Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on August 25, 2011 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

*The following **Authority Members** were in attendance:*
Gus Escher, Public Member (Chairing); William Conroy, Designee of the Commissioner of Health and Senior Services; Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Robert Bollaro, Designee of the Commissioner of Human Services; Dr. Munr Kazmir, Public Member; Ulysses Lee, Public Member (via telephone) and Suzette Rodriguez, Public Member (via telephone).

*The following **Authority staff members** were in attendance:*
Mark Hopkins, Steve Fillebrown, Ron Marmelstein, Suzanne Walton, Michael Ittleson, Linda Hughes, Bill McLaughlin, Carole Conover, Marji McAvoy, Jessica Waite-Lucas, Edwin Fuentes and Christopher Kulick.

*The following **representatives from the State and/or the public** were in attendance:*
Kavin Mistry, Division of Law; Brandon Minde, Governor's Authorities Unit; Ryan Feeney, NJ Treasury Department; Robert Segin, Gerry Lowe, Bob Osler, Virtua Health; Carl Alberto, Mark Sblendorio, Warren Hospital; Thomas Lichtenwalner, St. Luke's Hospital; Scott Kobler, McCarter & English; Maryann Kicenuik, Windels Marx; Alex Dinkels, Fairmount Capital Advisors; George Magnatta, Saul Ewing; Chuck Toto, Hawkins, Delafield & Wood, LLP; Kristin DiSandro, JNESCO.

CALL TO ORDER

Vice-Chairman Gus Escher called the meeting to order at 10:01 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 26, 2011 Authority meeting. Complying with 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 *Courier Post,* enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

1. APPROVAL OF MINUTES
July 28, 2011 Authority Meeting

Minutes from the Authority's July 28, 2011 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Ms. Kralik seconded. The vote was unanimous and the motion carried.

2. TEFRA HEARING & CONTINGENT BOND SALE
Virtua Health System

Mr. Escher announced that the following portion of the meeting would be considered a public hearing in connection with the proposed issuance of bonds on behalf of Virtua Health System. This hearing is taking place in accordance with the public notice and approval requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended.

Bill McLaughlin introduced Robert Segin, the Chief Financial Officer and Executive Vice President for Finance; Gerry Lowe, the Vice President for Finance and Robert Osler, the Treasury Director from Virtua Health Inc. (Virtua).

He stated that Virtua Health is a New Jersey not-for-profit organization which operates two hospital groups, Virtua-Memorial Hospital of Burlington County and Virtua-West Jersey Health System. Memorial is a 383 licensed-bed facility located in Mount Holly and West Jersey is a 592 licensed-bed system that operates three general acute care hospitals in Berlin, Marlton, and Voorhees.

Mr. McLaughlin informed the members that today he would be requesting approval of a contingent sale of bonds on behalf of Virtua Health Inc. He stated that the proposed transaction will be comprised of an approximately $47,500,000 tax-exempt private placement with PNC Bank that will be used to refund a portion of Virtua's Series 1998 bonds and pay the related costs of issuance. Specifically, Virtua will currently refund two maturities: the $39.5 million term bond due on July 1, 2014, and the $16.5 million term bond due on July 1, 2018. He further stated that Virtua has entered into a rate lock with PNC, which set interest rates for the bonds at 1.062% for the 2014 maturity and 1.956% for the 2018 maturity. It is expected that this transaction will generate savings of approximately 10%.

SERIES RESOLUTION

Maryann Kicenuik of Windels Marx Lane & Mittendorf, LLP, the Bond Counsel, stated that the Series Resolution authorizes the issuance of the tax-exempt Series 2011 Bonds in an aggregate principal amount not in excess of $47,500,000 and at a true interest cost not to exceed 2.00% per annum. The Series 2011 Bonds will have a final maturity date of no later than July 1, 2018 and be subject to redemption prior to maturity including optional redemption with a "make whole" premium, sinking fund redemption and extraordinary redemption. The Series 2011 Bonds will be secured by payments made by Virtua under its Loan Agreement with the Authority as evidenced and secured by a Note issued pursuant to the provisions of a Master Trust Indenture and amounts on deposit in certain funds and accounts held by the Trustee.

