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AUTHORITY NOTES

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New Jersey Health Care Facilities Financing Authority

February 1997

NEW BOARD MEMBER



Timothy T. Richards of Mendham has been appointed by Governor Christine Todd Whitman to serve as a member of the New Jersey Health Care Facilities Financing Authority. Mr. Richards is a Group Product Manager of Becton Dickinson & Company's VACUTAINER Systems Division located in Franklin Lakes, New

Jersey. Mr. Richards has had significant global management experience in the healthcare industry with Becton Dickinson & Company and has lived and worked in various countries. Mr. Richards replaces Theodore A. Schwartz, Esq. of Cedar Grove whose term had expired.

AUTHORITY REAPPOINTS CREDIT/LIQUIDITY PROVIDER FOR CAP'S SERIES A-D BONDS

The Authority recently reappointed the Chase Manhattan Bank (the "Bank") as credit and liquidity provider for the \$100,000,000 Capital Asset Program, Series A - D. The action was taken following the distribution of a Request for Proposal to 44 banks in response to an advertisement in *The Bond Buyer*. The proposals were evaluated based on cost effectiveness, efficiency, experience, and a willingness to provide capital for projects which the Authority's borrowers need to finance. Chase Manhattan Bank was selected because of its demonstrated ability to best meet the Program goals. Given the current loan portfolio, Chase's tiered pricing approach would lower the annual fee by 52 basis points from the previous fee of 135 basis points. This change in fee structure represents annual savings of approximately \$520,000.

The \$100,000,000 Variable Rate Demand Revenue Bonds, Hospital Capital Asset Program Issue, Series A - D were issued in 1985 to create a revolving pool of funds from which eligible health care providers could

obtain loans. Program benefits include low interest rates, minimal closing costs, and a master set of documents which minimizes expenses and time. In addition, there is no requirement for a debt service reserve fund, no prepayment penalties and no loan payments until monies are drawn down. More than 34 health care providers have obtained funding through the CAP's A-D Program since 1985 and have received the benefits of this Program. The current interest rate for this variable rate program is 4.13%. For more information on the Program, call Suzanne Walton, Associate Project Manager at 609- 292-8585.

AUTHORITY ASSISTS IN SECONDARY MARKET

Since its inception in 1972, the Authority as the primary issuer of tax-exempt municipal bonds for New Jersey's not-for-profit health care providers, has developed an outstanding reputation and has become well known and respected throughout the financial community. During this time, the Authority has issued more than \$7.2 billion in bonds and notes on behalf of more than 100 health care providers in the state.

The responsibilities of the Authority, however, are not limited to the issuance of bonds/notes and the monitoring of its portfolio. For instance, an ongoing relationship is maintained with investors in an effort to keep them apprised of the health care environment

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TARGET CITIES LIST EXPANDED

The Authority recently expanded its program to aid community healthcare providers to finance capital projects. The Target Cities Program, originally designated for providers located in Asbury Park, Camden, Elizabeth and Trenton, will also be available to assist community healthcare providers in Franklin Township, Jersey City, New Brunswick, Newark and Vineland. Summit Bank has been selected to develop a loan program with the Authority for which the Authority has authorized the use of \$2 million of its reserves as credit support. Interested parties should contact Dennis P. Hancock, Deputy Executive Director and Director of Project Management at the Authority's offices 609-292-8585.

YEAR END REVIEW

At the December Authority Board meeting, Executive Director Edie Behr recapped the Authority's activities and accomplishments for 1996 and set forth some of the projects contemplated for 1997. She noted that the Authority had "continued its campaign of responding to the needs of health care providers and revised a number of policies which resulted in both a reduction of costs and a more efficient financing process." She stressed that two specific policy changes made during the year were particularly well received by the industry; the first which allows borrowers to select their own bankers, and, the second which encourages bankers to apply to the Authority for qualification at any time.

Ms. Behr delineated the cost saving measures taken during the year which include:

- a lower fee schedule for trustee services,
- a lower credit and liquidity facility fee for the Capital Asset Program, Series A-D, and,
- revisions to audit compliance procedures which allow for a management certification in lieu of an annual accountant's certificate.

She further noted that Authority staff continued its communication efforts with borrowers and potential borrowers at conferences, individual meetings, via telephone and by way of printed material. In addition to the publication of *Authority Note*, two articles were published in New Jersey healthcare and finance trade periodicals. Educational material was developed including an introduction to the Authority and its financing products, and brochures detailing the Capital Asset Program, Series E and the Equipment Revenue Note program.

Four sets of proposals for bankers, trustees, the Target Cities Program, and credit and liquidity facilities for the Series A-D Capital Asset Program, were evaluated. As a result:

- Fifty-three firms were qualified to provide senior manager, financial advisor, private placement agent and/or co-manager services in connection with the issuance and sale of the Authority's bonds or notes.
- Six banks were appointed to serve as trustee on a rotation basis for bond issues.
- Summit Bank was selected to develop the Target Cities Program in cooperation with the Authority; and
- Chase Manhattan Bank was reappointed as the credit and liquidity provider for the Capital Asset Program, Series A-D.

