AUTHORITY NOTE$

New Jersey Health Care Facilities Financing Authority September 1999

(Left to right) Edie Behr, Executive Director, NJHCFFA welcomes Christine Grant, Chairman, NJHCFFA. Ms. Grant was sworn in as Commissioner of Health and Senior Services on July 15, 1999 following her appointment by Governor Christine Todd Whitman and confirmation by the New Jersey State Senate.

AUTHORITY LAUNCHES EXHIBIT AT NJANPHA CONFERENCE

The Authority recently introduced its new free-standing exhibit to more than 350 senior health care and housing facility representatives. The exhibit will be utilized as a tool to better communicate the Authority's various financing programs and vehicles at annual meetings, conferences and exhibitions of health care organizations.

The New Jersey Association of Non-Profit Homes for the Aging's ("NJANPHA") annual meeting and exhibition held in May in Atlantic City, provided the ideal venue for the initial presentation of the Authority's new eye-catching exhibit. The Authority was pleased to have an opportunity to meet NJANPHA members and to discuss with them their capital financing needs. Staff explained the Authority's various financing products specifically geared to long-term care facilities, comprehensive personal care homes, continuing care retirement communities, and assisted living facilities, and the types of projects eligible for borrowing including construction and renovation projects as well as the refinancing of outstanding taxable and tax-exempt debt.

The Authority congratulates NJANPHA on another successful exhibition and annual meeting.

SECOND LARGEST ISSUE COMPLETED

The Authority recently completed a $248,360,000 financing on behalf of Meridian Health System Obligated Group ("Meridian"). Meridian consists of a 1,500+ bed acute care hospital system (including Jersey Shore Medical Center, Riverview Medical Center and The Medical Center of Ocean County) and a 130-bed long term care facility (Ocean Nursing Pavilion), providing primary and tertiary care, nursing home, and rehabilitation services primarily to residents of Monmouth and Ocean Counties. Proceeds will be used to: (1) refund two series of Authority revenue bonds, partially refund one series of Authority revenue bonds, and refund a 1993 New Jersey Economic Development Authority bond issue; and, (2) finance or reimburse Meridian for the costs of construction,

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ATTENTION ATTENDEES
New Jersey Association of Health Care Facilities 51st Annual Convention

Stop by Booth No. 631 and see the Authority's new exhibit. Authority representatives will be available to discuss your capital financing needs and/or debt refinancing.

VARIABLE RATE DEMAND BONDS AND THEIR RATINGS

INTRODUCTION

Except in rare circumstances, the shorter the term of a loan, the lower the interest rate. Unfortunately, while the shorter-term loans offer attractive interest rates, they are usually too short to match the useful life of the typical health care project. Health care providers have historically been able to borrow on a variable rate basis from commercial banks, although not on a tax-exempt basis, and the terms of the loans typically have been limited to less than 10 years. In addition, the Authority's Capital Asset Program, a revolving loan program offering variable interest rates, has been available since 1986 but again, the term of loans is typically limited to no more than 10 years.

Variable rate demand bonds "VRDBs" offer health care providers the opportunity to borrow for long-term needs at short-term, tax-exempt rates. With the introduction of the Authority's COMP Program last year, the issuance of VRDBs on behalf of New Jersey's health care organizations has picked up. Bonds issued on a variable rate basis are resold, or remarketed, periodically (typically daily, weekly or monthly) even though they may have a much longer nominal maturity. For example, a borrower could have VRDBs with a 30-year maturity that are remarketed on a weekly basis; meaning that, every week, the bonds would be up for sale. Because the bonds are expected to be outstanding for 30 years, the scheduled principal payments are about the same as they would be for a long-term fixed rate transaction. But, since the investors are only committed to holding the bonds for one week, the interest rate is lower than for a long-term fixed rate bond issued at the same time. Thus, the borrower gets the best of both worlds, paying 7-day interest rates for access to 30-year debt.

