

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on March 23, 2006 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:

Fred M. Jacobs, M.D. (Chairman), Commissioner of Health and Senior Services; Gustav Edward Escher, III, Public Member; Moshe Cohen, Ph.D., Public Member; Freida Phillips, designee of the Commissioner of Human Services; and, Maryann Kralik, designee of the Commissioner of Banking and Insurance.

The following **Authority staff members** were in attendance:

Mark Hopkins, Dennis Hancock, Jim Van Wart, Steve Fillebrown, Susan Tonry, Michael Ittleton, Suzanne Walton, Ron Marmelstein, Marji McAvoy, Lou George, Carole Conover, Bill McLaughlin, Andreea Milosevici, Ronald Marmelstein, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:

Edward Tetelman, Department of Health and Senior Services; Karen Lumpp, Atlantic Health System; Michael Marcus, Goldman Sachs; Gregory Adams, Holy Name Hospital; Bob Osler, Bob Segin, Gerry Lowe, Virtua Health, Inc.; Jack Swire, Kari Fazio, Wachovia Bank; Gary Walsh, Windels, Marx, Lane & Mittendorf; Howard Eichenbaum, Gluck Walrath; Clifford T. Rones, Deputy Attorney General; and, Lisa Thornton, Governor's Authorities Unit.

### ***CALL TO ORDER***

Dr. Jacobs called the meeting to order at 10:05 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 26, 2005 Authority meeting. In accordance with the provisions of the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to all newspapers with mailboxes at the Statehouse, including *The Star-Ledger* and the *Courier Post*, far enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

### ***APPROVAL OF MINUTES***

#### ***February 23, 2006 Authority Meeting***

The minutes for the Authority's February 23, 2006 meeting were distributed for review and approval. Ms. Kralik offered a motion to approve the minutes; Dr. Cohen seconded. Dr. Jacobs voted yes, Mr. Escher abstained, Dr. Cohen voted yes, and Ms. Kralik voted yes. The motion carried and the minutes were approved.

## ***TEFRA AND CONTINGENT BOND SALE***

### ***Atlantic Health System***

Dr. Jacobs stated that, as required by the Tax Reform Act of 1986, the following portion of the meeting is considered a public hearing in connection with the Authority's proposed financings on behalf of Atlantic Health System ("AHS"). He welcomed everyone to participate in the discussion, but first asked Lou George to report on the status of the transaction.

Mr. George began by introducing Michael Marcus of Goldman Sachs and Karen Lumpp, Corporate Director of Special Projects for AHS. He then indicated that the members of the Authority were being asked to consider a contingent sale for \$150 million of bonds on behalf of AHS. The proceeds would be used for a major construction project at the Morristown facility and a disaster recovery system at the Overlook facility.

The project at Morristown, which is referred to as their "Heart Hospital," involves: 1) construction of a five-story, 250,000 square-foot facility, 2) construction of three patient floors totaling 100,000 square feet on top of an existing structure, 3) construction of a "chiller plant" to provide cooling capacity and emergency power for portions of the campus, 4) construction of a five-story, 1,165-space parking garage, 5) expansion and renovations to the main lobby of the hospital, and 6) expansion of an existing parking deck creating an additional 106 parking spaces. Upon completion of this project, AHS expects to have a net increase of 60 licensed beds at the Morristown facility.

The disaster recovery system at Overlook involves the purchase of equipment, including hardware and software, and any necessary build-out to accommodate such equipment. Bond proceeds will also be used to pay for capitalized interest and the related costs of issuance.

As noted in the "Sources & Uses of Funds," the total financing is approximately \$206 million. The proceeds of the bond issue will provide \$150 million and the balance will be provided through a combination of equity. The Morristown Memorial Foundation will provide \$40 million of equity and AHS Hospital Corp. intends to provide the remaining \$16 million.

Mr. George indicated that the bonds would be issued in a multi-modal form, which allows AHS some flexibility to react to changes in the interest rate market. The modes consist of a daily or weekly variable rate, a term rate, a commercial paper rate and a PARS auction rate, which is the proprietary name for the Goldman Sachs auction rate securities. The PARS rate securities will be issued in \$25,000 denominations and can be issued in a daily, 7-day, 28-day, 35-day, 3-month, 6-month, or a special auction period.

