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March 2000



Present at the closing for the FOCUS CAP loan were: (standing left to right) Richard Babb, Vice President, Summit Bank; Elizabeth Field, Relationship Manager, Chase Manhattan Bank; Casto Maldonado, President and CEO, FOCUS; Bruce Rosenberg, Esq., Winne, Banta, Rizzi, Hetherington & Basralian; Marsha Notowitz, Vice President, PNC Bank; John Draikiwicz, Esq., Gibbons, Del Deo, Dolan, Griffinger & Vecchione; (seated left to right) Ron Marmelstein, Account Administrator; Suzanne Walton, Associate Project Manager; and Edie Behr, Executive Director, NJHCFFA.

FIRST SOCIAL SERVICES ORGANIZATION FINANCED

A \$384,160 tax-exempt loan through the Authority's Capital Asset Program ("CAP") was completed in September on behalf of FOCUS Hispanic Center for Community Development, Inc. ("FOCUS"). The loan was secured with a letter of credit from PNC Bank. Proceeds of the loan were used to provide funds to refinance taxable debt, which was used to acquire and renovate several buildings in Newark. In addition, FOCUS received reimbursement for the acquisition of property to be used for parking. A portion of one of the buildings has been leased to University Physician Associates of New Jersey, Inc. ("UPA"), a non-profit affiliate of the University of Medicine and Dentistry of New Jersey, to establish a community health center. The community health center offers primary and preventive health care services for newborns, adolescents and adults by bilingual physicians and other certified professionals. The community health center's aim is to educate and familiarize Hispanics with the benefits of health care while treating their individual physical needs.

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GOVERNOR'S COMMISSION ISSUES REPORT ON NEW JERSEY HOSPITALS

Following a nine-month examination of the numerous internal and external forces impacting the fiscal condition of New Jersey hospitals, the Hospital Advisory Commission (the "Commission") released its findings and recommendations pertaining to New Jersey hospitals. The 41-page report of the Commission concludes "significant structural changes to the hospital industry in New Jersey are necessary to put the state's hospitals on a sound financial footing." In making its specific recommendations to the Governor, the Commission stated that a joint and concerted effort on behalf of hospital management, boards of trustees, physicians and other health professionals, the state, payers, managed care companies and the general public, is necessary for the significant improvement in the financial condition of the hospital industry.

Factors affecting the entire hospital industry which were examined by the Commission include excess bed

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1999 — THE YEAR IN REVIEW



At its December Board meeting, Executive Director Edie Behr recapped the year's accomplishments and identified several goals for the New Year. She noted for the record that "the Authority completed eleven bond issues totaling \$453,315,442; and two CAP loans totaling \$2,749,377. While approximately two-

thirds of bond proceeds were used for refunding previously-issued debt, only one-third financed new construction and/or renovation projects, a trend that began in the mid-nineties.

"For the first time, utilizing its expanded legislation, the Authority provided financing for a for-profit assisted living facility, a continuing care retirement community, and a social services agency. Other loans were completed on behalf of eight hospitals or health care systems, an organ and tissue procurement agency and a community health care center.

As part of its outreach program, the Authority published three newsletters, exhibited at two conventions, published articles in industry periodicals, and served on numerous panels. What's more, staff met with more than one potential borrower every other week throughout the year to discuss 42 new health care projects. In addition to new acute care projects, discussions were held with borrowers to finance facilities for assisted living, drug and alcohol rehabilitation, skilled nursing, developmental disabilities, adolescent partial care, continuing care retirement, preventive medicine and educational health. Ms. Behr further noted that "the breadth of proposed projects as well as those completed during the year supports the fact that we're not just providing financing for hospitals anymore."

In its continuing effort to reduce costs and increase flexibility, the Authority modified its policy on the submission of annual audited financial statements related to certain non-acute care hospital borrowers. The Authority also approved two project modifications and supplemental series resolutions on behalf of borrowers in our existing portfolio.

"As we have done in the past, the Authority continued to play a very active role in the National Council of Health Facilities Finance Authorities. Besides my recent election as President of the Council, a number of staff members serve on committees including rating agency/credit, finance, disclosure, convention and advocacy."