Ms. Behr pointed out that the Authority issued \$188 million in securities during 1996. And, "more important than the dollar volume is the fact that

financings were arranged during the year not only for the Authority's traditional borrowers, but for four nursing homes, an assisted living facility, and a home health agency. The Authority continued to tailor transactions to meet individual borrower's needs and to reduce costs. For example:

- The Authority utilized a surety policy from AMBAC Indemnity Corporation in lieu of a funded debt service reserve fund for the Berkeley Heights Convalescent Center/Delaire Nursing and Convalescent Center resulting in a bond size reduction of approximately \$2.75 million thus saving the borrower certain costs of issuance and debt service payments.
- The \$96.7 million financing completed on behalf of St. Joseph's Hospital and Medical Center consisted of the issuance of both tax-exempt and taxable bonds. The taxable component, the first taxable bonds issued by the Authority, provided funds to acquire a 598-unit residential apartment building to house Medical Center employees. The tax-exempt component resulted in present value savings of \$11 million or 19.5% of the Medical Center's outstanding mortgage. And, for the first time, the Authority bid out forward float contracts resulting in an upfront cash payment for St. Joe's.
- An unrated, private placement of bonds with Summit Bank provided \$9 million to St. Ann's Home for the Aged. The proceeds were used by this first-time borrower primarily to finance the construction of a new 116-bed skilled nursing facility. Due to a special set of circumstances, the Authority waived the feasibility study requirement for St. Ann's, and the size of the bond issue was decreased accordingly.
- A \$30.9 million insured refunding was completed through a competitive bid on behalf of the Robert Wood Johnson University Hospital resulting in a true interest cost of 5.10% and savings of 10.175% or \$3.37 million."

In addition, four Capital Asset Program loans totalling \$14.8 million were closed in 1996. A waiting list has been established for Series A-D funds and the holder of the Series E bonds is evaluating the credit-worthiness of several potential borrowers.

The Authority also began work during the year on the financing of its first assisted living facility (ALF). An unrated, limited public offering is expected to be completed by the end of February on behalf of Care Institute, Inc.-Cherry Hill. The \$16.8 million issue will finance a 112-unit ALF to be constructed in Cherry Hill.

During the year, the Authority approved requests from two borrowers for the release of property. And, in an effort to respond to health care borrowers in a

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AUTHORITY ASSISTS IN SECONDARY MARKET

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in New Jersey; to obtain guidance on marketing certain types of issues; and, to ensure that there is an active secondary market for the Authority's bonds. The Authority's efforts in this regard are made for one reason: if investors know that they can trade bonds in the secondary market, they are more apt to buy them in the primary market.

In an effort to achieve this goal, the Authority regularly assists institutional investors interested in obtaining information on outstanding Authority bonds. This includes providing copies of audited financial statements and offering statements, information about developments in New Jersey, and putting investors directly in contact with borrowers. The Authority most recently provided assistance to an investor who wanted to secure a rating for previously unrated bonds. With assistance from the Authority, the rating agency obtained the information it needed to rate the bonds. Once the rating was in place, the bonds were easily sold. Once again, the Authority's efforts helped to foster a robust secondary market for its bonds.

FASB NO. 125

In June of 1996, the Financial Accounting Standards Board ("FASB") issued its Statement of Financial Accounting Standards No. 125. Among other things, the Statement provides reporting standards for extinguishment of liabilities which occur after December 31, 1996. Statement 125 supersedes FASB Statement No. 76, Extinguishment of Debt, whereby a liability was considered to be extinguished if essentially risk-free assets were transferred to an irrevocable defeasance trust, which together with investment earnings would be sufficient to pay principal of and interest on the debt being extinguished. This in-substance defeasance transaction resulted in a derecognition of both the liabilities and assets set aside in a trust by the debtor.

In the case of the new statement, a liability is considered extinguished if the debtor pays the creditor and its obligation has been satisfied; or the debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor.

The Authority is currently addressing this issue with bond counsel, the accounting firms and the American Institute of Certified Public Accountants. Our goal is to ensure that for future Authority refundings, the bond documents will be written to comply with the requirements of Statement 125 and that borrowers will not have to carry the liability on their balance sheets.

EQUIPMENT REVENUE NOTE PROGRAM

The Equipment Revenue Note Program was created for New Jersey's health care providers to obtain a cost effective and expeditious method of financing the acquisition and installation of equipment and related accessories. Structured as a private placement with standardized documentation, the interest rate and other features are determined through a competitive bid resulting in the most favorable interest rate and terms for the borrower.