The bonds are insured by Ambac Assurance Corporation and currently do not require a liquidity facility. If AHS requests a conversion to a mode other than a PARS auction rate, a liquidity facility would be required. Upon conversion, all outstanding bonds would be tendered and new bonds issued.

When bonds are outstanding in the PARS rate mode, broker-dealers are needed to solicit orders and bids on the bonds. In this case Goldman Sachs as the senior managing underwriter and co-broker/dealer. Mr. George then turned the floor over to Mark Hopkins to recommend a firm to serve as co-manager and co-broker/dealer with Goldman Sachs.

Mr. Hopkins then reminded the Members that the Authority reserves the right to select a firm from its qualified list to serve as co-managing underwriter on Authority financings. Selections are based on demonstrated ability to distribute New Jersey securities of comparable credit quality, sufficient capital to participate in underwriting the issue, and borrower preferences.

With Goldman Sachs assigned as the senior managing underwriter for the transaction, AHS requested that Morgan Stanley be considered as co-manager and co-broker dealer for the bonds based on AHS's past experience with the firm.

Because Morgan Stanley is on the Authority's qualified list, has demonstrated the ability to distribute New Jersey securities of comparable credit quality, has sufficient capital to underwrite the issue, and is the borrower's preference, staff recommended that Morgan Stanley be named co-manager/broker-dealer for the bonds, pending approval of the contingent bond sale. Mr. Escher moved that the requested appointment be approved; Ms. Kralik seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-58**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves Morgan Stanley to serve as co-manager and co-broker/dealer for the AHS Hospital Corp. Issue, Series 2006 bond transaction, pending the approval of the bonds' contingent sale.

Dr. Jacobs then introduced bond counsel Gary Walsh of Windels Marx Lane & Mittendorf, LLP to present the Bond Resolution for the proposed 2006 AHS transaction. Mr. Walsh stated that the Bond Resolution authorizes the issuance of the Series 2006 bonds in a principal amount to yield proceeds not to exceed \$150,000,000 and at an initial interest rate not to exceed 6%. The Series 2006 bonds will be issued in two lots of \$75 million each for a 7-day period and will mature no later than July 1, 2036. They will be secured by a promissory note of AHS Hospital Corporation issued pursuant to a Master Trust Indenture through an Eighth Supplemental Indenture.

The Note issued under the Master Trust Indenture will be secured by a pledge of the gross receipts of AHS Hospital Corporation, which is the sole member of the Obligated Group. The Bond Resolution also approves the form of the Bonds, the Official Statement, Loan Agreement, Trust Agreement, Bond Purchase Contract, and Broker-Dealer Agreement. Further, the Resolution appoints The Bank of New York as Trustee, Bond Registrar, and Tender Agent for the Bonds; and Goldman Sachs & Co. and Morgan Stanley Co. as co-Broker-Dealers. The Resolution also authorizes any authorized officers of the Authority to execute and deliver such other documents as may be necessary to effectuate and deliver the Trust Agreement, Loan Agreement, and the issuance and sale of the bonds.

Dr. Jacobs asked the Members' pleasure with respect to the adoption of the Bond Resolution. Mr. Escher moved that the document be approved; Ms. Kralik seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-59**

**NOW, THEREFORE, BE IT RESOLVED**, That the Authority hereby approves the Bond Resolution entitled, "A RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, AHS HOSPITAL CORP. ISSUE, SERIES 2006."

Dr. Jacobs thanked Ms. Lumpp and Mr. Marcus for attending the meeting and wished them well on the project. He then closed the public hearing required by the Tax Reform Act of 1986 with respect to the Authority's proposed financing on behalf of Atlantic Health System.

## ***INFORMATIONAL PRESENTATIONS***

### ***A. Holy Name Hospital***

Bill McLaughlin introduced Gregory Adams, Senior Vice-President & Chief Financial Officer from Holy Name Hospital, and informed the Members that this is an Informational Presentation with a summary of the required management prepared financial projections concerning the proposed bond transaction for Holy Name Hospital. He described Holy Name Hospital as a not-for-profit 361-bed acute-care hospital located in Teaneck, New Jersey, and stated that the Hospital requests the Authority's consideration for the issuance of approximately \$60,000,000 of bonds on its behalf.