Ms. Behr emphasized that "to measure 1999 as we usually do strictly in terms of the previously-mentioned statistics and actions would be to miss the essence of this past year. While media stories delineated the tremendous problems besetting the health care delivery system nationwide, in reflecting on the past year, I can tell you that the Authority has spent an extraordinary amount of time focused on the profound changes effecting the health care delivery system, and the individual health care organizations of this state. Some examples revolve around the seven credits in the Authority's portfolio that were in violation of one or more bond covenants this year. In addition, nine of the hospital credits in the Authority's portfolio received rating downgrades during the year. While staff was mobilized to do everything possible to address these issues including meetings with rating agencies, insurers, letter of credit banks, and trustees, to name just a few, we also advertised, appointed and worked with PricewaterhouseCoopers on the report pertaining to the fiscal condition of New Jersey's acute care hospitals and staffed the Hospital Advisory Commission. The Authority's Apollo reports have become an even more valuable tool this year in measuring the overall financial stability of the state's acute care hospitals and they have been modified to reflect certain statistics on an "adjusted for case-mix" basis.

The Authority, in cooperation with the Governor's Washington Office and the New Jersey Hospital Association ensured that the New Jersey Congressional delegation was well informed about the negative impact of the 1997 Balanced Budget Act ("BBA") on New Jersey health care organizations and especially its effect on their ability to handle repayment of their debt. What's more, at my urging, the National Council also recognized the BBA as an important issue for advocacy and worked to support the American Hospital Association's major effort in this area."

Ms. Behr noted the recent creation of a new position, that of Director, Hospital Transition (see page 4); a position which will be dedicated to coordinating efforts to help struggling hospitals including the implementation of a number of the recommendations made by the Hospital Advisory Commission (see story on page 1).

Ms. Behr expressed a growing concern as we move into the coming year – that of shoring up access to capital for New Jersey's health care organizations. "We need to get out and talk to the credit providers and investors about the positive steps New Jersey is taking to strengthen its health care system. This effort will begin in earnest next quarter. While we have plans in place to deal with all eventualities, they need to be revisited and honed. So, our second major initiative for the New Year will be to modify plans to manage the debt in our portfolio regardless of the financial condition of those whom we serve."

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FINANCING NOTES

In September, the Authority completed its second variable rate Composite Program ("COMP Program") with the issuance of \$37,100,000 on behalf of three acute care hospitals and one continuing care retirement community. Credit and liquidity was provided in the form of letters of credit negotiated by each borrower on an individual basis. As was the case in the first COMP Program issue, the bonds for each borrower were marketed simultaneously, but each borrower is responsible only for its own series of bonds. There is no cross collateralization. The major benefit of the program is that borrowers share costs of issuance. The interest rate on the bonds at the time of issuance was 2.95% for bonds secured by a PNC Bank letter of credit and 3.05% for bonds secured by a Valley National Bank letter of credit. The rates as of February 16 are 3.65% and 3.70%, respectively.

The borrowers, amounts issued and use of proceeds for each are as follows:

- The \$13,300,000 Series 1999 A-1 Bonds were issued on behalf of **Beth Israel Hospital Association of Passaic**, and used to refund the outstanding principal balance of the Authority's Series B Bonds issued on behalf of Beth Israel Hospital Association of Passaic.
- The \$4,000,000 Series 1999 A-2 Bonds, issued on behalf of **Holland Christian Home Association** of North Haledon, were used to finance in part the construction of a 32,000 square foot building connected to an existing building to provide for improved circulation and increased accessibility for residents, and additional miscellaneous capital projects.
- The Series 1999 A-3 Bonds were issued on behalf of **The Medical Center at Princeton, New Jersey**. The \$10,000,000 issue will be used to pay hardware, software, and installation costs of new financial computer systems, and to purchase and install new clinical equipment.
- The **St. Mary's Hospital**, Passaic, New Jersey Series 1999 A-4 Bonds were issued in the amount of \$9,800,000. The proceeds will be used to finance the renovation of patient care areas and the required equipment for these areas.

In December, the Authority completed a private placement of bonds on behalf of **RWJ Health Care Corp. at Hamilton, Inc.** ("RWJHCCH" or the "Parent"), **Continuing Care Center, Inc.** (the "Nursing Home") and **Robert Wood Johnson University Hospital at Hamilton, Inc.** (the "Hospital"), together with the Parent and Nursing Home, the "Obligated Group". The proceeds of the Series 1999 bond issue will be used to finance the Hospital's 1999 capital budget, and to

refinance an existing taxable loan, the proceeds of which were used to construct and renovate portions of a building, which houses both Hospital and RWJHCCH activities. The bonds were privately placed with Commerce Bank for a term of 20 years and an initial interest rate of 6.38% which was set three days prior to closing. The interest rate on the bonds will be reset every thirty days at 98.75% of the one-month LIBOR. The rate for February, 2000 was 5.81%.

