NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$

2016 Series C FALL

MESSAGE FROM THE EXECUTIVE DIRECTOR

Over the past two years, I have written a lot about the changes New Jersey's health care system has undergone due to the implementation of the Affordable Care Act (ACA.) Every New Jersey health care provider and delivery system was affected, whether due to compliance with the law or having to modify business practices to remain profitable under the new Medicare and Medicaid payment schedules. All the work and aggravations have been worth it because 2016 has been a record-setting year!

Recent surveys indicate that approximately 92% of New Jersey's residents are now covered by some form of health insurance. For the first time ever, New Jersey's uninsured population is below 10%! Prior to the ACA and Medicaid expansion, over 21% of our residents had no coverage. Moreover, there has been a 20% decrease in the number of uninsured children.

This has also been a record-breaking year in a number of other ways. In 2016, we witnessed the creation of two mega-systems: Hackensack Meridian Health and RWJBarnabas Health. Each of these systems contains a state record of 11 hospitals! Together they

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NJHCFFA Announces New Fee Schedule

New Jersey has entered into a new era of health care. Some refer to it as the third phase or the third chapter. The first was pre-1964, before Medicare and Medicaid came into existence. The second phase was from 1964 to 2011 when Medicare and Medicaid were fully established. The third phase began with the implementation of Affordable Care Act in 2011. This era has really changed the landscape of New Jersey's health care industry as well as the business models of our providers.

In light of the changes to the health care delivery systems, the Authority has, in the last three years, been undergoing a re-examination of its organization and its policies, including annual and initial fees. These internal actions have resulted in a reduction in personnel, through attrition, as well as a reorganization of our staff and adoption of various cost-saving measures.

At the September 22, 2016 meeting of the New Jersey Health Care Facilities Financing Authority, the Members voted to approve a new fee schedule for the issuance of bonds, notes and leases. This move was not taken lightly. The Authority has a responsibility to address any changes in the industry in order to facilitate the needs of the borrowers. The Authority must also remain an affordable alternative to commercial lenders. Moreover, as a government agency, the Authority does not seek to make a profit, but still must be able to meet our operating expenses and payroll.

Since 2011, hospital mergers and acquisitions have dominated the health care industry. As a result, there are fewer potential borrowers and, therefore, fewer prospective financings. However, the Authority is already seeing a higher volume of bonds sold per deal. This trend necessitated a re-examination of the Authority's fee structure with a focus on the work and services performed by the Authority with respect to issuing fewer, but larger series per year.

In 2015, borrowers saved, on average, 141 basis points (1.41%) compared to taxable rates, so fees ranging from 3 to 6 basis points (.03% to .06%) would only be a small offset to their savings. It was also revealed that the Authority's current annual fee schedule unfairly penalized smaller borrowers and, for issues over $175 million, did not cover the costs incurred by the Authority. This self-analysis has resulted in a more fair and equitable assessment of the Authority's administrative fees.

Under the new fee schedule, large and small borrowers are treated alike. The caps are removed on annual fees and the initial fee will be subject to increases based on the average of the CPI-U Indices for New York City and Philadelphia starting January 1, 2018. In addition, the annual fees are reduced from 10 basis points to a maximum of 6 basis points and will continue to reduce over time on the outstanding balance as opposed to the original par amount.

The Authority's fee schedule can be found on the insert in this newsletter and our website at:

www.njhcffa.com/njhcffa/what/administrative.html

FINANCING NOTE$

Holy Name Medical Center

On July 12, 2016, the Authority closed on $54,425,000 of refunding bonds on behalf of Holy Name Medical Center. Proceeds of the transaction were used to currently refund all or a portion of the Authority's Holy Name Medical Center Series 2006 Bonds and pay the related costs of issuance. The bonds were issued in two series: Series 2016A in the amount of $39,425,000 and Series 2016B in the amount of $15,000,000. The bonds, which were privately placed with Siemens Public, Inc. had an all-in TIC of 2.77%. Holy Name Medical Center realized a present value savings of $16,527,457. The percentage savings for the Series 2016A Bonds was 27.55% and 30.36% for Series 2016B.

Englewood Hospital and Medical Center Master Lease

On July, 27, 2916 the Authority as Lessee, closed on a Master Lease and Sublease Agreement with TD Equipment Finance, Inc. on behalf of Englewood Hospital and Medical Center as Sublessee. The aggregate principal amount is not to exceed $27,000,000 at an interest rate of 1.85%. The proceeds of the lease will be used by the Hospital to provide funds to: acquire an EPIC electronic health record system, including software, licensing, hardware, and implementation; and finance legal, accounting, consulting and other administrative costs related to the tax-exempt leasing program.