The proceeds of the bonds will be used to fund the renovation, expansion and equipping of its Emergency Department; currently refund the COMP Series 1998 A-4 and COMP Series 2001 A-2 bonds; purchase capital equipment; refinance certain capitalized leases; fund the Debt Service Reserve and capitalized interest; and, pay related costs of issuance.

The transaction is expected to be structured as a fixed rate financing rated "BBB" by Standard & Poor's. The Hospital has presented its financial and operational information to Moody's Investor Services, however the decision on whether or not to use the Moody's rating has not been finalized.

Mr. McLaughlin noted that, per the unaudited year-end 2005 financial statements, Income from Operations was positive at \$6.4 million, versus a \$1.7 million loss in 2004. The primary catalyst for this turnaround, was an approximately 13.5% increase in Net Patient Revenues from \$172 million in 2004 to \$195.2 million for 2005. Operational information for year-end 2005 indicates that Annual Inpatient Utilization Trends for the Hospital are positive, showing increasing admissions and inpatient days. Length of stay is stable at 4.64 days, and the occupancy rate on licensed beds has risen slightly from 57.42% in 2004 to 60.51% in 2005.

Mr. McLaughlin turned the floor over to Steve Fillebrown to summarize the Hospital management's financial projections. In short, the projections predict good financial performance. More specifically, Mr. Fillebrown stated that Holy Name Hospital's projections show:

- Operating margins ranging from 2.1% to 2.9%
- Profit margins ranging from 3.4% to 3.8%
- Cash on hand growing from 110 days to 158 days
- Days in accounts payables constant at 56
- Days in accounts receivable in the low 50s
- Debt service coverage reserve ranging from 3.27 to 4.55

He then described the key assumptions made in the projections. The projections assume that inpatient admissions will rise by 2.3% in 2006 and 2007, and 2.7% in 2009 and 2010. For 2008, however, which is the year the project comes on line, the projections predict a 5% increase in inpatient admissions since the Emergency Room ("ER") project not only increases emergency visits but hospital admissions through the ER increase as well. The projections assume a slight decrease in average length of stay and modest increases (1-2%) in most outpatient areas, the notable exception being a 7% increase in ER visits in 2008.

In terms of expenses, the projections assume that salary increases steadily at 4.2% while expenses for "supplies and other" increase by 3.9% in 2006 and 3.5% for the rest of the forecast period. Fringe benefits are assumed constant at 17.5% of salaries, and full-time employees per adjusted occupied bed is predicted to drop from 4.8 to 4.6 in 2009 and 2010.

In terms of revenues, the projections assume that reimbursement rates will rise by just over 3% per year, the net patient service revenue will rise by over 5% per year, except in 2008 when it goes up by 6.9%, reflecting the increase in volume. A slight change in payer mix from Medicare to managed care is also assumed.

Mr. Fillebrown stated that, as a whole, these projections use assumptions that are in the mid-range between conservative and aggressive.

Dr. Cohen noted that there are three hospitals in the area, namely Englewood Hospital and Medical Center, Hackensack University Medical Center, and Holy Name Hospital. He asked if there has been an analysis of the need for an expanded ER, also, if there are any unique draws to Holy Name's proposed new ER over those of the other area hospitals.

Mr. Adams responded that Holy Name Hospital's current ER, the third busiest in Bergen County, is approximately 8,000 square feet, serving roughly 45,000 ER visits annually, which makes for very cramped space. The current facility cannot handle the volume that is already attracted to its ER. The new ER would not only be bigger and able to handle the extra capacity, but it also is designed with improved through-put, therefore increasing the efficiency of the ER and its conversions to hospital admissions. He added that the Jackson Organization, an independent research and benchmarking company that specializes in measuring health care satisfaction, has ranked Holy Name Hospital's current ER number-one in the United States for patient satisfaction for four straight years. It is also an unprecedented four-time recipient of The Jackson Organization's *Commitment to Excellence Award*. Because the new ER will be new construction on a different site, the current ER wouldn't have to halt any services and can continue to maintain this service and its clientele.

Mr. Escher then asked for an explanation of the large income increases in 2005, to which Mr. Adams stated that Holy Name experienced a drop in volume and a decrease in Medicare reimbursement in 2004. In 2005, though, the Medicare Wage Index districting was reorganized so that the Bergen and Passaic County hospitals now fall in the same Wage Index as New York. Combining additional volume in 2005 with this increase in reimbursement from the Wage Index change accounts for the large increases seen in 2005. Mr. Adams added that the audited financial statements have been received by the hospital and the auditor's numbers are identical to the unaudited information provided earlier. There were no further questions; no action was required.

