Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on April 25, 2013 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

The following ***Authority Members*** *were in attendance:*
Elisa Charters, Public Member (Chairing); Bill Conroy, Designee of the Commissioner of Health; Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Greg Lovell, Designee of the Commissioner of Human Services; Dr. Munr Kazmir, Public Member; 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, Carole Conover; Linda Hughes, Bill McLaughlin, Carl MacDonald, Ellen Lieber, Edwin Fuentes, Bernie Miller and Taryn Jauss.

The following ***representatives from the State and/or the public*** *were in attendance:*
Cliff Rones, Deputy Attorney General; Peter Simon, Governor's Authorities Unit; Ryan Feeney, Treasury; Thomas Lichtenwalner of St. Luke's University Health Network; Carl Alberto of St. Luke's Warren Hospital; John Calandriello and Quincy McLain of Palisades Medical Center; John Kelly of Wilentz, Goldman & Spitzer; Scott Kobler of McCarter & English; Joan Marron and Jonathan Ma of Morgan Stanley; Kay Fern of Evergreen Financial; Jim Quakenbush of JNESCO; and Dr. James J. Kostinas of David Kostinas.

CALL TO ORDER

Vice Chair Elisa Charters 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 24, 2012 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

a. February 28, 2013 Authority Meeting

Ms. Charters reminded Members that a vote to approve the February minutes was postponed at the last meeting, pending an amendment to the Executive Session minutes. The minutes from the Authority's February 28, 2013 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.

b. March 21, 2013 Special Meeting

Minutes from the Authority's March 21, 2013 special meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Mr. Lovell seconded. Mr. Conroy, Mr. Lovell, Ms. Rodriguez and Dr. Kazmir voted yes; Ms. Charters and Ms. Kralik abstained and the motion carried.

c. **<u>March 28, 2013 Authority Meeting</u>**

Minutes from the Authority's March 28, 2013 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Mr. Conroy seconded. The vote was unanimous and the motion carried.

2. BOND SALE REPORTS

a. **<u>Greystone Park Psychiatric Hospital & Marlboro Psychiatric Hospital</u>**

Ms. Suzanne Walton informed Members that on April 9, 2013, the Authority accepted bids at the office of Acacia Financial Group, Inc., the financial advisor, for the 2013 Greystone and Marlboro Bond Issues. The bonds were awarded to the bidders offering the lowest true interest cost to the Authority over the life of the bonds. The summary for the sale results for each Series is as follows:

- Nine firms provided bids for Greystone Series A New Money Bonds with interest rates ranging from 3.74% to 3.93%. The winning bid was submitted by RBC Capital Markets. The bonds consisted of serial bonds maturing in 2029 through 2033 with yields ranging from 3.19% to 3.73% resulting in a final bond sizing of $50,730,000.
- Eight firms submitted bids for the Greystone Series B Refunding Bonds with interest rates ranging from 2.62% to 2.85%. Barclays Capital Inc. was the lowest qualified bidder. The bonds consisted of serial bonds maturing in 2014 through 2028 with yields ranging from 0.5% to 3.07%. The issue was resized to $160.110 million, based on the winning bid, resulting in present value savings of $10.8 million, or 6.34% of the refunded bonds.
- Eight bidders provided bids for the Marlboro Bonds with interest rates ranging from 3.624% to 3.70%. The winning bid was submitted by Bank of America Merrill Lynch. The bonds were comprised of serial maturities from 2014 through 2033 with yields ranging from 0.50% to 3.40% resulting in a new par amount of $73.530 million of bonds.

The final bond sizing for the combined Greystone and Marlboro Series 2013 Bonds was $284,370,000. The All-in True Interest Cost, which takes into consideration all costs of issuance, was 3.20%. All three bond issues received ratings of A1 from Moody's and A+ from S&P and Fitch. The ratings reflect the need for annual appropriation of the lease contract payments and are one notch below the State's general obligation bond ratings. A pricing book was prepared by the financial advisor and was made available should the Members like more information.

