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NJHCFFA

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

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AUTHORITY NOTES

October 2003

A MESSAGE FROM THE EXECUTIVE DIRECTOR

It has been my goal since I started with the Authority to make the NJHCFFA seem less like a step in the financing process and more like an active participant in New Jersey state government and healthcare.



*Michael Kornett
Executive Director*

Thanks to the Authority staff, and the support of the Administration, that goal is becoming a reality.

Over the past year, the Authority has led the movement to monitor self-insurance/captive programs in the healthcare industry. Having found that there were no previous regulators for the many new hospital programs established to provide self-coverage, the Authority worked with the premier insurance rating agency, A.M. Best Company, to create guidelines and reporting requirements designed to track the quality of self-insurance programs, in order to protect its borrowers and bondholders. As a result, the Authority established the first self-insurance/captive monitoring program for health care organizations in the state.

In other news, the NJHCFFA and the Economic Development Authority (the "EDA") have joined forces with the State of New Jersey Department of Human Services to replace Greystone Park Psychiatric Hospital with a newer, better-designed psychiatric hospital. The Authority will issue bonds on the Depart-

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SELF-INSURANCE & CAPTIVE REGU- LATION: Leading the Way

Over the past year, the Authority has been approached by dozens of hospitals and health care organizations looking to avoid high insurance premiums by self-insuring. Since the Authority's bond documents generally require that all borrowers get approval from the Authority before engaging in a self-insurance or captive program, staff and Members began to learn about the how's and why's of such a transition. It wasn't long before the Authority recognized that it had a significant problem on its hands.

In its research, the Authority learned that neither the State of New Jersey, nor

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STAFF LEARNS ABOUT SWAPS AND DERIVATIVES

In response to the borrowing community's increasing use of interest rate swaps for financial risk management, Authority staff participated in an in-house educational session to learn more about "synthetic financing opportunities." Senior Managing Consultant Andrew McKendrick and Managing Director Stephanie Gibson, from the firm Public Financial Management, instructed Authority staff in a tutorial titled "Interest Rate Swaps and Derivatives: Uses, Benefits and Risks".

Though the topic was broad and complex, Ms. Gibson and Mr. McKendrick

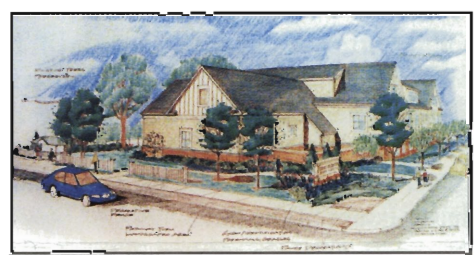
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FINANCING NOTES

Shore Memorial Hospital

On July 15th, the Authority completed a \$31,205,000 fixed-rate public offering bond issue on behalf of **Shore Memorial Hospital**, a 296-bed, not-for-profit acute care hospital located in Somers Point, with a primary service of Atlantic and Cape May counties.

Enhanced by Radian Insurance, the bonds received a "AA" rating from both Standard and Poor's Rating Service and Fitch Ratings. The initial structure of the transaction included a mixture of premium and discount serial bonds with maturities ranging from 2004 through 2013 and a premium term bond maturing in 2023.



*Architectural rendering of the
Shore Memorial Hospital Cancer
Care Center*

Following the marketing period, the senior managing underwriter suggested restructuring several of the maturities to take advantage of institutional investor interest and to compensate for areas in the maturity scale where there was less activity.

These changes resulted in an all-in true interest cost of approximately 5.05% and yields ranging from 1.25% to 4.703%. Following consultation with the borrower, who was pleased with both the yields

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ment's behalf in a rare NJHCFFA intra-government bond sale for the new hospital's construction.

The Authority is also working closely with the EDA's School Construction Corporation (the "SCC") to promote school construction to replace aging outdated hospital facilities.

Further partnering with state government, the Authority is also hosting a special guest presentation on October 8th for its membership and select members of the state's Department of Health and Senior Services, Department of Law and Public Safety and the Office of the Governor. Deirdre Imus, founder and director of the not-for-profit Deirdre Imus Environmental Center for Pediatric Oncology and leader of the movement for "green" (environmentally sound) facilities will explain the importance and the benefit of greening the state's hospitals.

Beyond building partnerships within state agencies, the Authority is working to connect health care executives with one another and to bridge them with the financial firms that can provide access to funds. Authority staff is coordinating a major spring charity event, to be held on April 28, 2004. Banking, bond counsel, and auditing firms and rating agencies will be invited to sponsor the event which will bring together top executives from health care organizations across the state to hear experts discuss the industry's most problematic issues of the time.

Although the Authority has directed extra energy towards new programs, products and partnerships, the volume of its bond issues has not been sacrificed. Since our last newsletter, the Authority closed a \$31,205,000 issue on behalf of Shore Memorial Hospital, as well as an \$11,000,000 issue on behalf of Rahway Hospital. Furthermore, there are currently seven other bond deals on project management's forward calendar.