#### **B. *Virtua Health, Inc.***

Mr. George began by introducing the representatives from Virtua Health, Inc. ("Virtua"), namely Bob Segin, Vice President & CFO; Bob Osler Treasury Director; and Gerry Lowe Vice President of Finance. He then described Virtua as a regional health care system that operates acute care hospitals in Mount Holly, Berlin, Marlton, and Voorhees.

Mr. George stated that Virtua requests a financing through the Authority that will provide proceeds to implement the first phase of an information technology digitization project. The computerization will affect a host of Virtua's operations including: the core clinical information systems, the laboratory systems, the pharmacy systems, the operating rooms, and material management systems, to name a few. All hospital locations and ancillary sites will access and benefit from this project.

The financing will be structured as a variable rate transaction in an amount of approximately \$35 million and will be privately placed with Wachovia Bank. The Bank intends to hold these bonds for their own account although they may participate some of it out to several

other banks with which Virtua does business. Revenues of the system will secure the bond issue on a parity basis with existing obligations. Virtua currently has approximately \$189 million of outstanding indebtedness of which approximately \$70 million is enhanced by Wachovia Bank letters of credit.

Mr. George noted that Virtua's "Excess of Revenues over Expenses" has reflected consistently higher performance year-after year since 2002. While the System did experience a loss from operations during 2003 due to insurance expenses and the write-off of a Camden facility, it was still able to show a positive bottom line. Based upon unaudited information, Virtua has had a banner year in 2005 with income from operations of approximately \$62 million. It has also generated increasing amounts of cash on its balance sheet from \$112 million in 2002 to approximately \$258 million at the end of 2005.

In keeping with Authority policy, Virtua has provided financial and utilization projections through 2009. Mr. George turned the floor over to Mr. Fillebrown to review the projections.

In short, the projections predict strong financial performance. More specifically, Mr. Fillebrown stated that Virtua's projections show:

- Operating margins ranging from 4.5% to 6.0%
- Profit margins ranging from 6.9% to 7.7%
- Cash on hand growing from 190 days to 245 days
- Days in accounts payable in the mid 70s
- Days in accounts receivable under 50
- Debt service coverage reserve over 5 times

He then described the key assumptions made in the projections. The projections assume that inpatient admissions, after a 3% increase in 2006, will be essentially flat for the rest of the projection period. Also assumed in terms of volume are slight decreases in the average length of stay and modest increases (1-2%) in most outpatient areas.

In terms of expenses, the projections assume salary increases of 6.5% in 2006 and 2007 and 4.6% in 2008 and 2009. The expense for "supplies and other" is assumed to increase by 4-7.6% throughout the forecast period, fringe benefits are assumed to rise from 26.5% of salaries to 32.5%, and full-time employees per adjusted occupied bed is assumed to remain constant at around 6.0.

In terms of revenues, the projections assume that the net patient service revenue rises by 4.6-6.4% throughout the forecast period, partly due to volume increase but mostly to increases in reimbursement rates. It should be noted that most of these rates are locked in for 3 to 5 years under contracts with the providers. Slight changes in payer mix from Medicare to managed care are also assumed, mostly reflecting lower rates of increase to Medicare rates.

Mr. Fillebrown stated that the projections' assumptions are very conservative in the areas of volume and expense, and a little less conservative on the reimbursement rates, however, these assumed rates are still mid-range.

Dr. Cohen asked if Virtua had considered outsourcing the computerization, to which Mr. Segin replied that Virtua's information technology system is consolidated into one department that serves four acute care hospitals, a Camden community facility, two nursing homes and satellite surgical centers. The funds will be used to purchase General Electric Centricity software that the department currently lacks, and also to replace and upgrade expiring software packages. Because the department uses several different technologies in many capacities and for

many locations, it would be a challenge to find a vendor that could accommodate the various needs.

Dr. Cohen then asked why the hospital seeks a variable rate financing, to which Mr. Segin stated that current trends and recent history show variable rate to have an overall lower cost. Further, the bonds have the ability to be converted to fixed rate bonds, should the cost of a variable rate financing jump. Mr. Hancock added that, with this issuance in particular, Virtua will be retiring the bonds over a short period of time so it is unlikely that variable rates will experience a large increase in this time period.