Ms. Charters reminded Members that the information presented was for informational purposes only and no action was required.

b. **<u>Meridian Health</u>**

Ms. Suzanne Walton informed Members that on Wednesday, April 24, the Authority signed a purchase contract with Wells Fargo Securities for the sale of $29,525,000 of bonds on behalf of the Meridian Health System. Initially Staff had planned to market the bonds over a two day period with a retail pricing on Monday and an institutional pricing on Tuesday; however, based on market updates, the Underwriter suggested collapsing the marketing into a one day and everyone agreed to price the issue on Tuesday, April 23. Wells suggested the Authority run an order period through 11 a.m. and reconvene at noon to discuss the results. The order book was solidly subscribed across the majority of the yield curves, between approximately one or two times, with some maturities slightly undersubscribed (2016 and 2019), and the final maturity was five times oversubscribed. Wells suggested lowering spreads an additional 3 basis points in the years 2022 through 2028 and 5 basis points for the 2032 term bond. The Meridian financial team discussed the adjustments with the Authority and felt there may be room to lower the spread on the final maturity in 2032 and the Authority supported that position. After evaluating investor interest and optimal pricing levels, Wells Fargo offered to lower the spread by an additional basis point in 2032. In the end, the yield on the final maturity was lowered 6 basis points. Wells Fargo offered to purchase the bonds at the reduced yields and the Authority and the hospital accepted their offer. Meridian locked in a True Interest Cost of 3.46% on the Series 2013 Refunding, producing levels more indicative of a "AAA" rated credit. The refunding generated over $6 million of net present value savings which is 15.9% of the refunded bonds.

Ms. Charters reminded Members that the information presented was for informational purposes only and no action was required.

3. CONTINGENT BOND SALE
<u>St. Luke's Warren Hospital</u>

Mr. Carl MacDonald introduced Thomas Lichtenwalner, Senior Vice President Finance and Chief Financial Officer for St. Luke's University Health Network and Carl Alberto, Chief Financial Officer of St. Luke's Warren Hospital.

He informed the Members that Staff would be requesting the approval of a contingent sale of bonds on behalf of St. Luke's Warren Hospital. The institution is a not-for-profit 214-bed acute care community hospital located in Phillipsburg, New Jersey.

The proposed transaction will be comprised of approximately $43,000,000 of tax-exempt Series 2013 bonds which, together with other funds, will be used by the hospital to provide funds to currently refund and redeem the Authority's outstanding St. Luke's Warren Hospital Issue, Series 2012 Revenue Bonds, which were privately placed with Allstate Insurance; and to pay the related costs of issuance of the Series 2013 bonds. The Series 2013 bonds will be structured as fixed interest rate bonds and will be uninsured and secured by the credit of the obligated group of St. Luke's Hospital & Health Network, which is currently rated A3 by Moody's and BBB+ by S&P. The Series 2013 bonds will be offered and sold through a public offering.

The Series 2013 bonds will be secured by a promissory note of the obligated group under the Health Network's Master Trust Indenture. The promissory note will be secured by the Master Trust Indenture, which includes a gross receipts pledge and a negative pledge of each member of the obligated group not to create or permit a mortgage, lien or other encumbrance on its property.

Based on the most recent numbers run prepared by Bank of America Merrill Lynch, the senior underwriter on this transaction, in today's interest rate environment, the current refunding of the

Series 2012 bonds yields net present value savings of approximately $14,900,000 or 33.9% savings of the refunded bonds.

In accordance with Authority policy, management was required to submit financial projections. The projections covering the years 2013 through 2014 were provided to Members in their mailing and had been reviewed by Staff subsequent to the mailing.

Mr. MacDonald introduced John Kelly of Wilentz, Goldman & Spitzer P.A., bond counsel, to present the Series Resolution pertaining to this transaction.

SERIES RESOLUTION

Mr. Kelly stated that the Series Resolution authorizes the issuance of the tax-exempt Series 2013 bonds in an aggregate principal amount, exclusive of any original issue discount, not in excess of $45,000,000, and at a true interest cost not to exceed 5.00% per annum. The Series 2013 bonds will have a final maturity no later than August 15, 2048 and be subject to redemption, and/or purchase in lieu of redemption, prior to maturity as set forth therein, provided that the redemption price for any Series 2013 bond shall not exceed 105%. The Series 2013 bonds will be issued under the Authority's General Bond Resolution and this Series Resolution, and will be secured by payments to be made by the hospital under its loan agreement with the Authority, as evidenced and secured by a promissory note of the obligated group of the St. Luke’s Health Network and amounts on deposit in certain funds held by the trustee. The promissory note will be issued under the existing Master Trust Indenture by and between the members of the obligated group of the St. Luke’s Health Network and The Bank of New York Trust Company, N.A., as Master Trustee. The promissory note will be secured by a gross receipts pledge of each member of the obligated group under the Master Trust Indenture, as well as a negative pledge of each such member prohibiting the creation of mortgages, liens and other encumbrances on its property.