Additionally, the Series Resolution approves the form of and authorizes the issuance and sale of the Series 2011 Bonds prior to close of business on November 16, 2011. The Series Resolution also approves the form of the Series 2011 Bonds, Loan Agreement and Letter(s) of Instruction, and appoints The Bank of New York Mellon, as Trustee, Tender Agent, Bond Registrar and Paying Agent for the Bonds. In addition, it authorizes the Authorized Officers to execute and deliver such other documents and to take such other action as may be necessary or appropriate to effectuate the execution and delivery of the Loan Agreement, the financing of the Project and the issuance of the Series 2011Bonds. Additional security will include a gross receipts pledge and a mortgage on certain property.

Mr. Escher asked the Members' pleasure with respect to the adoption of the Bond Resolution on behalf of Virtua Health System. Dr. Kazmir made a motion to approve the adoption of the Bond Resolution on behalf of Virtua Health System. Mr. Conroy seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. LL-13

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the Series Resolution entitled, "A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE AND REFUNDING BONDS, VIRTUA HEALTH ISSUE SERIES 2011"

Mr. Segin thanked the Authority and PNC Bank and stated that at net present value the transaction would save Virtua close to $4,000,000.

3. INFORMATIONAL PRESENTATION

Warren Hospital

Mr. McLaughlin introduced Carl Alberto, Vice President of Finance & Chief Financial Officer and Mark Sblendorio, Vice President of Legal Affairs from Warren Hospital as well as Thomas Lichtenwalner, Sr. Vice President of Finance from St. Luke's Hospital.

Mr. McLaughlin reported that Warren Hospital is a not-for-profit 214-bed acute care community hospital located in Phillipsburg, New Jersey. The Hospital's location positions it as the sole New Jersey based healthcare provider in its primary service area. Warren Hospital is currently pending acquisition by St. Luke's Hospital of Bethlehem, PA, via a sole member substitution of Warren's parent. Warren is expected to be renamed St. Luke's Warren Hospital following the completion of the acquisition.

The proposed financing is expected to be structured as an approximately $43,000,000 fixed-rate, tax-exempt private placement with Allstate Insurance, the proceeds of which will be used to refund Warren's Series 2008A and Series 2008B (taxable) bonds and pay the related costs of issuance.

The proceeds of the Series 2008A and 2008B bonds were used to refund the Authority's Radian insured Series 1995 bonds; to refund the Authority's Series 2002 Private Placement with Commerce Bank, N.A.; to refinance a term loan, mortgage loan and letter of credit all with Commerce Bank, N.A.; to reimburse the Hospital for capital expenditures; to fund the Debt Service Reserve; and to pay related costs of issuance.

The Hospital, based upon its 2010 audit, is not currently in compliance with certain covenant requirements in its existing bond documents. The Hospital has not received a waiver from the bondholder, but has been in negotiations with the bondholder on a formal forbearance agreement.

The annual financial information for Warren, presented in the mailed materials, indicates that Days Cash on Hand increased from 4.16 days in 2009 to 9.04 days in 2010 and remains materially weaker than the 2010 Statewide Median of 71.27 days. The Hospital's Operating Margin for the years 2009 and 2010 was positive at 1.83% and 1.56%, respectively. Debt Service Coverage Ratio and the Cushion Ratio at year end 2010 were weak at 1.47 times and 0.05 times respectively. Days in Accounts Receivable were positive at 39.34 days versus the statewide median of 41.80 days and Full Time Employees (FTE's) per adjusted occupied bed were 5.19 FTE's versus a statewide median of 5.32. Unaudited three-month interim financial statements show an improving financial picture with both Income from Operations and Excess Revenue over Expenses up from the same period in 2010.

Annual Inpatient Utilization Trends for the Hospital are relatively flat, showing slight decreases in inpatient days and inpatient admissions. Length of stay has decreased slightly from 4.57 days in 2009 to 4.32 days in 2010. The occupancy rate on licensed beds has decreased from 34.81% in 2009 to 32.07% in 2010. Utilization statistics derived from interim financials indicating three-month performance show a slight improvement when compared with the same period in 2010.