Mr. Tetelman asked for explanation of the large increase predicted for cash-on-hand growing to 245 days by 2009. Mr. Segin responded that, as of February, the hospital already experienced an increase in the cash-on-hand level to 180 days, which he attributes to the hospital's 2003 conversion of its core business patient accounting system. Since the conversion, the hospital is running very effectively, from the front admissions desk to the collections procedures. Mr. Tetelman suggested that other hospitals could learn from these successes, to which Mr. Segin stated that some representatives from other hospitals have visited Virtua to learn from some of these improvements.

Dr. Jacobs confirmed that he had visited Virtua himself, saw the General Electric Centricity Six-Sigma technology and its digitized patient records, and complimented Virtua for its solid work. There were no further questions; no action was required.

## ***AUDIT COMMITTEE REPORT***

### ***Authority's 2005 Audit***

As Chairman of the Authority's Audit Committee, Ed Tetelman reported on the actions of the Committee's March 7th meeting, at which the Authority's proposed 2005 audit was reviewed with Randy Nelson, Principal at the Authority's auditor, Ernst & Young.

Mr. Tetelman noted that Mr. Nelson complimented the Authority frequently during the meeting, stating that its audit is always very clean and able to be done quickly. For the third consecutive year, Ernst & Young did not see anything needing improvement within the Authority's control systems; therefore, a "no material weaknesses" letter accompanies the audit.

The one major change in this audit, as compared to audits past, is the implementation of Statement 45 issued by the Government Accounting Standards Board, known as GASB. The Statement requires recording the Authority's liability for post-retirement health care benefits. The auditors noted that, with a staff of only twenty-six people and one retiree, the degree of detail is not as broad as one would find in other larger organizations. Still, the required information, based on an actuarial study, is disclosed in a new footnote. Mr. Tetelman informed the Members that this liability and its funding will be further discussed with the report of the Finance Committee to follow. For now, the important issue is that the auditors are pleased with their disclosure on this matter in the audit.

The audit shows the Authority to be in sound financial condition. Mr. Tetelman thanked both Ernst & Young and the Authority's Operations staff for another job well done. He then recommended the audit's approval on behalf of the Audit Committee. Mr. Escher moved to approve the 2005 audit and letter stating "No Material Weaknesses," and to also authorize staff to submit the audit to the Governor, members of the Legislature, the Secretary of State, and the Comptroller of the Treasury by March 31st, as required by the Authority's enabling legislation. Ms. Phillips seconded.

Dr. Cohen asked if the Authority had considered changing auditors, to which Mr. Hopkins stated that the Authority had just issued an RFP for auditors, which resulted in a contract with Ernst & Young to serve as the Authority's auditor for the next 3 years, with two possible one-year extensions. Dr. Cohen mentioned concern with becoming too entrenched with one auditor, considering the recent troubles in the corporate world regarding long-term company/auditor relationships. Dr. Cohen then asked about the assumption used in the audit's interest rate calculation. Mr. Van Wart noted that the auditors used 4% as the calculation value, which if anything, is more conservative than the values used by the hospital industry. With the motion and second on the table, the vote was conducted and was unanimous. The motion carried.

#### **AB RESOLUTION NO. FF-60**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby accepts the 2005 Audit and letter stating "No Material Weaknesses," as prepared and submitted by Ernst & Young; and,

**BE IT FURTHER RESOLVED**, that the Authority authorizes submission of the 2005 Audit to the Governor, members of the Legislature, the Secretary of State, and the Comptroller of the Treasury by March 31, as required by the Authority's enabling legislation.

#### ***FINANCE COMMITTEE REPORT***

##### ***Post-Retirement Health Care Benefit Liability***

As Chairman of the Authority's Finance Committee, Gus Escher reported on the actions of the Committee's March 7<sup>th</sup> meeting, at which funding options for the Authority's post-retirement health care benefit were discussed.

Mr. Escher provided some background, stating that in August of 2004, GASB Statement #45 was passed. The Statement requires that State and Local government employers report and account for the annual cost of Other Post Employment Benefits in the same way pensions are reported. In order to accurately report this liability, the Authority hired Buck Consultants to perform an actuarial study of the Authority's post-retirement health care benefit liability.