RISKS

Issuing short-term debt at 4% when long-term rates are 7% sounds good until short term rates rise to 8%. Fortunately, short-term rates have been attractive for a long time and there are products, such as interest rate caps, that will mitigate the risk of rising short-term rates. VRDBs can also be refinanced with fixed rate debt without the payment penalties associated with refinancing long-term debt. But the existence of interest rate risk makes the rating agencies wary of too much dependence on VRDBs. For example, Standard & Poor's views 15-20% as the appropriate upper limit for all forms of short-term debt as a percentage of total debt.

A second risk is that there may be no market for the bonds "put" back to the remarketing agent or that credit enhancement may be no longer available for the bonds. At that point, the borrower would be obligated to pay the issue off in full, a situation that could range from a mild annoyance to a major liquidity crisis depending on the borrower's cash reserves. In reality, few health care providers have sufficient cash reserves to meet a VRDB put option. Fortunately, borrowers can, and are usually required to, obtain "liquidity support" from a third party such as a bank or other financial institution. In exchange for an annual fee, the third party agrees to pay the bonds in full if the put option is exercised.

RATINGS

The structure of a VRDB issue requires rating agencies to assign two ratings to the issue. The first rating reflects the ability of the borrower to make regular debt service payments, assuming investors do not exercise the put option. This is no different from rating a long-term, fixed rate issue, using the same rating scales and criteria. The rating will reflect any credit enhancement such as letter of credit or bond insurance.

The second rating reflects the ability of the borrower or the third party providing liquidity support to repay the bonds should there be a failed remarketing. That is, it tells investors the likelihood of receiving their money if the put option is exercised. These short-term ratings have different scales from long-term ratings and each rating agency has a slightly different scale (see chart on page 3). Basically, each agency has several investment grade levels and one or two speculative grade levels. There are fewer categories than for long-term ratings and, except for the highest categories, there are no (+) or (-) modifiers to the short-term ratings.

Putting the long-term and short-term components together yields the rating for the VRDBs. For example, bonds issued on behalf of a borrower with an underlying rating of "A" that had a letter of credit and liquidity support from the strongest bank would be rated AAA/A-1+ by Standard & Poor's, Aaa/VMIG-1 by Moody's and AAA/F1+ by Fitch. VRDBs issued on behalf of that same borrower with the liquidity support but with no letter of credit would be rated A/A-1+, A/VMIG-1, and A/F1+ by the three agencies.

(Left to right) Edie Behr, Executive Director, NJHCFFA and June Duggan, President and CEO, NJANPHA at the NJANPHA Annual Meeting and Exhibition in Atlantic City.

NOTEWORTHY

The Authority recently acted as intermediary between a client hospital and the Internal Revenue Service ("IRS") regarding an arbitrage rebate refund. In this instance, more than $400,000, representing positive arbitrage received by the hospital on investments for three series of bonds, had been remitted to the IRS. In subsequent years the hospital was in a negative arbitrage position which, when netted against the arbitrage rebate, resulted in a negative number and a significant refund for the hospital. The Authority made a formal request for a refund from the IRS in February of 1995, which was followed by numerous formal inquiries from the IRS for additional information from the hospital. Earlier this year, the Authority received notification from the IRS that a refund in the amount of $408,900 had been approved and a check in that amount was being transmitted. Of course, the Authority requested an additional sum of money to compensate the hospital for the loss of interest earnings during the four-year IRS investigation period. While the Authority was pleased to assist the hospital in obtaining the rebate, the IRS advised that arbitrage rebates are not considered a tax, therefore interest is not allowed.

FINANCING NOTES

In July, the Authority completed a financing on behalf of **Burdette Tomlin Memorial Hospital, Inc.** located in Cape May Court House. The proceeds of the $24,185,000 Series 1999 bond issue will be used to advance refund a portion of the Authority's Series D bonds issued in 1991, to finance the construction, expansion and/or renovations of various portions of the hospital, including the emergency room and radiation oncology areas, and to finance the purchase and installation of various pieces of equipment including a linear accelerator. While the hospital received a commitment from a bond insurer to provide insurance for the bonds, the hospital decided to forego the insurance and chose, instead, to have the bonds issued based solely on its own credit. The bonds earned an "A2" rating from Moody's Investors Service, and an "A" rating from Fitch IBCA, Inc. The true interest cost for the issue was 5.81% and the net present value savings amounted to $347,966 or 2.70% of the refunded bonds.

