

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on January 26, 2006 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

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

Edward Tetelman, designee of the 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, Susan Tonry, Michael Ittleson, Suzanne Walton, Ron Marmelstein, Lou George, Carole Conover, Bill McLaughlin, Elizabeth Wood (intern), and Stephanie Zschunke.

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

Thomas Scott, Saint Barnabas Corporation; Kari Fazio, Wachovia Bank; Gary Walsh, Francine Katz, Windels Marx Lane & Mittendorf; Clifford T. Rones, Deputy Attorney General; and, Lisa Thornton, Governor's Authorities Unit.

## ***NEW MEMBER INTRODUCTION***

### ***Moshe Cohen, Ph.D.***

Before calling the meeting to order, Mark Hopkins introduced and welcomed the Authority's new Public Member, Moshe Cohen, who was confirmed by the New Jersey State Senate on December 15th to replace Noreen White.

Mr. Hopkins provided some background information on the new Member, stating that Dr. Cohen earned his Bachelor's degree in Economics and Statistics from Tel-Aviv University, and a Doctorate in Business and Applied Economics, as well as a Masters in Finance, from the University of Pennsylvania's Wharton School. He began his career as an economist for the Federal Reserve Bank of New York, after which he served as a real estate finance consultant. He then became a Professor of Finance at Penn State's Malvern Campus, where he helped found the Graduate Center for Finance. In addition, he has served as President and Portfolio Manager of Forward Asset Management, Inc. Currently, Dr. Cohen is a Principal State Certified General Real Estate Appraiser specializing in real estate finance, tax appeals, and condemnation.

Adding that Dr. Cohen's expertise in real estate and finance will be an asset to this Authority, Mr. Hopkins said that he looks forward to his contribution to the Authority team.

## ***CALL TO ORDER***

Mr. Hopkins called the meeting to order at 10:12 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.

In the absence of the Chairman and Vice Chairman, Mr. Escher nominated Ed Tetelman to serve as Chairman pro tem for the meeting. Ms. Phillips seconded. The vote was unanimous and the motion carried.

**AB RESOLUTION NO. FF-47**

***NOW, THEREFORE, BE IT RESOLVED***, that the Authority appoints Ed Tetelman to serve as Chairman pro tem for the January 26, 2006 Authority meeting, in the absence of the Authority's Chairman and Vice Chairman.

***APPROVAL OF MINUTES***

***December 15, 2005 Authority Meeting***

The minutes for the Authority's December 15, 2005 meeting were distributed for review and approval. Mr. Escher offered a motion to approve the minutes; Ms. Phillips seconded. Mr. Tetelman voted yes, Mr. Escher voted yes, Dr. Cohen abstained, Ms. Phillips voted yes, and Ms. Kralik voted yes. The motion carried and the minutes were approved.

***CAPITAL ASSET LOAN PROGRAM APPROVAL***

***Saint Barnabas Corporation***

Suzanne Walton began by introducing Thomas Scott, Vice President of System Corporate Finance for the Saint Barnabas Corporation. She directed the Members' attention to the summary of a loan application received from Saint Barnabas Corporation, which does business as the Saint Barnabas Health Care System (the "System"). The loan application requests a loan in the amount of \$10.7 million to finance and/or reimburse construction costs for a new four story parking garage with approximately 715 spaces located on the campus of Clara Maass Medical Center. Proceeds of the loan will also be used to purchase fixed equipment and pay related costs of issuance.

As the largest multi-hospital system in the State, the System operates eight acute care hospitals, ten long-term care and assisted living facilities, and numerous other health care facilities providing home care, hospice, and ambulatory care services. In 2005, the System treated 217,000 inpatients, same-day surgery and same-day medical patients; treated over 450,000 emergency department patients; delivered over 165,000 babies; and treated over 835,000 outpatients.

Ms. Walton reported that the System's operating results for 2002 thru 2004 reflect breakeven results in 2002, a loss totaling approximately \$73 million in 2003, and a return to breakeven operations in 2004. Results for the nine months ended September 30, 2005 reflect an operating loss of approximately \$14.2 million. The year-end 2005 operating results are still being evaluated.

The System's operating results have been negatively impacted by significant reductions in Medicare revenue, particularly at Community Medical Center in Toms River and Kimball Medical Center in Lakewood, which are the System's two largest Medicare providers. In addition, patient activity during the latter half of 2005 had been lower than projected levels, resulting in less revenue than anticipated.