The consultants completed the valuation on February 21st and concluded that the accrued liability for the benefit, as of January 1, 2006, was \$2,760,222. As of December 31, 2005, the annual required contribution needed to satisfy this obligation was reported at \$311,113. When netting out \$15,000 already paid for the benefits of the Authority's one current retiree, the Authority's liability stands at roughly \$296,000. This total was recorded as a liability in the Authority's audited 2005 financial statements.

Buck Consultants' report further projected that the liability for 2006 would be \$333,872 at the year-end. If no payments are made to fund these liabilities in 2006, the combined liabilities from 2005 and 2006 will be approximately \$630,000.

Mr. Escher stated that, in order to properly fund these liabilities, both the Finance Committee and the Authority's staff recommend that a trust be established in 2006 to fund the liabilities for 2005 and 2006 in the amount of \$630,000. Every two years, the Authority will have a new actuarial study conducted to ensure that the assumptions of the previous reports remain accurate (such as the costs of health care and the composition of the Authority's staff).



The liability funding will continue each year, according to these updated reports, to ensure that the benefits remain available for all of the Authority's retirees. Using this trust would also reduce the cost of the program through trust asset earnings, thereby reducing the required funding over the life of the program.

If the Authority approves the trust, Members will need to amend the 2006 budgeted cash expenditures in the amount of \$630,000 to fund it. After that amendment, the budget will still show an excess of receipts over expenses, in the amount of \$234,384.

Mr. Escher noted that both the Finance Committee and staff support this trust, not only for the security and cost savings to the benefit program, but also because the Authority currently has enough financial strength to support the large funding, rather than postponing the expenditure to potentially more difficult times. If such a trust were established, these funds would not be shown as an asset of the Authority in its financial statements, but would be footnoted therein as a separate entity apart from the Authority.

Mr. Escher then moved that the Authority approve the establishment of a trust to fund the post-retirement health care benefit, and that the Members approve the necessary amendment to the 2006 budgeted cash expenditures to fund the trust. Ms. Phillips seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-61**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the establishment of a trust to fund its post-retirement health care benefit; and,

**BE IT FURTHER RESOLVED**, that the Authority amends its 2006 budgeted cash expenditures in the amount of \$630,000 to fund the post-retirement health care benefit trust.

#### ***AUTHORITY EXPENSES***

Dr. Jacobs referred to a summary of Authority expenses and invoices. Mr. Escher offered a motion to approve the bills and to authorize their payment; Ms. Phillips seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-62**

**WHEREAS**, the Authority has reviewed memoranda dated March 23, 2006, summarizing all expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of \$705,517.95, \$27,069.93 and \$52,785.55 respectively, and has found such expenses to be appropriate;

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

## **STAFF REPORTS**

Dr. Jacobs referenced staff reports that were distributed for review, including the Project Development Summary, Interest Rate Trends Graph, Cash Flow Statement, and Legislative Advisory. He thanked staff for preparing the reports and turned the floor over to Mr. Hopkins for his Executive Director's Report.

Mr. Hopkins announced the following items:

1. A New Jersey Assembly Bill, pre-filed for introduction in the 2006 legislative session, prohibits paying interest from the proceeds of the bonds and permits only a 10% variance in annual debt service payments. These limitations could prohibit the Authority from issuing refunding bonds and establishing debt service reserve funds as well as constrain debt service structuring. Staff prepared a letter to the sponsors of the bill requesting that they consider whether they meant to apply those limits to truly conduit bonds issued by State authorities for private borrowers. A copy of that letter is available for review.
2. The 2000 Trinitas financing was selected for examination by the Internal Revenue Service ("IRS"). The IRS requested that the Authority provide certain information and documentation about the financing. Jim Van Wart and Ron Marmelstein sent the requested documents to the IRS on March 15th.
3. Steve Fillebrown and other members of the National Council of Health Facilities Finance Authorities ("National Council") met with an analyst from the Congressional Budget Office ("CBO") who is investigating the efficacy of permitting hospitals with significant reserve funds to borrow the proceeds of tax-exempt bonds. Mr. Fillebrown prepared a report identifying flaws in the CBO analysis method and contributed to the policy arguments that were included in a letter to the CBO sent by the National Council's lobbyist. The possibility of prohibiting the issuance of tax-exempt bonds to finance hospital projects when hospitals have managed to establish reserve funds could be catastrophic for the health care industry.
4. Unfortunately, Governor Corzine's office has further tightened the restrictions on out-of-state travel and has rescinded the special permission the Authority had received from the previous administration to send Mr. Fillebrown to National Council conferences and board meetings. As the Members will recall, Mr. Fillebrown was elected to the National Council board last year. As a result, Mr. Fillebrown will be unable to attend the National Council's Spring Conference and Board Meeting in April. Because his involvement with the National Council is beneficial to both the Authority and its borrowers, staff hopes to have the Governor's office reconsider its restrictions in this case so he may participate in future National Council conferences and board meetings.
5. Because of its status as a mortgagee, the Authority has been named as a co-defendant in a suit brought against Englewood Hospital and Medical Center by contractor OA Peterson Construction Company to foreclose on its construction lien claim of approximately \$7.6 million. Deputy Attorney General Cliff Rones drafted a letter to the hospital, signed by Mr. Van Wart,