In November, the Authority provided a tax-exempt Capital Asset Program loan to **New Jersey Organ and Tissue Sharing Network** ("Sharing Network") in the amount of \$2,700,000. Proceeds of the loan were used to provide funds for the refinancing of taxable debt which was used to purchase, renovate and equip a building for the Sharing Network's administrative offices and clinical laboratory. A letter of credit from Fleet Bank was obtained by Sharing Network as security for this transaction. Sharing Network, one of 63 federally-designated organ procurement organizations, which together form the national network for organ and tissue recovery, was incorporated in 1987. Based in Springfield, New Jersey, the Sharing Network's service area encompasses northern and central New Jersey, as well as the City of Camden, serving 70 hospitals and transplant centers. Its services include the clinical management of organ and tissue donors, tissue typing and infectious disease testing; family support and after-care; organ and tissue distribution; and public and professional education and community outreach. Since it was founded, the Sharing Network has more than tripled the total number of organs recovered in New Jersey for transplantation to 475 in 1999.

An \$83,430,000 bond issue was completed by the Authority in January on behalf of **Trinitas Hospital Obligated Group** ("Trinitas"). Trinitas was created on the date of issuance of the bonds with the consolidation of Elizabeth General Hospital and St. Elizabeth Hospital and consists of 710 acute care beds, 16 child adolescence intermediate care beds and 120 long-term care beds. The Trinitas facilities, located approximately one-mile apart, have provided hospital services to residents of the City of Elizabeth and surrounding communities in central and eastern Union County as well as portions of Essex and Middlesex counties since 1879 and 1905, respectively. Proceeds will be used to advance refund the Authority's Revenue Bonds, Elizabeth General Medical Center Issue, Series C, in the aggregate principal amount of \$79,165,000, and to finance certain capital expenditures. The bonds were rated "BBB-" and "Baa3" by Standard & Poor's Ratings Services and Moody's Investors Service, respectively. The true interest cost for the issue is 7.66%.

Ann Clemency Kohler was recently hired as **Director, Hospital Transition**, a newly created position at the Authority. Ms. Kohler will facilitate action by the Authority as well as other state agencies and departments with regard to the transition of certain acute care hospitals to alternative uses. Ms. Kohler brings a wealth of experience to this new position having previously served in a number of high-level government positions including Medicaid Director for the State of New York and Deputy Director of the Division of Medical Assistance and Health Services at the New Jersey Department of Human Services. In addition, she has had experience in the private sector, having been a health care consultant and having developed and coordinated health insurance products for health maintenance organizations. Ms. Kohler earned a Masters degree in City and Regional Planning and a Bachelor of Arts degree from Rutgers, The State University, New Jersey.

PROJECT NOTES

The following project updates are furnished as a means to provide information on the status of projects financed by the Authority.

A temporary registration area for the Emergency Room has been set up at **Burdette Tomlin Memorial Hospital**, located in Cape May Courthouse while construction continues on a new addition and renovations to the existing ER unit. Once completed, the combined space will total 13,000 square feet and include both triage and fast track areas. The lower level of the addition includes a new linear accelerator, which will enhance the oncology services available to this area of the state. The ER project is scheduled to be completed by the end of the year.

Work is continuing on an addition to **Brick Hospital**, of the **Meridian Health System**, located in Brick Township. The project consists of two distinct components, a two-story atrium and addition, which will contain ambulatory surgery, oncology, and cardiac rehabilitation units, as well as an additional floor to an existing medical/surgical wing that will contain additional inpatient rooms. Completion is anticipated for the latter part of this year.

Rock removal and foundation work has commenced for a new three-story addition to **Holland Christian Home**, a continuing care retirement community located in North Haledon. Once completed, the addition will contain 45 resident rooms each with private bath, and associated common areas. The initial work is the first of two phases of the project. The second phase includes renovations to existing resident areas to modernize interior finishes and

provide private baths for all rooms. Both phases are scheduled for completion by early next year.

Congratulations to the following health care organizations on the completion of their new projects financed by the Authority:

Virtua Health — This 80,000 square foot, two-story addition includes a 120-bed nursing home, and a new cafeteria and food service area, which links the new building with the existing hospital at Virtua Health's Berlin campus.