To ensure the financial viability of the System, numerous financial and operating initiatives are being implemented. The initiatives are listed below.

- (1) The closure of West Hudson Hospital and Irvington General Hospital and the recapture of patient activity at other System hospitals
- (2) Aggressive cost reductions throughout the System, including workforce reductions and eliminations of non-core programs
- (3) The expansion of patient activity through the growth of new services and recruitment of new physicians, including: new federally qualified health centers, new long-term acute care services, new sub-acute care and transitional care units, additional neonatal and pediatric intensive care beds, emergent PTCA services, and the recruitment of over 440 new physicians in 2004
- (4) A comprehensive review of the administrative and clinical operations of Community Medical Center with the goal to return the Medical Center to profitability as soon as possible, while continuing to serve the health care needs of the residents of Ocean County
- (5) The implementation of an aggressive physician recruitment strategy at Kimball Medical Center, designed to increase the level of patient activity to ensure its financial viability

The System's financial ratios reflect strong liquidity with 145 days cash on hand and a cushion ratio of 9.96%. The Corporation's debt service coverage of 2.8 demonstrates its ability to service this debt.

Ms. Walton noted that, based upon this data and an in-house credit analysis, JPMorganChase Bank has approved the loan. The Capital Asset Loan Program Note will be secured by a pledge to CHASE of a parity interest in the Gross Receipts of the Obligated Group and a negative pledge on the real property of the Obligated Group.

Mr. Tetelman noted that much of the provided financial information reflected the System, and he asked about the financial condition specific to Clara Maass. Mr. Scott replied that Clara Maass Medical Center is a vibrant facility and noted that while the overall System suffered declines in 2005, Clara Maass was an exception. From an operational standpoint, although Clara Maass has not yet turned the corner to be a profitable facility, it is very close to doing so. It remains an integral part of the System's long-term strategy.

Mr. Tetelman asked about the System's publicized interest in a Mountainside facility that is physically close to Clara Maass, to which Mr. Scott replied that while Saint Barnabas is looking into the possibility of acquiring the Mountainside facility, this idea is only in the very early stages of consideration.

Mr. Tetelman then asked if there is an individual strength at the Clara Maass facility. Mr. Scott replied that the facility's strong roots are in the medical/surgical and oncology services, but noted that while all the sub-specialties are strong, there is no single factor that excels beyond simply being a quality service provider. He added, however, that it is the sub-specialties at Clara Maass that show strength rather than a large tertiary care practice, which is contrary to what is seen at some of the System's other facilities.

Mr. Escher then moved to approve the Resolution prepared in advance for the Saint Barnabas Corporation loan through the Capital Asset Program. Ms. Phillips seconded. The vote was unanimous and the motion carried.

## **AB RESOLUTION NO. FF-48**

*(attached)*

Mr. Tetelman congratulated Tom Scott and Saint Barnabas Corporation and wished them luck on the transaction.

### ***2006 DEBT MANAGEMENT PLAN***

Dennis Hancock reminded those in attendance that Executive Order No. 26 (Whitman) requires the preparation of an annual Debt Management Plan and its submission to the Treasurer by the 31st of January each year. The Authority's plan for 2006 reflects transactions that were completed during 2005. It also identifies in each of the financings anticipated for 2006: a project description, expected date of sale, issue size, security, ratings, and a proposed method of sale.

The proposed plan excludes Capital Asset Program (CAP) loans, since these transactions do not involve the issuance of new debt. He advised that, as in prior years, the total volume for 2006 was subject to change according to market conditions and borrowers' preferences. The Members were asked to approve the proposed plan and authorize its submission to the Treasurer. Mr. Escher offered a motion to approve the plan and to forward it to the Treasurer. Ms. Phillips seconded. The vote was unanimous and the motion carried.

## **AB RESOLUTION NO. FF-49**

**NOW, THEREFORE, BE IT RESOLVED**, that, as required by Executive Order No. 26, the Authority hereby approves a Debt Management Plan for 2006, as presented at this meeting, and authorizes its submission to the State Treasurer.