Additionally, the Series Resolution approves the form of and authorizes the execution of the Series 2013 bonds, the Loan Agreement, the Preliminary Official Statement, the Official Statement, and the Letter of Instructions. Further, the Series Resolution appoints U.S. Bank National Association as Trustee, Bond Registrar and Paying Agent for the Series 2013 bonds. The Series Resolution also authorizes the execution of a Bond Purchase Contract with Merrill Lynch, Pierce, Fenner & Smith Inc., as representative of the underwriters, prior to the close of business on July 24, 2013, and reflects an underwriters discount, including counsel fees, not in excess of $9.50 per $1,000 of Series 2013 bonds.

Finally, the Series Resolution 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 Bond Purchase Contract, the Letter of Instructions and the issuance and sale of the Series 2013 Bonds.

Ms. Charters asked the Members' pleasure with respect to the adoption of the Series Resolution on behalf of St. Luke’s Warren Hospital. Dr. Kazmir offered a motion to adopt the resolution; Mr. Conroy seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-77

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts the Series Resolution entitled "A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REFUNDING BONDS, ST. LUKE'S WARREN HOSPITAL OBLIGATED GROUP ISSUE, SERIES 2013A."

(attached)

Mr. Lichtenwalner thanked the Authority Members for their consideration and added that St. Luke's Warren plans on doing more expansion in the future and will probably be back next year.

4. INFORMATIONAL PRESENTATION & APPOINTMENT OF CO-MANAGERS
Palisades Medical Center

Mr. Bill McLaughlin introduced John Calandriello, Vice President and Chief Financial Officer and Quincy McLain, Director of Finance from Palisades Medical Center.

Mr. McLaughlin informed Members that he would be providing an Informational Presentation concerning a proposed bond transaction for Palisades Medical Center ("Palisades"). Palisades has requested that the Authority consider the issuance of approximately $55,000,000 of tax-exempt bonds, the proceeds of which are expected to be used to: currently refund the Authority's outstanding ACA Insured Palisades Medical Center Obligated Group Issue, Series 1999 bonds; currently refund the Authority's outstanding Palisades Medical Center Obligated Group Issue, Series 2002 bonds; fund certain capital budget items; fund a debt service reserve fund, if required; and pay the related costs of issuance. Members were reminded that bond refundings are interest rate sensitive; therefore, the final decision on what is to be included in the financing will be made closer to the time of pricing.

The transaction is expected to be structured as a publicly issued fixed rate financing and sold on the basis of the medical center's credit. Palisades is currently rated "BB+/Ba2" from S&P and Moody's, respectively. Given that both ratings are deemed to have a positive outlook, coupled with its strong recent financial performance, Palisades is optimistic about its prospects for a ratings upgrade.

A preliminary refunding analysis indicates present value savings of approximately $1.9 million or 5.24% on the refunded bonds.

The Palisades Medical Center Obligated Group is currently comprised of Palisades Medical Center, Inc. and Palisades General Care, Inc. Palisades Medical Center is a 202-bed acute care hospital and Palisades General Care is a 245-bed skilled nursing and residential care facility. Both facilities are located in North Bergen, New Jersey.

Prior to closing on this transaction, Palisades will be expanding the obligated group to include Palisades Medical Associates, LLC. Palisades Medical Associates is responsible for the recruitment and employment of physicians as well as the operation of physician office buildings throughout Hudson County. Palisades Medical Associates is currently structured as a for-profit entity; however, application has been made for a change to non-profit status.

Palisades has issued fixed rate debt through the Authority during 1992, 1999 and 2002 with an aggregate par amount of $85,390,000 of which approximately $36 million remains outstanding.

Additionally, Palisades borrowed $5 million under the Authority's variable–rate Capital Asset Loan Program of which approximately $893,000 was outstanding on April 24, 2013.