As always, I thank you for your continued interest in the Authority and I welcome your comments, questions or suggestions as we continue to refine our organization as the state's premier health care finance expert and resource. §

FINANCING NOTES

(continued from page 1)

offered and the structural changes suggested by the senior managing underwriter, the Authority accepted the offer for the purchase of the bonds.



Current construction on Shore Memorial Hospital's Cancer Care Center

The proceeds of the financing will be used to: construct and equip a new Cancer Care Center and Data Center; renovate facilities for the home health program, a new MRI unit, a special procedures room and a meditation room; reimburse for previously acquired capital equipment; acquire a new computer system and software; and, fund the future capital budget items.

Rahway Hospital

On August 28, the Authority completed an \$11,000,000 issue on behalf of **Rahway Hospital**, a nonprofit organization founded in 1917 licensed to operate 267 beds. The issue was part of the Authority's Variable Rate Composite Program's "COMP IV" issue involving eight borrowers using standardized bond documents and sharing the costs of issuance. The transaction for Rahway Hospital was delayed by zoning approval requirements. It closed more than a month later than its counterparts.

The bonds, enhanced by a Wachovia Bank, N.A. letter of credit, received a rating of "Aa2/VMIGI". All bonds issued through the Variable Rate Composite Program are structured in a weekly variable rate format; Rahway Hospital enjoyed an initial rate of 0.80%. Proceeds will be used to construct a new emergency room and to acquire radiology equipment. §

SWAPS

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effectively broke the issue down into key points. Staff learned that an interest rate swap is a contract between two counterparties to exchange interest rate payments at specified dates in the future. Usually, the swap rate for one of the two borrowers is a fixed rate while the other is variable.

Interest rate payments for a swap are calculated using one of several indices including: the bond rate, the Bond Market Association index, and the London Inter-Bank Offered Rate. The two counterparties swapping rate payments generally do not know who the other counterparty is at any point. The swaps dealer is the only firm with that knowledge.



PFM's Andrew McKendrick defining a swap

The main reason that borrowers enter into swaps and other derivatives is to create cheaper synthetic variable-rate or fixed-rate debt out of already borrowed funds. It can also help issuers to conserve valuable credit/liquidity facilities, or to arbitrage prices paid for certain financial instruments in different markets. There is a substantial risk, though, to using a swap, and uninformed, or perhaps unlucky, borrowers who fall victim to a bad swap could commit to very high rates for prolonged periods of time.

To successfully evaluate whether or not a swap would be advantageous, the borrower should seek experienced advice. Too often, swaps are suggested by bankers who stand to gain profit regardless of whether or not the swap benefits the borrower. Public Financial Management stresses that borrowers should hire at least one experienced consultant before entering the swap market to verify that the borrower's circumstances do in fact support the use of a swap.

For more information about swaps, contact Mr. McKendrick at Public Financial Management, (215) 567-6100 or go to www.pfm.com. §

SELF-INSURANCE/CAPTIVE MONITORING

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the federal government, has any regulation over self-insurance programs. There is no monitor for these financially critical, internally developed coverage plans. Captives, a similar alternative to outside insurance companies, also have little or no regulation. Anyone with \$300,000 could establish a captive in Bermuda to write significant coverage with little or no reporting requirements.

Furthermore, the self-insurance plans and captives that borrowers were proposing to replace standard insurance policies had been drafted by health care executives rather than insurance experts. "Insurance companies themselves struggle to provide medical malpractice insurance. What makes people who have no experience in the insurance industry think they can create a solid self-insurance plan?" said Michael Kornett, Executive Director of the NJHCFFA, to an audience gathered by the New Jersey Hospital Association.

The Authority recognized, though, that the current atmosphere of sky-rocketing medical malpractice premiums requires alternatives. If done right, self-insurance can be a very effective way to reduce insurance costs. Therefore, in spite of potential dangers of self-insurance and captives, Authority staff and Members agreed that its stance should be to support the use of this initiative if: the circumstances suggest it would be advantageous to a borrower; and, the plan is well-developed with a strong understanding of the insurance business.

The Authority decided it would lead the effort to monitor self-insurance and captive programs. Its borrowers and bondholders have too much at stake for the Authority to not get involved.

Staff underwent various internal tutorials to better understand the concept of, and dangers of, a health care provider turning to self-insurance. The Authority worked closely with the world's leading insurance rater, A.M. Best Company, using in-house educational sessions and

consulting services to learn how to evaluate insurance plans.

The result of the Authority-A.M. Best relationship is a well-crafted system for monitoring a health care organization's self-insurance program, even if the program is brand new. The Authority now has a procedure to follow for its borrowers who wish to request self-insurance or captive approval, and strict reporting guidelines once approval is granted, enabling staff to closely monitor the program's funding, business plan and ongoing success/failure. The new monitoring program will require an A.M. Best rating for each plan approved.

If you would like more information about the Authority's new reporting requirements, the procedure to request approval or any other information about possible self-insurance programs or captives for your health care organization, contact Jim VanWart, Director of Operations, at 609-292-8585 or at JVanWart@NJHCFFA.com.