### ***QUALIFICATION OF BOND TRUSTEES***

#### ***JPMorganChase and U.S. Bank***

Jim Van Wart reminded the Members that in 2002, the Authority conducted a request for qualifications to provide trust services to the Authority. At that time, the Authority received seven responses. Of the seven responses, the following five banks were qualified at the Authority's November 26, 2002 meeting: The Bank of New York, Bank One, Commerce Bank, Wachovia Bank NA, and Wells Fargo Bank.

In July of 2004, JPMorganChase merged with Bank One. At the time of the merger, Bank One had no trusteeships for Authority issues while JPMorganChase had two trusteeships for Authority issues.

In addition, in November of 2005, Wachovia Corporation announced that it had entered into a definitive agreement to sell its corporate trust and structured finance trust services businesses to U.S. Bank National Association. The transaction closed in the fourth quarter of 2005. At the transaction's completion, the Wachovia affiliate named as fiduciary or agent, as applicable under each client agreement, will continue in that role until U.S. Bank succeeds in accordance with the terms of the governing instrument or agreement and applicable law.

Since two of the Authority's approved trustees will no longer be able to perform trustee services, and because each of the surviving banks expressed an interest in continuing as an approved trustee for the Authority, a request for qualifications was disseminated to

JPMorganChase and U.S. Bank. Based on their respective responses, and staff's review thereof, staff recommends that JPMorganChase and U.S. Bank be added to the approved list of trustees.

Mr. Escher asked how many trustees in total the Authority will have with the addition of these two firms. Mr. Van Wart responded that the Authority will once again have five trustees, as it had previously. Mr. Escher noted that few financial institutions are able to profit financially in the trustee business, to which Mr. Van Wart added that, for that reason, the Authority would like to maintain a list of five trustees, since he expects more consolidation in the industry. Mr. Escher agreed.

Mr. Escher moved to approve the addition of U.S. Bank and JPMorganChase to the Authority's list of qualified trustees; Ms. Phillips seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-50**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the addition of JPMorganChase and U.S. Bank to its list of approved trustees.

#### ***2006 SET-ASIDE PLAN***

Michael Ittleson reminded the Members that the New Jersey Set-Aside Act which requires the State's departments, colleges, authorities and commissions to file a fiscal year set-aside with the New Jersey Commerce Economic Growth & Tourism Commission (the "Commission"). The Authority's proposed plan is based on the Authority's approved 2006 budget.

The Set-Aside Act establishes that: a minimum of 8.3% of the dollar value of contracts be set-aside to small businesses whose gross revenues do not exceed \$500,000; a minimum of 8.3% be set-aside to small businesses whose gross revenues do not exceed \$5 million; and, a minimum of 8.4% be set-aside to small businesses whose gross revenues do not exceed \$12 million. This yields an overall total of 25% to be set-aside to small businesses. The Commission maintains a vendor database that the Authority can access online to identify which vendors qualify in the three categories, which businesses meet the requirements of being a small business registered to do business in New Jersey, and which businesses have their principal place of business in New Jersey.

Mr. Ittleson stated that the Authority's proposed 2006 plan complies with the goals established in the Act contemplating that: 8.8% of the contracting dollars go to small businesses whose gross revenues do not exceed \$500,000; 8.6% go to small businesses whose gross revenues do not exceed \$5 million; and, 8.4% go to small businesses whose gross revenues do not exceed \$12 million.

Mr. Escher noted that the study was completed in the summer of 2005. He asked if the current requirements have incorporated the results of this study as of yet. Mr. Ittleson responded that, to his knowledge, the Commission had yet to hold a meeting or announcement on the results of the study and their incorporation into a requirement. Mr. Ittleson added that, with the new Administration, he expects a new Set-Aside Act will be announced sometime this year. In the meantime, an emergency rule requirements plan was put in place in 2003 to be followed until the results of the study could be incorporated. This plan fulfills those requirements.

Mr. Tetelman asked how the Authority performed in 2005 with respect to its Set Aside Plan. Mr. Ittleson stated that, while the final report is not yet finished, based on quarterly reports,

the first two categories of the plan will be met or exceeded by Authority business. The “\$12 million or less in revenue” category, however, appears to fall short of the required goal. This category seems to be the most difficult to fulfill according to the business needs of the Authority.

Mr. Escher then moved to approve the Authority’s proposed 2006 Set-Aside Plan; Ms. Phillips seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-51**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby adopts a Set-Aside Plan for 2006 that meets the State’s Set-Aside emergency rule requirements, in at least their minimum value, and authorizes its submission to the New Jersey Commerce & Economic Growth Commission.