RATING CATEGORIES FOR VARIABLE RATE DEBT

STANDARD & POOR'S*

A-1 Strong degree of safety (+ used if extremely strong)

A-2 Satisfactory capacity for repayment

A-3 Adequate capacity for repayment but is more vulnerable to adverse circumstances

B Speculative capacity for payment

C Doubtful capacity for repayment

D In default

*In its publication, "Public Finance Criteria," Standard & Poor's notes that the A-1+ rating correlates to A+ to AAA long-term ratings, A-1 correlates to A- to A+, A-2 matches up with BBB to A, A-3 matches to BBB- to BBB, and B correlates to BB- to BB+.

FITCH, IBCA

F1 Highest credit quality, may have an added "+" to denote any exceptionally strong credit feature

F2 Good credit quality, but the margin of safety is not as great as in the case of the higher ratings

F3 Fair credit quality but near-term adverse changes could result in a reduction to non-investment grade

B Speculative with minimal capacity for timely payment plus vulnerability to near-term adverse changes

C High default risk; capacity for repayment depends on sustained, favorable business and economic environment

D Denotes actual or imminent payment default

MOODY'S INVESTORS SERVICE

VMIG-1 Highest quality with established cash flow, liquidity support or access to refinancing

VMIG-2 High quality

VMIG-3 Favorable quality but less protection than higher rating categories

VMIG- 4 Adequate quality and not speculative but there is specific risk

SG Speculative quality, lacking protection

PROJECT NOTES

Congratulations to **Atlantic City Medical Center** on the completion of the AtlantiCare HealthPlex, located in downtown Atlantic City. The HealthPlex houses an outpatient primary care center, a day care center, and physicians' practices. The facility will enhance the health care options available for residents of the city.

The Medical Center at Princeton is progressing on its renovation project in the Emegency Services Department. This multi-phased project has been planned so that no disruption of patient treatment will be necessary in this unit. Already completed and being utilized is a six-cubicle "fast track" area. The target date for finalization of this entire project is December, 1999.

The exterior façade of brick and stucco is being installed on **Virtua Health System's** 120-bed nursing home, which is being constructed contiguous to West Jersey Health System-Berlin Division. The project also includes a new cafeteria and food preparation area, which will service both the nursing home and the existing hospital. Completion of this project is scheduled for late fall 1999.

Construction has begun on **The Avalon at Bridgewater,** located in Raritan Township. Upon completion, this three-story assisted living facility will be home to 74 residents. Workers are currently installing the second floor light gauge metal framing, and an early 2000 completion is anticipated.

Sitework is well under way and steel has been erected at the William G. Rohrer Center for Health Fitness, located in Voorhees. The project is being constructed by **Virtua Health System** and will consist of a full service health club, indoor pool, and gymnasium, as well as an attached two-story medical office building. The new Center will offer rehabilitation therapy programs to the community. The project is scheduled for completion in April 2000.

The below-grade parking and the steel structure are in place at **Hackensack University Medical Center's** new Research Building.

The facade for this five-floor edifice will complement the adjacent existing medical arts building, and other buildings throughout the campus, and create a new approach to the hospital's main entrance. Completion of this project is anticipated in the first quarter of 2000.

MERIDIAN

(cont'd from page 1)

renovations, improvements, and equipment acquisition and installation at the system's facilities, including expansion and renovation to Meridian's Brick Hospital.

The bonds are insured by Financial Security Assurance, Inc.,which resulted in triple-A ratings from Standard & Poor's Ratings Service and Fitch Investors Service IBCA. The all-in true interest cost for the issue was 5.62% and net present value savings of $4,125,000 or 2.75% of the refunded bonds were achieved. This financing is the second largest bond issue completed by the Authority.

New Jersey Health Care Facilites Financing Authority Meeting Schedule 1999 - 2000

September 27, 1999	February 24, 2000
October 28, 1999	March 30, 2000
November 24, 1999	April 27, 2000
December 22, 1999	May 25, 2000 (Annual Meeting)
January 27, 2000	

Meetings are generally held at 10:00 a.m. in the Authority's office, Station Plaza, Building 4, 22 South Clinton Avenue, Trenton, NJ.

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