Mr. Escher inquired about the issues that were surrounding the hospital's financial situation. Mr. Alberto responded that historically the hospital has never been strong in terms of liquidity. The days cash on hand over the past four years has ranged anywhere from three days to 15 days. He stated that there are a multitude of issues. For the most part, hospital operations have been very profitable. Historically, they've had positive operating margins for healthcare related operations. The non-healthcare operations have been an issue. They had some real estate transactions that did not work out well. That put additional liquidity challenges on the hospital. They're in the process of resolving that as well. As part of this transaction, they are also restructuring debt with Wells Fargo.

Mr. Alberto noted that in 2011, the hospital is exceeding 2010 utilization levels by about 20%. Their medical staff has come back into the facility after a changing of administration in January of 2009. There were some issues with medical staff and the former administration. The change in administrations has accrued additional benefits in terms of improving the relationship with the medical staff and as a result they have increased utilization and increased financial performance.

Mr. Hopkins asked Mr. Alberto to address the recent development of a one to two page proposal received from Community Health System, which owns Easton Hospital. Mr. Alberto stated that there was a scheduled board meeting earlier in the week. The board does not deem the letter from CHS as an official offer, they see it as a proposal. The board re-affirmed its decision to select St. Luke's Health Network. They have been working with St. Luke's going back to 2002 and came close to merging with them but the parties walked away. Now, there has been open dialogue over the past 24 months and they believe that the value they are receiving, from looking at St. Luke's track record, it is black and white that the board has made the right decision to go ahead with the merger with St. Luke's.

Mr. Escher asked about the timing for the merger and Mr. Alberto informed him that they expect the CHAPA process to be completed in late September to early October and would look for a closing on the transaction in mid to late October. Mr. Kobler stated they believe it will be in fall to winter of this year, and added that there is a formal forbearance agreement in place with the bondholder through the end of this year.

Mr. Escher reminded the Members that the presentation was for informational purposes only and no action needs to be taken.

4. EXTENSION OF CONTRACT FOR THE CAPITAL ASSET PROGRAM ADMINISTRATOR

Ms. Jessica Waite-Lucas introduced Alex Dinkels from Fairmount Capital Advisors. She reported to Members that in September 2007, the Authority entered into a contract with Fairmount Capital Advisors, Inc. as program administrator for the Capital Asset Program, Series A-D. The original contract was for a 3 year period, subject to two one-year extensions. The first of the two additional one–year extensions was approved at the September 2010 Board Meeting.

Fairmount has agreed to a second year extension with the same terms and a yearly cost of $14,000. Therefore, staff requested the Members' consideration of appointing Fairmount for the second year of two possible one-year extensions.

Dr. Kazmir moved to approve the second of two possible one-year extensions for the Capital Asset Program Administrator contract. Mr. Conroy seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. LL-14

> **NOW, THERFORE, BE IT RESOLVED,** that the Authority hereby approves the second of two possible one-year extensions for Fairmount Capital Advisors to serve as the Capital Asset Program Administrator contract, as recommended by Authority staff.

5. APPROVAL OF EXPENSES

Mr. Escher referenced a summary of Authority expenses and invoices. Dr. Kazmir offered a motion to approve the bills and to authorize their payment; Mr. Bollaro seconded. The vote was unanimous and the motion was approved.

AB RESOLUTION NO. LL-15

WHEREAS, the Authority has reviewed memoranda dated August 18, 2011, 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 $544,468.86, $147,525.70 and $36,408.92 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.

6. STAFF REPORTS

Mr. Escher thanked staff for the Project Development Summary, Cash Flow Statement and Legislative Advisory reports.

Mr. Hopkins then presented his Executive Director's report noting the following items to Members:

1. If the Authority Members have no objection, he would like to attend the Fall Conference of the National Association of Health and Educational Facilities Finance Authorities, which will be taking place October 3rd through 5th in San Diego, California. The total cost for travel, hotel, registration, meals and incidentals will be approximately $1,720, which was already provided for in the 2011 Authority budget in anticipation of Authority attendance at the NAHEFFA conferences. The Governor's Authorities Unit has approved the travel and expense. These NAHEFFA conferences are very valuable educational and networking tools for the Authority. Among this year's agenda items are:

- Comparison and Analysis of IRS and SEC Examinations of 501(c)3 Borrowers
- Top Five Credit Risks for Hospitals and Universities
- Healthcare Reform and its Impact on Health and Higher Education Facilities
- Tax Reform Issues
- Organizational Trends for Healthcare Facilities in 2011 – Mergers and Acquisitions
- Overview of the General Economic Environment and Examination of Current Municipal Markets
- Future of Credit Providers and Bank Involvement: LOCs, Credit Enhancement Tools, and Private Placements

Mr. Escher noted that he is a great believer in conferences and offers his full support of Mr. Hopkins' attendance.