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

Mr. Tetelman 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-52**

**WHEREAS**, the Authority has reviewed memoranda dated January 26, 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 \$712,447.12, \$120,161.88 and \$57,983.22 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.

#### ***OLD/NEW BUSINESS***

Mr. Escher stated that he would be glad to introduce the Resolution of Appreciation that had been prepared in honor of Noreen White, whose term as an Authority Public Member recently ended. Mr. Escher read the resolution aloud, after which Mr. Tetelman offered a motion to approve Resolution of Appreciation, and Ms. Phillips seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. FF-53**

*(attached)*

A copy of the Resolution of Appreciation will be printed, sealed and framed, and then sent to Ms. White in honor of her service.

## ***STAFF REPORTS***

Mr. Tetelman referenced staff reports that were distributed for review, including the Project Development Summary, Interest Rate Trends Graph, Cash Flow Statement, Year-End Budget report, and Legislative Advisory. Mr. Hopkins then presented his Executive Director's report on the following items:

1. In the meeting packets, Members received the final budget for 2006, reflecting the changes made at the Authority's December 15, 2005 meeting, including staff compensation and Authority fees.
2. Steve Fillebrown is currently in Washington meeting with a representative from the Congressional Budget Office ("CBO") and other members of the National Council of Health Facilities Financing Authorities regarding a CBO inquiry on whether it is appropriate for health care nonprofits to borrow via the tax exempt bond method when they already have funds in reserve. Staff will keep the Authority Members posted on this issue.
3. The Authority was awarded the Gold MarCom Creative Award in the category of Government Annual Reports for its 2004 Annual Report. The MarCom Creative Award is an international competition judged by marketing and communication industry professionals seeking "companies and individuals whose talent exceeds a high standard of excellence and whose work serves as a benchmark for the industry." Entries are judged on the look and feel of the printed materials, as well as the effective delivery of information. Congratulations to Stephanie Zschunke who designed and wrote the report, Hermitage Press who printed the report, and Peter Berg and Bill Lohman who provided the report's photography.
4. Dennis Hancock identified an available rebate in which the Authority will receive \$16,000 from the Alternative Fuel Vehicle Rebate Program, which is part of the Clean Cities Program administered by the New Jersey Board of Public Utilities, the Department of Environmental Protection and the Department of Transportation. The Program provides Federally funded rebates to offset the incremental costs of purchasing alternative fuel vehicles, such as the Authority's four hybrid gas-electric Toyota Priuses.
5. Elizabeth Wood, a graduate student in Public Policy and an Eagleton Fellow at the Bloustein School of Planning and Public Policy, has joined the Authority team as an intern. She will be researching and analyzing issues effecting health care policy under the guidance of Steve Fillebrown. She started last week and is expected to be at the Authority about 15 hours a week for a total of 14 weeks.

Following the report, Mr. Tetelman asked how many non-alternative fuel vehicles the Authority currently has in its fleet, to which Mr. Ittleson replied that the Authority has two 2003 Tauruses remaining on lease.

## ***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. Mr. Tetelman stated that the results of the discussion would be made known at such time as the need for confidentiality no longer existed. Mr. Tetelman offered a motion to enter the session; Ms. Phillips seconded it. The vote was unanimous and the motion carried.

**AB RESOLUTION NO. FF-54**

**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. As there was no further business to be addressed, Ms. Phillips moved to adjourn the meeting, Ms. Kralik seconded. The vote was unanimous and the motion was carried at 11:42 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 JANUARY 26, 2006.

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Carole A. Conover  
Assistant Secretary



**EXECUTIVE SESSION  
AUTHORITY MEETING**

**ATTENDEES:** Edward Tetelman, designee of the 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; Mark Hopkins, Dennis Hancock, Jim Van Wart, Susan Tonry, staff; Clifford T. Rones, Deputy Attorney General; and, Lisa Thornton, Governor's Authorities Unit.

**CONTRACTUAL MATTERS:**

Members discussed Passaic Beth Israel Regional as a distressed credit.