Wayne General Hospital — A renovated Emergency Room project was accomplished in two phases so as not to interrupt the functioning of this unit. This project has doubled the size of the Emergency Room area and provided for enhanced patient flow throughout the unit. Wayne General Hospital is an affiliate of the **Saint Barnabas Health Care System**.

Monmouth Crossing Assisted Living Residence, located in Freehold, is an affiliate of the **CentraState Healthcare System**. Several residents are awaiting the go ahead to move in, and once fully occupied, the facility will be home to 82 active seniors.

NOTEWORTHY

In keeping with the Authority's policy related to the selection of professionals for its bond sales, the Authority recently approved the addition of several firms to its **Qualified List** of senior managers, financial advisors, private placement agents and co-managers. The firms and their respective appointments are: Banc of America Securities, LLC, added to the qualified list of senior managers; Morgan Stanley Dean Witter was qualified as senior manager, placement agent and co-manager; and, GMS Group, L.L.C., was added as senior manager and placement agent in addition to its previously approved co-manager qualification.

Authority Executive Director **Edie Behr** was elected as President of the National Council of Health Facilities Finance Authorities for a two and one-half-year term. The vote took place in September at the Council's annual fall meeting which was held in Seattle, Washington. Ms. Behr had served as the Vice President of the Council since 1997 and has actively served on the Council's Advocacy Committee.

In its continuing effort to reduce costs and increase flexibility, the Authority recently modified its policy on the **submission of annual audited financial statements**. The Authority will now accept unaudited financial statements from certain borrowers whose financings have been completed through the private placement of bonds.

SOME HOSPITALS TO GET BACK DSH PAY

A Health Care Financing Administration (“HCFA”) program memorandum issued Dec. 29 clarifying which patients may be counted toward a hospital’s Medicare disproportionate share (“DSH”) adjustment calculation will allow hospitals in New York and Pennsylvania to retain around \$1.3 billion and \$700 million, respectively, that they previously received in error and net New Jersey hospitals about \$300 million in back payments they’ve appealed to receive, says the New Jersey Hospital Association (“NJHA”). In the memo to its fiscal intermediaries, the agency clarifies that, beginning January 1, 2000, only patients who receive hospital charity care under an approved state-federal Title XIX Medicaid plan may be counted in a facility’s Medicare DSH calculation, not patients who receive care under a state-only or other charity care program.

However, the memo explains that HCFA is instating a hold-harmless clause for hospitals in states such as New York and Pennsylvania, where patients eligible for state-only charity care programs previously have been included in the Medicare DSH calculation. Intermediaries “are not to disallow...the portion of Medicare DSH adjustment payments previously made to hospitals attributable to the erroneous inclusion of general assistance or other State-only” programs, the memo directs. “This is consistent with HCFA’s determination that hospitals and intermediaries relied, for the most part, on Medicaid days obtained from state Medicaid agencies to compute Medicare DSH payments and that some of those agencies commingled the types of otherwise ineligible days listed above with Medicaid Title XIX days in the data transmitted to hospitals and/or intermediaries.”

After concerted pressure from the New Jersey congressional delegation, HCFA also has announced that it will allow hospitals in states such as New Jersey — where patient days paid for by state-only programs have not been included in the Medicare DSH calculation over the years — to receive back payments representing the amounts the hospitals would have received if they had been paid on the same basis as the New York and Pennsylvania hospitals. Back payments are available only to hospitals that already have filed appeals, the memo says.

“If, for cost reporting periods beginning before January 1, 2000, a hospital that did not receive payments reflecting the erroneous inclusion of otherwise ineligible days, filed a jurisdictionally proper appeal to the PRRB [Provider Reimbursement Review Board] on the issue of the exclusion of these types of days from the Medicare DSH formula before October 15, 1999,” the fiscal intermediary is instructed to “reopen the cost report at issue

and revise the Medicare DSH payment to reflect the inclusion of these types of days as Medicaid days,” according to the memo. Some hospitals have filed appeals for cost reports dating back as far as 1991.

As “a matter of equity,” hospitals that have not received the same deal as New York and Pennsylvania in the past but have appealed should be able to get the higher payments, since New York and Pennsylvania hospitals are being allowed to keep their money, says U.S. Rep. Robert Menendez (D-NJ). NJHA has said it intends to continue fighting to get the higher reimbursement levels for future payments as well.

