facilities. The following renovation and equipping projects are planned or underway at the following locations: the operating room at the Marlton facility; the maternal and child health department, emergency department, and the intensive care unit at the Voorhees facility; and the endovascular room at the Mt. Holly facility. In addition, funds were provided for the acquisition of a medical practice in oncology radiation therapy by Summit Health; and the acquisition of two buildings by West Jersey for use as physician offices.



Virtua's new operating room located at the Marlton campus.

A $17,000,000 CAP loan was also completed on behalf of Somerset Medical Center in Somerville. The loan provided funds to finance a portion of Somerset's 2000 and 2001 capital equipment budget including a management information system, and to reimburse the hospital for costs associated with the construction of a new lobby and the renovation of patient access areas.

The CAP, created in 1985 through the sale of $100 million Variable Rate Demand Revenue Bonds, is just one of a broad range of financing vehicles offered by the Authority to health care organizations in New Jersey. Structured as a revolving pool of funds for the financing and refinancing of minor construction/renovation projects and equipment acquisitions, the CAP enables the Authority to continue to make loans until the year 2035. The CAP offers borrowers a cost effective, efficient and flexible vehicle to meet their capital needs.

One of the most attractive features of the CAP is that the loan rates for borrowers can be offset by investment earnings on unloaned proceeds. In 2000, the CAP loan rates charged to borrowers averaged less than 3.78%. During the last nine-month period, CAP borrowers have enjoyed unprecedented interest–free loans.

Somerset Medical Center's recently completed lobby.

THE BEST RESPONSE IS A QUICK RESPONSE

On top of everything else in this volatile health care environment, some CFOs are getting bombarded by phone calls and requests for information from rating agencies and investors. Although the calls may seem like a nuisance, a prompt and open response will almost always be in the borrower's best interest. Lacking information, rating agencies and investors might assume the worst. For the rating agencies, this might lead to a downgrade or a lower rating than the situation merits. For investors, it may affect their willingness to participate in future bond issues of the institution.

Some CFOs have expressed concerns about exposure to insider trading liability in responding to investor requests for information. The National Association of Bond Lawyers has noted in its paper entitled "Providing Information To The Secondary Market Regarding Municipal Securities" that "in general, an insider trading violation requires a use of material nonpublic information in breach of a duty with motive to benefit personally from the use of the inside information." Further, at a meeting of the New Jersey Healthcare Financial Management Association, Martha M. Haines, chief of the Securities and Exchange Commission's Office of Municipal Securities, encouraged health care borrowers to respond to investor inquiries as a way to improve disclosure in the health care sector.

AUTHORITY AMENDS POLICY ON FEASIBILITY STUDIES

The Authority recently modified its policy on the submission of a financial feasibility study. The amendment affects borrowers whose transactions receive one or more investment grade ratings and one or more non-investment grade ratings. The policy, significantly relaxed in 1998, permits one approach for an issue with

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AUTHORITY AMENDS

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an investment grade rating and a different approach if the transaction receives non-investment grade ratings. The 1998 policy did not contemplate a situation where a borrower would receive split ratings.

The amendment, adopted at the July 26 meeting, defines a non-investment grade transaction as one that receives one or more ratings of less than "BBB-"/"Baa3". Borrowers with non-investment grade transactions are required to provide a financial feasibility study unless (a) the project being financed would have no greater than a 5% impact on revenues or expenses of the borrower; or, (b) the financing were to be completed as a private placement and at least one potential purchaser agreed that a study were not necessary and would provide the Authority with an acceptable investor letter. A five-year management projection is required in all cases when a feasibility study is not submitted.

NOTEWORTHY

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A bill that will lower the interest cost for small borrowings was recently introduced by Senator Jim Jeffords (I – Vermont) and Congressman Jim Nussle (R – Iowa). Commercial banks obtain a beneficial tax treatment for the interest income received on bonds that are designated as "bank eligible", and, therefore, are willing to invest at slightly lower interest rate levels. However, an issuer cannot expect to issue more than $10 million of bonds in a year for those bonds to be designated as bank eligible. **The Health and Higher Education Facilities Improvement Act of 2001** would determine eligibility based on the issuance level of the borrower and not the issuer.

The **charity care budget** for the state's fiscal year ending June 30, 2002 is $585 million and represents a $25 million increase over last years' funding of the Standard Fund. Aside from this funding, a recent change in the Federal **Medicare** regulations concerning the calculation of the wage indices will result in an additional $44 million for New Jersey hospitals.

Just on the tail of The Bank of New York's acquisition of Summit Bank's trust business, U.S. Trust Company sold its **corporate trust business** to The Bank of New York. The Authority has been working closely with all three banks to ensure a smooth transition of the trust accounts for 38 bond issues representing approximately $1.18 billion of outstanding bonds.

NURSING SHORTAGE

The nursing shortage and its long-term effect on the health care industry is receiving nationwide attention by the industry, investors, rating agencies insurers, and government. A report entitled 'Health Care Staffing Shortage' released June 27, 2001, by Fitch IBCA, notes that rising personnel expenses, mainly due to the growing shortage of nurses, is the most significant long-term problem affecting hospitals and threatens to keep operating margins in check for the foreseeable future. The aging US population, coupled with a decreasing supply of nurses, has led to a shortage of nurses in many markets and will soon lead to a national shortage that is expected to continue over the next twenty years.

New Jersey's legislators have drafted a number of bills to address the state's critical shortage of nurses. Among them is a financial incentive – forgiveness of student loans - for persons entering nursing education programs and those already trained as nurses to advance their training in the profession.

While legislation aimed at student recruitment will help solve long-term nursing problems, other legislation needed to address the immediate staffing shortages has been introduced including:

- the "Nurse Retention Stipend Program Act" appropriating $1 million for stipends to recently graduated nurses beginning full-time New Jersey employment;
- the entrance of New Jersey into the Nurse Multistate Licensure Compact (NMLC) enabling a nurse licensed in his/her state of residence to practice in any other state that is a party to NMLC;
- establishing a New Jersey Collaborating Center for Nursing, one of the primary goals of which would be to develop a strategic plan for the continuing fulfillment of an adequate nursing workforce.

To view the report 'Health Care Staffing Shortages," go to www.fitchratings.com, click on 'Public Finance,' click on 'Criteria Reports,' and then click on 'Health Care.'

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