Advantages to borrowers include:

- Low, tax-exempt interest rates (either fixed or variable);
- Minimal financing costs;
- Minimal time investment;
- Security generally consists of equipment financed;
- Loan term parallels average useful life of equipment.

To obtain more information about the benefits of this financing vehicle and how to apply for funding, call Suzanne Walton, Associate Project Manager at 609-292-8585.

NOTEWORTHY

DENNIS P. HANCOCK was recently appointed Deputy Executive Director at the Authority while continuing to serve as Director, Division of Project Management. Before joining the Authority in 1992, Mr. Hancock spent 10 years in the investment banking industry and was previously affiliated with a major national public accounting firm. Mr. Hancock earned his Bachelor of Science degree in accounting from Virginia Polytechnic Institute and State University and is a retired Certified Public Accountant.

Mr. Hancock replaced June Duggan who resigned to become President and Chief Executive Officer of the New Jersey Association of Not for Profit Homes for the Aging. James Van Wart has been named Acting Director for the Division of Operations.

The Authority recently approved the addition of Oppenheimer & Co., Inc. to its QUALIFIED LIST OF BANKS to serve as senior manager, private placement agent and co-manager for bond financings. This brings to 57 the number of firms which have been qualified by the Authority since May, 1996. This expansive list of qualified banks provides each borrower with the broadest group of professionals from which to choose for its particular financing.

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NOTEWORTHY

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The "TAXPAYER BILL OF RIGHTS", recently signed into law by the President, permits the Internal Revenue Service to seek intermediate sanctions or additional penalties from individuals affiliated with non-profit organizations whom they believe have received "excess profits." Tax-exempt organizations, prohibited by federal law from using this practice, have been vulnerable to a possible revocation of their tax-exempt status. Congress said, in a report accompanying the Bill, that non-profit organizations could follow certain safe-harbor provisions to protect themselves and the individuals involved with their organizations from this potential liability.

Nationwide IRS AUDITS of 501(c)(3) organizations have resulted in the payment of almost \$70 million in closing agreements by five entities to avoid losing their tax-exempt status and risk jeopardizing any outstanding tax-exempt debt. The IRS noted several major problem areas it found during the audits. These included:

- failure to pay sufficient employment taxes due to classification of workers; and,
- private parties benefitting from a nonprofit's operations, such as top officials billing the organization for travel which is not connected with 501(c)(3) business.

Both Congress and volunteer trustees are responding to the SALES OF NOT-FOR-PROFIT HOSPITALS to investor-owned (for-profit) hospital chains. For example, a bill has been introduced in Congress calling for increased scrutiny of these transactions by giving oversight authority to the Inspector General of the Department of Health and Human Services. The Inspector General would be responsible for determining whether the investor paid fair market value for the entity and would ensure that any payments made to executives were not excessive. The Volunteer Trustees of Not-For-Profit Hospitals have printed and distributed a booklet "warning communities to watch out for their interests when not-for-profit hospitals go for-profit". Meanwhile, the Federation of American Health Systems has launched a campaign to educate state officials and lawmakers on the sales of not-for-profit hospitals to investor-owned companies. (Sources: *Modern Healthcare* 12/16/96 and 1/13/97)

FINANCING NOTES

A \$1,746,947 Capital Asset Program loan was provided to CHRIST HOSPITAL to fund the implementation of a major energy savings program. The project is the result of the Hospital's participation in a Public Service Electric and Gas Company incentive program which is expected to provide savings of \$1.8 million to the Hospital over the life of the loan. The project includes the replacement of two chillers in the power plant as well as the replacement of lighting fixtures throughout the Hospital facility.

The VISITING NURSE ASSOCIATION OF CENTRAL JERSEY obtained a loan from the Capital Asset Program to finance various capital projects at its headquarters in Red Bank. The \$3.9 million loan will fund the acquisition of a management information system and a telephone system and refinance existing taxable debt.

YEAR END REVIEW

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more timely manner, the Authority delegated the Executive Director to accept, on its behalf, consultants appointed by borrowers as required in the case of covenant violations.

Projects on the schedule for 1997 include activation of "the Target Cities Program and, through this vehicle as well as others, we will continue to diversify the health care providers for whom we arrange financing. We will continue to develop a data base for long-term care providers. We will reassess auditors, financial printers and bond counsel".

"We will continue our campaign of responding to the needs of health care providers. We will look for ways to reduce the cost of borrowing and to make the bond issuance process more efficient. And, most importantly, we will continue our pursuit of a legislative expansion in 1997 in an effort to meet all of the health care financing needs in New Jersey."

Len Fishman, Chairman • Commissioner of Health and Senior Services

Elizabeth E. Randall • Commissioner of Banking and Insurance
(Leon Moskowitz, Designee)

William Waldman • Commissioner of Human Services
(Edward Tetelman, Designee)

Noreen P. White • Timothy T. Richards
Thomas S. Higgins • Robert J. Rahl

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