Unaudited financial statements from year-end 2012 indicate that Palisades had an excess of revenues over expenses of approximately $8.85 million compared to $2.62 million for the same period of 2011. The unaudited financial information also indicated that at year-end 2012, Palisades has 137.22 days cash on hand, an operating margin of 5.73% and debt service coverage of at least 4.79 times.

Ms. Charters reminded the Members that the presentation was for informational purposes only and no action needed to be taken.

Co-Managers

Ms. Walton informed Members that last month, Palisades notified the Authority that they had completed a competitive process resulting in the selection of Morgan Stanley to serve as senior manager. As was noted in Mr. McLaughlin's presentation, it is anticipated that proceeds from the proposed bond issue, currently sized at $55 million, will be used to refund the Authority's Series 1999 and 2002 bond issues with an additional $10 million of proceeds used to fund capital projects. Based on the current interest rate environment and the most recent number runs, Palisades will achieve savings on both refundings; however, the Series 1999 bonds are more sensitive to interest rate changes and, ultimately, the hospital may decide not to move forward with the refunding of those bonds based on a loss in savings. If that were to happen, the issue size would approximate $25 million. Based on these facts, Staff made the following recommendation with respect to the assignment of co-managers:

If the transaction size is below $30 million, Staff would not recommend the appointment of a co-manager. On a transaction size over $30 million, Staff would recommend the appointment of one co-manager. For a transaction size over $40 million, Staff would recommend the appointment of two co-managers.

Using these parameters, Staff would recommend appointing the firm of Prager, Sealy & Co., LLC as co-manager on a transaction size over $30 million, and should the transaction size increase to $40 million, appointing the firm of Cain Brothers as an additional co-manager.

Both firms have been qualified by the Authority to serve in the role of co-manager, have demonstrated the ability to market New Jersey securities, and have sufficient capital to participate in the transaction.

Therefore, Ms. Walton requested Members' consideration of appointing the firm of Prager, Sealy & Co., LLC as co-manager if the transaction exceeds $30 million, and additionally adding Cain Brothers as co-manager should the transaction exceed $40 million.

Dr. Kazmir made a motion to approve the appointment of Prager, Sealy & Co. as co-manager for the Palisades Medical Center transaction if the transaction is $30 million or more and additionally adding Cain Brothers & Co. as co-manager if the transaction exceeds $40 million. Ms. Rodriguez seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-78

> **NOW, THERFORE, BE IT RESOLVED,** that the Authority hereby approve the appointment of Prager, Sealy & Co. as co-manager for the Palisades Medical Center transaction if the transaction is $30 million or more and additionally adding Cain Brothers & Co. as co-manager if the transaction is $40 million or more, as recommended by Staff.

5. FUNDING OF THE OTHER POST EMPLOYMENT BENEFIT TRUST

Ms. Ellen Lieber informed Members that the Authority has a post-retirement health care plan for qualified employees. In December of 2007, the Authority approved the establishment of an Other Post Employment Benefit Trust also known as an OPEB Trust in order to fund the plan.

As of December 31, 2012, the trust was fully funded from the last deposit made on August 26, 2010. Since the Governmental Accounting Standards Board statement for post-employment benefits requires an actuarial study to be conducted every 3 years for employers with less than 100 employees, it was time for a new valuation. The Authority hired Buck Consultants to prepare the valuation for the years ending 2013, 2014 and 2015. Members were provided with the valuation report that showed the annual required contribution for 2013, 2014 and 2015 is $279,734, $293,531 and $307,509 respectively. To properly fund this liability, Staff requested the Board's approval to deposit the total amount of $880,774 to fully fund the trust through December 31, 2015. She noted that only the current year's Annual Required Contribution of $279,734 will be expensed this year. The remaining balance of the deposit will be treated as a pre-paid expense and will have no effect on the Authority's fund balance until 2014 and 2015.

Dr. Kazmir made a motion for the Members to approve fully funding the Authority's Other Post-Employment Benefit Trust Fund in 2013. Mr. Lovell seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-79

> **NOW, THERFORE, BE IT RESOLVED,** that the Authority hereby approves fully funding the Authority's Other Post-Employment Benefit Trust Fund in 2013 as recommended by Authority Staff.