reminding the hospital of its duty under the bond documents to indemnify and defend the Authority.

### ***EXECUTIVE SESSION***

As permitted by the Open Public Meetings Act and the Authority's By-Laws, the Members voted to meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General. Dr. Jacobs stated that the results of the discussion would be made known at such time as the need for confidentiality no longer existed. Mr. Escher offered a motion to enter the session; Ms. Phillips seconded it. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-63**

**NOW, THEREFORE, BE IT RESOLVED**, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General.

**BE IT FURTHER RESOLVED**, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. It was noted in public session that Dr. Jacobs left the meeting during Executive Session for a prior engagement. Mr. Escher made a motion for Mr. Tetelman to serve as Chairman pro-tem for the remainder of the meeting; Ms. Phillips seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-64**

**NOW, THEREFORE, BE IT RESOLVED**, that, with the Commissioner's early exit from the March 23, 2006 Authority meeting, his designee Edward Tetelman serve as the Chairman Pro-Tem for the remainder of the meeting.

### ***POST-RETIREMENT HEALTH CARE BENEFIT TRUSTEE***

Following a discussion during which Mr. Hopkins requested that staff be permitted to distribute a Request for Proposal, Mr. Escher made a motion to approve staff's drafting and dissemination of a Request for Proposal seeking a trustee to maintain the Authority's post-retirement health care benefit trust. Ms. Phillips seconded. The vote was unanimous and the motion carried. The Members asked Mr. Hopkins to notify the Treasurer's Office that a proposal request was going to be undertaken.

#### **AB RESOLUTION NO. FF-65**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority approves staff's drafting and dissemination of a Request for Proposal seeking a Trustee to maintain the Authority's post-retirement health care benefit trust.

As there was no further business to be addressed, Dr. Cohen moved to adjourn the meeting, Mr. Escher seconded. The vote was unanimous and the motion was carried at 11:48 a.m.

I HEREBY CERTIFY THAT THE  
FOREGOING IS A TRUE COPY  
OF MINUTES OF THE NEW  
JERSEY HEALTH CARE  
FACILITIES FINANCING  
AUTHORITY MEETING HELD  
ON MARCH 23, 2006.

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Dennis Hancock  
Assistant Secretary

## **EXECUTIVE SESSION AUTHORITY MEETING**

**ATTENDEES:** Fred M. Jacobs, M.D. (Chairman), Commissioner of Health and Senior Services; Gus Escher, Public Member; Moshe Cohen, Ph.D., Public Member; Freida Phillips, designee of the Commissioner of Human Services; Maryann Kralik, designee of the Commissioner of Banking and Insurance; Edward Tetelman, Department of Health and Senior Services; Mark Hopkins, Dennis Hancock, Jim Van Wart, Steve Fillebrown, Susan Tonry, staff; Clifford T. Rones, Deputy Attorney General; and, Lisa Thornton, Governor's Authorities Unit.

### **CONTRACTUAL MATTERS:**

Members discussed the following distressed credits:

- Columbus Hospital
- St. Mary's Hospital, Passaic
- PBI Regional Medical
- Barnert Hospital

Members also discussed Holy Name Hospital's self-insurance structure, as well as the pursuit of a trustee to maintain the Authority's post-retirement health care benefit trust.

As there was no further business, Mr. Tetelman made a motion to exit the session; Mr. Escher seconded. The vote was unanimous and the motion carried.