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represent 30% of New Jersey's hospitals.

Moreover, RWJBarnabas Health is now the second largest employer in the state while Hackensack Meridian Health ranks fourth.

As a result of the mergers, the number of New Jersey's stand-alone hospitals has been greatly reduced as well as the number of health systems. In 2007, New Jersey had 30 stand-alone facilities. Today, there are only 16. Additionally, the number of "systems" has been reduced from 19 to 15. It is evident that bulk purchasing, cooperative procurement, sharing services and debt consolidation are emerging as the critical components of today's hospital business plans.

This will be a record year for the Authority as well. The Authority has completed nine (9) financings so far this year for a total amount of $1.911 billion of bonds. The total dollar amount of bonds is a new Authority record. We have eclipsed the 1998 record of $1.391 billion in financings by 37.4%.

In addition, the Authority had its single largest series sale. The $679 million sale of bonds on behalf of RWJBarnabas was an Authority record. The previous record for a single series sale was $458 million on behalf of Barnabas Health in 1998. We even exceeded the record for a combined series total of $569 million of bonds, that the Authority sold on behalf of Virtua in 2009.

As the industry has changed, so have the financing needs of the health care providers. As result, the Authority has also been making changes in order to adapt to the new health care industry model.

The Authority's philosophy has always been to ensure that the Authority collects only the fees it needs to fulfill its mission to provide efficient, low-cost financing to health care organizations and to match, as closely as possible, the services provided to the borrower with the costs to the Authority. In light of the changes to the health care delivery system, the Authority has, in the last three years, been undergoing a re-examination of its organization and its policies, including annual and initial fees.

This newsletter contains an explanation of how we are adjusting our fees to match the new business models and meet the financing needs of our hospitals and systems. There is also a chart that outlines the new fee structure.

Just as you, we are changing with the times. As we move forward, communication is essential. Remember, we can only help you if you tell us what you need.

My staff and I are here to work with you to finance your visions. I am confident that, together, we will continue to set records and improve the health care facilities of our great state.

- Mark E. Hopkins

Administrative Fee Schedule

Summary of the Authority Administrative Fee Schedule (1)

NJHCFFA Initial Fees

IMPORTANT: The fee structure detailed below reflects changes voted upon by the Authority Members at a regularly scheduled Authority meeting held on September 22, 2016. The new fee structure will be effective with new financings receiving their first fee billing after October 6, 2016. Existing borrowings are not affected by these changes.

Initial and Per Series Fees

Bonds, Notes and Variable Rate Composite Issues

Authority borrowers must pay **an initial fee of 2.5 basis points** (.025%) on the original principal amount of the financing up to the first $100,000,000 (the **"Initial Fee Cap"**.) *After December 31, 2017* the **Initial Fee Cap** will be adjusted in January of each year by the average of the prior year's annual increase or decrease in the CPI-U of New York City and Philadelphia.

There is also a **one-time $10,000 fee per series of bonds** that are issued at the same time. Multiple series of bonds that are issued under different official statements are treated as totally separate issues for billing purposes.

Both the initial fee and the first per series fee will be collected upon a borrower's signing of a Memorandum of Understanding with the Authority. Neither fee is refundable if the financing does not close. Any per series fees beyond the first per series fee will be collected at closing.

The Equipment Revenue Note Program has **no initial fee and no per series fee** but will be subject to the annual fee schedule for the **Equipment Revenue Note Program** below.

Capital Asset Program Loans through the **Capital Asset Program** have **a flat $500 initial fee** and no per series fee and are subject to the interest rate calculated under the program, which includes program administration costs and a fee for the Authority.

The Master Leasing Program has an Initial Fee of 2.5 basis points of the aggregate leasing amount up to a maximum size of $100,000,000 (subject to adjustment annually as described above.) In addition, there is a $5,000 fee for each Master Lease being transacted; as well as a fee of $500 for each subsequent closing for any future sub-leases plus the annual fees noted below.

Annual Fees

Bonds, Notes, Equipment Revenue Notes, Variable Rate Composite Program and Master Leasing Program

For Refunding Financings: Authority borrowers pay an annual fee of five and one half (5.5) basis points on the declining outstanding balance as of year-end for each of the first ten (10) years outstanding.

For New Money Financings: Authority borrowers pay an annual fee of six (6.0) basis points on the declining outstanding balance as of year-end for each of the first five (5) years outstanding and five and one half (5.5) basis points for each of the next five (5) years.

For Both Refunding and New Money Financings: After the first 10 years, Authority borrowers pay an annual fee of three (3.0) basis points on the declining outstanding balance as of year-end for financings subject to this new fee structure .