FOCUS

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“The loan from the Authority allows us to significantly lower our debt service costs, which gives us the opportunity to better direct our limited resources to the important task of improving the lives of the Hispanic community,” stated Casto Maldonado, President and Chief Executive Officer of FOCUS. In fact, by replacing the taxable bank loan with tax-exempt financing from the Authority, FOCUS was able to lower its interest rate from 9% to an initial rate of 2.7%. The CAP loan rate is reset on a monthly basis and averaged 2.8% during 1999.

FOCUS is a non-profit social services organization established to provide community assistance to the Spanish-speaking residents of the City of Newark. Incorporated in 1967, FOCUS’ major program initiatives include human development, employment and training, community health and economic development.

1999 IN REVIEW

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“In the New Year, we will actively assist our borrowers as they continue to adapt to meet the challenges of a changing health care environment. The Authority will work diligently to complete the financings requested by our clients. We will continue to monitor construction projects, bond covenants, borrowers’ financial conditions and we will take a proactive role toward helping our borrowers find answers to their financial predicaments.” Ms. Behr closed by assuring that the Authority will continue to work to provide the state’s health care organizations with access to the financial resources necessary to ensure the continued health and well being of the citizens of New Jersey.

GOVERNOR OUTLINES HEALTH CARE INITIATIVES

In her recent Budget Message to the legislature, Governor Whitman proposed the dedication of \$200 million, or two-thirds of the annual \$300 million Tobacco Settlement dollars, “to safeguard the health of our people.” The first \$30 million would be used to support a comprehensive Tobacco Control Program for the prevention of tobacco related diseases. Additionally, \$15 million would be used to support supplemental charity care to provide reimbursement to more hospitals for the free services that are provided to the uninsured. Other targeted uses of the funds include:

- \$10 million for cancer research and treatment;
- \$33 million for senior care and biotechnology research; and,
- \$100 million for the establishment of New Jersey FamilyCare to provide health insurance, including preventive services, doctors’ visits, prescription drugs, and mental health services, to 125,000 low-income adults in the state.

Calling the uses of the settlement both prudent and appropriate, the Governor also noted that the FamilyCare program “will improve the health of New Jersey’s families and reduce the cost of charity care.” In determining the use of the Tobacco Settlement funds for healthcare, the Governor emphasized the “justification for the settlement – compensation for covering years of healthcare expenses for smokers.”

GOVERNOR’S COMMISSION

(continued from page 1)

capacity, both high length of stay and staffing levels, current and future reductions in Medicare reimbursement, the continuing growth of managed care, the insolvencies of two managed care corporations, and the increased amount of charity care being provided by hospitals.

- Christine Grant, Chairman • Commissioner of Health and Senior Services
- Karen L. Suter • Acting Commissioner of Banking and Insurance (John Kerr, Designee)
- Michele Guhl • Commissioner of Human Services (Edward Tetelman, Designee)
- Noreen White • Timothy T. Richards
- Shing-Fu Hsueh • Carmen Saginario Jr
- Edith F. Behr, Executive Director

The Commission recommendations focus on three general areas including assisting hospitals and communities in the transition of hospitals to more efficient organizations in the appropriate physical setting; modifying the state’s financial, regulatory, and leadership responsibilities to ensure access to and the quality of health care services in the state; and taking actions to ensure a climate of fair business practices between payers and hospitals.

Several specific suggestions of the Commission, which would require legislative action, include:

- Creation of a hospital asset transformation program to assist in reduction of excess capacity;
- Creation of a supplemental charity care fund for some reimbursement to all hospitals above a certain threshold;
- Increased flexibility in charity care documentation requirements; and,
- Consideration of changes in the Medicaid reimbursement system.

In addition to the above recommendations, ongoing working groups will examine the process of handling claims and billing by hospitals and managed care plans to speed payments to hospitals; and will assess modifications to post acute care regulations and financial incentives in an effort to reduce lengths of stay without compromising the quality of care.

The Authority is pleased that the state, through the actions of the Governor, has recognized the financial deterioration of acute care hospitals and has moved quickly to identify the reasons for the deterioration. With the conclusion of the assessment phase, all stakeholders including the state, providers, payers, and consumers can proceed to address the issues.

To obtain a copy of the Commission Report, please call or send a request via e-mail to Chip Dutcher, Director, Communications and Human Resources at 609-292-8585 or cdutcher@njhcffa.com, respectively.



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