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

**AB RESOLUTION NO. FF-48**

**A RESOLUTION APPROVING A CAPITAL  
ASSET PROGRAM LOAN TO SAINT  
BARNABAS CORPORATION**

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**WHEREAS**, Saint Barnabas Corporation (the “Borrower” or the “Obligated Group Representative”) has requested that the New Jersey Health Care Facilities Financing Authority (the “Authority”) finance or refinance the costs of certain Capital Assets described below (the “Capital Assets”) to be used by Clara Maass Medical Center, Inc. (“Clara Maass”), a Member of the Obligated Group (as defined in the Master Trust Indenture defined herein), through the Authority’s pooled financing program funded from the proceeds of the Authority’s \$100,000,000 Variable Rate Demand Revenue Bonds (Hospital Capital Asset Financing Program) 1985 Series A, B, C and D (the “Bonds”); and

**WHEREAS**, such financing for the construction of the Capital Assets will be made pursuant to a Loan and Security Agreement to be entered into between the Authority and the Obligated Group Representative (the “Loan Agreement”), which will be assigned by the Authority to The Bank of New York, as Trustee (the “Pool Trustee”); and

**WHEREAS**, to secure the obligations arising under the Loan Agreement, the Obligated Group Representative will issue and deliver a promissory note (the “Note”) under and pursuant to that certain Master Trust Indenture dated as of July 1, 1998, as amended and supplemented to the date hereof (the “Master Trust Indenture”);

**NOW, THEREFORE, BE IT RESOLVED**, by the Authority as follows:

1. The Authority hereby approves a loan to the Members of the Obligated Group in an amount of up to \$10,700,000 for the purpose of financing or refinancing the costs of the Capital Assets, consisting generally of a portion of the costs related to the construction of a four-story, 715 space parking garage located on the Clara Maass Medical Center campus, and subject to the Borrower meeting all requirements of the Loan Agreement and the Master Trust Indenture.
2. Pursuant to the provisions of the Trust Agreement securing the Authority’s Capital Asset Financing Program, the authorized officers of the Authority are hereby authorized and directed to execute the Loan Agreement and any other documentation deemed necessary and appropriate by the Authority’s counsel to complete the financing or refinancing of the Capital Assets for the Members of the Obligated Group.
3. The authorized officers of the Authority are hereby authorized and directed to take such other action as may be necessary or appropriate in order to effectuate the financing or refinancing of the Capital Assets for the Members of the Obligated Group in accordance with the foregoing sections and recitals hereof.

4. All prior resolutions of the Authority, or any portions thereof, to the extent inconsistent with this Resolution, are hereby repealed.
5. This Resolution shall take effect ten (10) days, exclusive of Saturdays, Sundays and public holidays, after delivery to the Governor of the minutes of the meeting of the Authority at which this Resolution is adopted, or such earlier time as the Governor signs a statement of approval, all in accordance with Subsection (1) of Section 4 of the New Jersey Health Care Facilities Financing Authority law, as amended.

**AB RESOLUTION NO. FF-53**

**RESOLUTION OF APPRECIATION**

*Noreen P. White*

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**WHEREAS**, Noreen P. White was appointed a Member of the New Jersey Health Care Facilities Financing Authority in December of 1994; and,

**WHEREAS**, Noreen P. White's appointment sealed her place in the Authority's history as its first female Public Member; and,

**WHEREAS**, throughout her tenure as a Member of the Authority, Noreen P. White served in various elected positions, including that of Treasurer, Assistant Treasurer, and Vice Chairman, the last of which she served for eight of her last nine years of service; and,

**WHEREAS**, Noreen P. White also served on the Authority's Finance Committee for the majority of her term; and,

**WHEREAS**, in those capacities, Noreen P. White provided the Authority with guidance and expertise on the finance industry; and,

**WHEREAS**, Noreen P. White also offered her time and leadership abilities by chairing countless meetings in the absence of the Authority Chairman; and,

**WHEREAS**, Noreen P. White, as a member of the Authority, demonstrated initiative in carrying out the mission of the Authority, that of ensuring "that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State"; and,

**WHEREAS**, the Authority wishes to acknowledge Noreen P. White's commitment to the Authority and to applaud the diligence that she demonstrated in carrying out Authority business;

**NOW, THEREFORE, BE IT RESOLVED**, that the New Jersey Health Care Facilities Financing Authority hereby expresses its sincere appreciation to Noreen P. White; and,

**BE IT FURTHER RESOLVED**, that a copy of this Resolution of Appreciation be given to Noreen P. White as a tribute from the Authority for her service and accomplishments with the Authority.