2. The Authority entered into its Loan Agreement with the Hoboken Municipal Hospital Authority on Tuesday. Funds will be disbursed on an as needed basis with each draw on the Loan to be secured by a Note that is subordinate to the HMHA bonds. The first draw is expected to be in early September. In related news, Hudson Healthcare, Inc., the not-for-profit

management company engaged by HMHA to operate Hoboken University Medical Center, filed for reorganization under Chapter 11 of the Bankruptcy Code on August 1. According to HMHA, the reorganization filing will help keep the hospital operational while it is transitioning to new ownership by the for-profit HUMC Holdco. On August 4th, the State Health Planning Board voted to recommend that the Commissioner of Health and Senior Services approve the sale of HUMC to HUMC Holdco. The Commissioner's decision is expected within the next several weeks. Several news clippings regarding the HUMC transaction were provided.

3. As announced at our last meeting, on July 28th the Authority released the Navigant study requested by the Commissioner to inventory the health care services available in the Hudson County region and to determine if potential opportunities exist for consolidation or regionalization of services. The study, which is available on the Authority's website (www.njhcffa.com), generated considerable interest and news stories in Hudson County. Several of the most relevant news clippings were provided to Members.

4. Members also received a recent article from The Bond Buyer reiterating the concerns of another article, provided last month, that the federal debt reduction discussions are likely to involve the elimination of or drastic changes to tax exemption for municipal bonds, like the ones issued by the Authority.

5. The Treasurer approved, on behalf of the State, and Mr. Hopkins approved, on behalf of the Authority, an accounts receivable line of credit for JFK Medical Center to be provided by HFG. The maximum authorized amount of the line of credit is $15 million with up to an additional $12 million available upon subsequent written approval from the Treasurer and the Authority. As Authority Members may recall, the Authority issued bonds on behalf of JFK in 2009. The bonds were backed by a contract with the Treasurer pursuant to the Hospital Asset Transformation Program as a result of the closure of Muhlenberg Hospital. The line of credit was contemplated in the original bond documents for the JFK financing but no acceptable accounts receivable line of credit was available at the time the bonds were issued. Therefore, once JFK had a firm commitment from a credit provider, it was required to return to the Treasurer and the Authority to seek consent to enter into the line of credit and, thereby, subordinate our security in JFK's accounts receivable. The line of credit closed on August 12th and will provide an emergency source of funds should JFK experience cash flow fluctuations. It is also expected to assist JFK in installing hardware and software and hiring personnel needed to implement meaningful use of electronic medical records.

6. On August 17th, Fitch downgraded the State's General Obligation credit rating to AA- from AA and changed the rating outlook from Negative to Stable. State contract backed debt was also downgraded from AA- to A+. The rating downgrade was not unexpected as Moody's and S & P had already made a similar downgrade to the State's debt. The downgrade affects the Authority's bonds issued on behalf of State-owned facilities with State contract backed debt, such as Greystone Psychiatric Hospital, and on bonds issued on behalf of not-for-profit hospitals with State-contract backed debt issued pursuant to the Hospital Asset Transformation Program, namely JFK Medical Center, St. Mary's Hospital and St. Michael's Medical Center.

7. Hospital News

a. Bayshore Medical Center, now part of Meridian Health System, named Anthony V. Cava as its new Executive Director, overseeing day-to-day operations. Mr. Cava had been Vice President of Strategic Planning and Business Development at Riverside Medical Center, which is also part of the Meridian network.

b. James Gonzalez was promoted to Acting President and CEO of University Hospital of the University of Medicine and Dentistry of New Jersey. He has been the President and CEO of Broadway House for Continuing Care, also a UMDNJ affiliate. He will continue in that role. Previously, Mr. Gonzalez was Executive Vice President and COO of East Orange General Hospital.