AUTHORITY TO INTRODUCE NEW EQUIPMENT FUNDING PROGRAM

At the direction of the Authority Members and with the encouragement of the Authority's Advisory Panel, staff is developing a new program that will increase access to funding for equipment. The Authority has hired Riker, Danzig, Scherer, Hyland & Perretti, LLP to work on the tax and document issues that arise during the development phase.

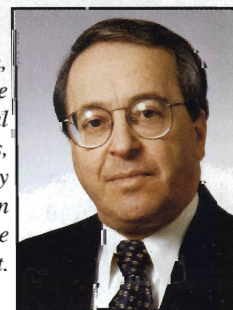
It is expected that lines of credit within the program will be created for borrowers that apply and meet the credit criteria of an enhancer or bond purchaser. Pre-approved borrowers will be able to draw on the line of credit over a twelve-month period. The Authority's

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NJHCFFA & NJ DEPT. OF HUMAN SERVICES WORK TOGETHER

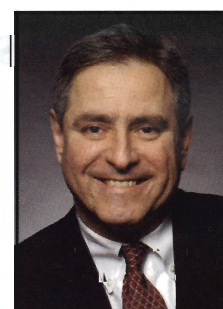
On September 17th, The Authority approved the pursuit of a negotiated bond sale on behalf of the State of New Jersey Department of Human Services (the "Department") for the construction of a "new" Greystone Park Psychiatric Hospital. The Authority's bond issues have historically benefited primarily private health care organizations. It has been only a rare occurrence for the Authority to provide funding for a state project.

Alan G. Kaufman,
Director of the
Division of Mental
Health Services,
attended the Authority
Board meeting on
behalf of the
Department.



The financing will be for approximately \$20-25 million in bonds and will fund Phase I of the replacement Greystone Park Psychiatric Hospital project. The Department is expected to return to the Authority at a later date to request funding for the remainder of the project.

Thomas A. Zelante, Assistant Treasurer of the Authority, chair pro-



Thomas A. Zelante,
J.D., NJHCFFA
Assistant Treasurer

tem of the Authority's meeting on the issue, and a Morris County resident, stated that he was "extremely pleased" and that he believes "both the Authority and the Department

look forward to the project which will not only improve New Jersey's mental health community but will also be a major benefit to Morris County."§

NJHCFFA KICKS OFF NEW SERVICE AWARD PROGRAM

On September 17th, the Authority rolled out a new Authority service award program to commend NJHCFFA staff members for their dedication. In a kickoff Award Luncheon, employees enjoyed an archival slide show of current staff members through the years and each employee received a token of appreciation based on his/her individual length of employment with the NJHCFFA.



NJHCFFA Executive Director Michael Kornett personally congratulated each employee individually. Here he thanks Priscilla Copper, Database Administrator, for her 16 years of service with the Authority.

Service awards go beyond simply offering thanks to employees for their work. Robin Piotrowski, Human Resources Manager at the Authority and organizer of the event states that, "Most of all, the program provides recognition, which is universally acclaimed for its ability to generate positive attitudes and increased motivation." §

NEW PRODUCT

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goals include making tax-exempt funds available for equipment acquisition as efficiently as possible, and with as little time delay as possible.

A request for proposal has been sent to a number of banks to determine their interest in providing enhancement for the program and to determine the credit criteria that would be used to approve borrower requests. Staff expects to make a recommendation to the Authority in October, and to shortly thereafter begin the borrower application process.

Variable rate bonds will be issued once the bank has determined the approved credit line for each borrower. Draws under the program will be completed through the use of master loan agreements with each individual draw identified by a "schedule" that will include the specific loan terms. §

SERVICE STATS

The current NJHCFFA staff has logged in a total of 269.5 years, averaging 10.78 years of service per employee.

The top honor for most years of service goes to Evelynne A. Burroughs, the Office Management Assistant who has worked at the Authority for 29 years.



Evelynne Burroughs, the longest-termed NJHCFFA employee



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James E. McGreevey
Governor

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Holly Bakke, J.D. ·
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Assistant Secretary, Treasurer

Thomas A. Zelante, J.D. ·
Assistant Treasurer

Gustav Edward Escher, III. ·
Secretary

NJHCFFA DEBT ISSUED THROUGH 9/30/2003

2003 Bond Issues	Issue Structure	Par Amount
Catholic Health East	Fixed rate	\$47,200,000
Meridian Health System Obligated	Series A and Series B, both variable rate	\$100,000,000
Pascack Valley Hospital	Fixed rate	\$51,205,000
Somerset Medical Center	Fixed rate	\$81,390,000
COMP IV	Variable rate	\$95,500,000
Shore Memorial Hospital	Fixed rate	\$31,205,000

Total 2003 Debt Issued through Sept. 30, 2003: \$406,500,000

SENIOR NJHCFFA STAFF

Michael T. Kornett, Executive Director

Dennis Hancock, Deputy Executive
Director, Director of Project Management

Stephen M. Fillebrown, Director of
Research and Investor Relations

James L. Van Wart, Director of
Operations, Custodian of the Public
Record