6. APPROVAL OF EXPENSES

Ms. Charters referenced a summary of Authority expenses and invoices. Dr. Kazmir offered a motion to approve the bills and to authorize their payment; Mr. Conroy seconded. Mr. Conroy noted that in the expenses, Mr. Hopkins personal information, including his home address, was visible, and he may want to redact that in the future. The vote was unanimous and the motion carried.

AB RESOLUTION NO. MM-80

> **WHEREAS,** the members of the Authority have reviewed the memoranda dated April 17, 2013, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $2,576.00 and $22,741.06 respectively, and have found such expenses to be appropriate;
>
> **NOW, THEREFORE, BE IT RESOLVED,** that the members of the Authority hereby approve all expenses as submitted, and authorize the execution of checks representing the payment thereof.

7. STAFF REPORTS

Ms. Charters thanked Staff for the Project Development Summary, Cash Flow Statement, First Quarter Budget Report and Legislative Advisory reports.

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

1. He reminded the Authority Members and Senior Staff that they are required to file Financial Disclosure Statements with the State Ethics Commission by no later than May 15, 2013. Filings must be made electronically through the State Ethics Commission website. Late filers will be subject to a fine of up to $50 per day. Authority Members are required to file the somewhat less onerous disclosure for Public Officers (not Public Employees). If Members have any questions about the process, they should call Mr. Hopkins or Robin Piotrowski, the Authority's Ethics Liaison Officer.

2. The members of the Audit Committee (Mr. Conroy, Ms. Kralik and Mr. Feeney) were reminded that there would be an Audit Committee meeting immediately following the Authority meeting to determine whether to extend the contract with the auditor for one year, as permitted by the initial contract.

3. Hospital & Other News

   a. In the interest of time, Mr. Hopkins did not detail the articles on hospitals and health care organizations that were provided to the Authority Members, except to say that they included articles on the sale of St. Clare's, St. Mary's, and St. Michael's hospitals, an update on Valley Hospital's expansion plans, insurance programs being provided by the Hudson Holdco Hospitals, Meadowlands Hospital and Cooper Hospital, St. Michael's new Emergency Room, the effects of the sequester on Medicare reimbursement to hospitals and physicians, Virtua's new pediatric pavilion in Mount Holly and a proposed 28% cap on the exclusion on interest income for tax exempt bonds being included in the President's proposed budget.

4. Authority News

a. Mr. Hopkins introduced Peter Simon, the Authority's new representative from the Governor's Authorities Unit. Mr. Simon had previously worked for Wolff & Samson.

b. As it was administrative professionals' week, Mr. Hopkins acknowledged Executive Assistant and Office Manager Carole Conover, Office Assistant Lorraine Donahue and Administrative Assistants Tracey Cameron and Taryn Brzdek. He noted that everyone at the Authority is deeply indebted to their hard work and, to top it off, they have wonderful personalities.

c. Next month's meeting will be the Authority's Annual Meeting which includes the election of officers. In their mailing packets for this month's meeting, Members were provided with the current slate of officers, as well as a blank slate for nominations and a proposed schedule of meetings. Mr. Hopkins asked Members to review the information in preparation for next month's meeting.

8. EXECUTIVE SESSION

At this point, Ms. Charters asked the Members to meet in Executive Session to discuss contractual negotiations and potential litigation regarding St. Mary's Hospital and St. Michael's Medical Center, and to discuss litigation involving Hoboken Municipal Hospital Authority. As permitted by the Open Public Meetings Act and the Authority's By-laws, Dr. Kazmir moved to meet in Executive Session to discuss contractual negotiations and potential litigation regarding St. Mary's Hospital and St. Michael's Medical Center, and to discuss litigation involving Hoboken Municipal Hospital Authority. Mr. Conroy seconded it. The vote was unanimous and the motion carried. Ms. Charters noted that the results of this discussion will be made public when the need for confidentiality no longer exists.

AB RESOLUTION NO. MM-81

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 contractual negotiations and potential litigation regarding St. Mary's Hospital and St. Michael's Medical Center, and to discuss litigation involving Hoboken Municipal Hospital Authority,

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. No action was taken during Executive Session.

As there was no further business to be addressed, following a motion by Dr. Kazmir and a second by Mr. Conroy, the Members voted unanimously to adjourn the meeting at 10:44 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 APRIL 25, 2013.

____

Carole A. Conover, Assistant Secretary