c. Kennedy Health System has named Gary Terrinoni to serve as Senior Vice President and CFO. Mr. Terrinoni is a CPA and has an MBA. He has 30 years in the healthcare industry, most recently as Executive Vice President and CFO of Richmond University Hospital on Staten Island. He also had a short stint as CFO with Bayonne Medical Center as it was transitioning through the bankruptcy process to a sale. He replaces Joseph Lario, who retired last year.

d. East Orange General Hospital has named Al Aboud as CFO. Mr. Aboud is a CPA and has a Masters degree in accounting and over 25 years of health care administration experience. He was most recently Vice President of Finance and CFO at Mountainside Hospital. He replaces Robert Hood.

e. St. Michael's Medical Center announced that Dennis Pettigrew, former Executive Vice President and COO/CFO at Cooper University Hospital, has been appointed as Interim CFO at St. Michaels. Mr. Pettigrew replaces John Grywalski and will join St. Michael's on September 6th.

f. Governor Christie and Commissioner O'Dowd recently visited Trinitas Regional Medical Center in Elizabeth to tout the positive impact the State's $20 million increase in Charity Care has had on hospitals in New Jersey.

g. On July 29th, Christ Hospital announced it had entered into negotiations to sell the hospital to Prime Healthcare Services, a for-profit hospital system based in California. Christ believes the sale would provide significant funds to improve the Jersey City hospital.

h. In early September, Shore Memorial Hospital will be holding the grand opening of the largest expansion project in its history. The 138,000 square foot, $125 million expansion was funded partially by $45 million in bonds issued by the Authority. The expansion includes a new lobby, new patient rooms, operating suites and interventional procedure rooms as well as environmental improvements and more natural lighting.

i. Princeton HealthCare has reached an agreement to sell its existing hospital site in downtown Princeton to AvalonBay Communities, a developer of residential communities. The sale will not take place until Princeton HealthCare moves into its new hospital facility on Route 1 in Plainsboro, expected next spring. The new hospital was financed, in large part, by the Authority. AvalonBay intends to build high-end apartments on the former hospital site.

j. Community Medical Center in Toms River, part of the Saint Barnabas Health System (now Barnabas Health), was named one of the America's top 50 hospitals in 2011 by HealthGrades, an independent hospital rating organization.

k. Capital Health System expects to open its new $530 million hospital in Hopewell in November. The hospital will replace Mercer Medical Center, located in Trenton.

l. Hackensack University Medical Center is planning to perform a $52 million upgrade to its emergency department and build a new building to house additional operating rooms. The project is not expected to be financed by Authority bonds but rather through fundraising and its capital budget.

m. Hackensack University Medical Center's credit rating was upgraded to A3 from Baa1 by Moody's Investor's Service this month.

n. Robert Wood Johnson University Hospital in New Brunswick also received a credit rating upgrade from A- to A this month from Standard & Poor's.

o. On the other hand, Cape Regional Medical Center (formerly Burdette Tomlin Memorial Hospital) had its rating downgraded from A2 to A3 by Moody's late last month.

8. Authority News

a. Congratulations are in order for Edwin Fuentes, who was promoted to Account Administrator earlier this month. Edwin joined the Authority in September of 2008 as an Assistant Account Administrator. He completed a Bachelor's Degree in Accounting from Kean University in May of 2010. Edwin is replacing Senior Account Administrator Wanda Lewis who retired July 1.

b. The Authority has posted the opening of Edwin's former position of Assistant Account Administrator and will also advertise the opening on the Authority's website and on Craigslist.

c. The Authority also welcomes back Administrative Assistant Tammy Romsdahl from maternity leave. Tammy gave birth to a healthy baby boy named Eivand on June 21st.

d. Finally, Mr. Hopkins noted the absence of Lou George, the Authority's Director of Project Management. Unfortunately, his mother, Mary George passed away last weekend at the age of 93. Mr. Hopkins asked members to join him in extending condolences to Lou.

This concluded the Executive Director's report.

As there was no further business to be addressed, Dr. Kazmir offered a motion to adjourn that was seconded by Mr. Bollaro. Mr. Escher, Mr. Conroy, Mr. Bollaro, Ms. Kralik, Ms. Rodriguez and Dr. Kazmir voted to adjourn the meeting at 10:35 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 AUGUST 25, 2011.

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Stephen Fillebrown, Assistant Secretary