Minimum Annual Fee: Notwithstanding the above, all borrowers will be charged an annual fee of not less than $2,500 for each financing outstanding.

Capital Asset Program

All annual fees are Program expenses paid through the interest rate charged on the loan.

Monitoring Fees for Low and Moderate Income Housing

In addition to the above initial and annual fees, the Authority charges a monitoring fee of $420 per low and moderate income unit for those issues that must comply with Section 142(d) of the Internal Revenue Code. (This fee is subject to inflationary adjustment.)

FQHC Direct Loan Program

Loans made under the **FQHC Direct Loan Program** are subject to a $250 application fee, a $250 closing fee and a 75 basis point (.75%) annual fee. Loans are made from Authority funds designated for that purpose. The interest rate is based on the rate available to the Authority from New Jersey Cash Management Fund plus 2%. Repayments of principal and interest under the FQHC Direct Loan Program are recycled to make loans to other eligible FQHCs.

(1) - Specifics of the Authority Fee Schedule are available by contacting the Authority offices

FINANCING NOTE$

St. Joseph's Healthcare System

On August 24, 2016, the Authority closed on $246,845,000 of publicly issued, tax-exempt bonds on behalf of St. Joseph's Healthcare System.

The proceeds of the Series 2016 issuance were used to: fund the completion of a $50 million new money project, which includes $22.5 million in expenses related to the construction of a new building, along with $27.5 million for equipment and technology expenses; advance refund the Authority's Series 2008 Bonds; and pay the related costs of issuance. The transaction achieved a net present value savings of $43.4 million or 20% of the refunded bonds. Further, the financing achieved $4.7 million of annual cash flow relief, despite increasing the amount of debt outstanding. The final all-in total interest cost for this transaction was 3.639%.

Trinitas Regional Medical Center

At the August 25, 2016 Authority meeting, the Members approved a contingent bond sale on behalf of Trinitas Regional Medical Center to be issued in two series.

On October 5, 2016, the Authority closed on the Series 2016A bonds on behalf of Trinitas Regional Medical Center. The 2016A Series was used to: refinance all of the Trinitas Hospital Taxable Variable Rate Demand Bonds, Series 2006; reimburse Trinitas for capital expenditures associated with the Emergency Room renovation project; and pay for the cost of issuance. The public sale was for $16,164,452 of bonds. This transaction had an all-in TIC of 3.25%.

The Series 2017A, in the amount of $93,748,941, is expected to close on April 3, 2017. The proceeds of the transaction will used to currently refund all of the NJHCFFA issued Trinitas Hospital Series 2007A & 2007B bonds and pay the related costs of issuance.

Atlantic Health System

On October 6, 2016, the Authority closed on $224,800,000 of bonds on behalf of Atlantic Health System ("AHS".) The proceeds from the public sale were used to: advance refund a portion of Atlantic Health System's Series 2008A issue; advance refund a portion of AHS's Series 2011 issue; and to pay the related costs of issuance.

The transaction had an all-in TIC of 3.17% and resulted in a present value savings of $33,420,902, or 14.5%.

RWJBarnabas Health

On October 19, 2016 the Authority along with Citigroup, as lead underwriter, priced the $679,135,000 publicly issued tax-exempt Series 2016A bond financing on behalf of RWJBarnabas Health. The bonds were rated A1/A+ by Moody's and Standard & Poor's, respectively.

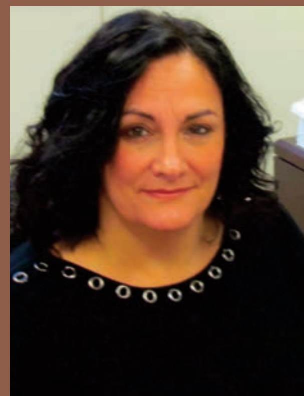
The proceeds of the Series 2016A issuance were or will be used to refund, refinance and/or restructure outstanding obligations of both Barnabas and RWJ in order to place them under a new Master Trust Indenture; to fund existing renovation/expansion projects primarily at Clara Maass Medical Center and Saint Barnabas Medical Center; and to pay the related costs of issuance.

The refunding was part of the merger to facilitate placing all debt under one Master Trust Indenture for the newly formed organization. The all in TIC was 3.8%. The Authority closed on this financing on November 2, 2016.

Anniversary

In October, Ellen Lieber celebrated her 5-year Anniversary at the Authority.

Anniversary



In November, Robin Piotrowski celebrated 15 years at the Authority.

Promotion

Edwin Fuentes has been promoted to Project Manager as of November 28, 2016.

Congratulations to all!

New Jersey Health Care Facilities Financing Authority

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