Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on June 27, 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); Brian O'Neill, 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, Carl MacDonald, Ellen Lieber, Edwin Fuentes, Jessica Lucas, Bernie Miller and Marji McAvoy.

*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; Geri Ann Swenarton and David Bogle of RWJUH; Christopher McCann of JP Morgan; Dorit Kressel and Celine Barakat of Wolff & Sampson PC; Daniel Carroll of Schenck, Price, Smith & King, LLP; Skip Cimino of RWJUH at Hamilton; Chuck Stafford of Ziegler; Nick Warner of Wells Fargo; Efrain Zamora of TD Securities; Kay Fern of Evergreen Financial; Doug Placa of JNESCO; and Dr. James J. Kostinas of David Kostinas.

CALL TO ORDER

Vice Chair Elisa Charters called the meeting to order at 10:03 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 23, 2013 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. May 23, 2013 Authority Meeting

Minutes from the Authority's May 23, 2013 meeting were presented for approval. Dr. Kazmir offered a motion to approve the minutes; Ms. Rodriguez seconded. The vote was unanimous and the motion carried.

b. June 11, 2013 Special Meeting

Minutes from the Authority's June 11, 2013 special 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. BOND SALE REPORT
Palisades Medical Center

Ms. Suzanne Walton informed Members that on June 20, 2013, the New Jersey Health Care Facilities Financing Authority and Palisades Medical Center ("PMC") priced $47.555 million of tax-exempt bonds. The sale occurred during an exceptionally volatile period in the fixed income markets. For several weeks prior to pricing, the municipal market experienced severe pressure as investors debated whether the Federal Reserve would slow the purchase of U.S. government securities through quantitative easing. On the day prior to PMC's pricing, the Federal Reserve issued a statement that conveyed a more positive tone for near-term economic prospects in the U.S. and outlined the most definitive path yet for winding down stimulus measures. Immediately following the public statement, the Dow Jones Industrial Average ("the Dow") fell by over 200 points and U.S. Treasury yields increased by nearly 20 basis points in some maturities.

On the morning of June 20, the Authority, PMC management, PMC's financial advisors, and Morgan Stanley participated on a conference call with PMC's Finance Committee in order to evaluate the market volatility and the current status of refunding savings available to the hospital. Several other municipal and hospital borrowers that had originally planned bond sales on June 19 or June 20 opted to postpone their offerings to later dates. Conference call participants considered different factors that had the potential to be favorable to PMC's transaction: 1) generally strong investor demand for State of New Jersey bonds; 2) PMC's positive credit story; 3) the presence of positive cashflow savings despite the market movements; and 4) the moderate par size. At the end of the call, PMC's Finance Committee decided to move forward.

Throughout the day on June 20, the equity and bond markets continued to deteriorate. By the close of business on that day, the Dow would lose over 350 points, the worst daily loss of the year. Treasury yields would climb another 5 to 7 basis points and municipal rates were in the process of increasing nearly 15-20 basis points in most maturities.

PMC initiated a 90-minute order period at 1:00 p.m. Earlier in the week, Morgan Stanley had received indications of interest from bond funds including Vanguard and Rochester; however, in light of the market volatility and the steep increase in investor redemptions, these funds were suddenly less certain about their capacity to participate in the bond offering. Additionally, many investors requested certain changes to PMC's legal covenants and documents. In order to maximize the number of investors that would consider the offering, PMC management approved these legal document changes and requested that the underwriting team communicate these updates to all potential investors.

During the order period, PMC received a steady amount of orders for the longer maturities - the 2031 and 2043 term bonds; however, investor demand for PMC's serial maturities - 2016 to 2023 - was soft. The underwriting team focused on a single investor, General Electric, with the capacity to invest in all of these serial maturities. Towards the end of the order period, PMC management and its attorneys had one final conference call with General Electric and the underwriting team in order to address several other legal document items. After the parties reached an agreement on the call, PMC's offering was nearly subscribed in all maturities after Morgan Stanley agreed to underwrite up to $8 million of the remaining bonds.

At 4:00 in the afternoon, the working group discussed the day's results. Despite the severe volatility in the markets, PMC received over $78 million of orders from funds including General Electric, Fidelity, Vanguard, Rochester, and Nuveen. The 2013 financing provides PMC with $1.2 million of present value savings, or 3.4% of refunded par. Although PMC's savings estimates have decreased over the past couple of months, PMC still achieved many of its transaction objectives: 1) rating upgrades from Moody's, Standard & Poor's, and Fitch Ratings; 2) the removal of ACA, the bond insurer, from the PMC capital structure with the refunding of the Series 1999 Bonds; 3) the implementation of a new Master Trust Indenture; and 4) access to $10.3 million of new money capital for facility improvements. The PMC working group is now focusing on closing the transaction on Tuesday, July 2.

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

3. INFORMATIONAL PRESENTATION
<u>Robert Wood Johnson University Hospital</u>

Mr. Carl MacDonald stated that the presentation would be comprised of three components: an Informational Presentation for the proposed bond transaction that will be issued for Robert Wood Johnson University Hospital (RWJUH), a Review of Management Projections and a Detailed Project Presentation by representatives of RWJUH. He introduced Geri Ann Swenarton, VP Finance, and David Bogle, VP Construction Services from RWJUH.

Mr. MacDonald informed the Members that RWJUH is a private, nonprofit, acute care hospital located in New Brunswick, New Jersey, serving the central New Jersey market with a wide range of inpatient and outpatient clinical services as well as specialty services in cardiac care, cancer care, emergency medicine, pediatrics and maternal-fetal medicine. Currently, the hospital has 573 licensed beds and is the principal teaching hospital for the Robert Wood Johnson Medical School Division of the University of Medicine and Dentistry of New Jersey. It is the hub of a clinically-integrated medical campus that includes the Cancer Institute of New Jersey, the Child Health Institute of New Jersey and the Bristol-Myers Squibb Children's Hospital. The parent organization of the hospital, Robert Wood Johnson HealthCare Corporation, also includes RWJ University Hospital Hamilton, RWJ University Hospital Rahway, the Children's Hospital and Children's Specialized Hospital.

The Authority is in the process of structuring a financing on behalf of RWJUH, the proceeds of which will be used to fund a series of construction projects at the New Brunswick campus. In short, the projects will include the construction and equipping of a six-story, 725-car parking garage with an additional 60,000 square feet of office space on two floors, as well as a power generating station for the campus. The second part of the project will be the relocation and expansion of the adult care unit, which will add 80 new private adult acute care beds and four new operating rooms. The third portion will be the renovation and expansion of the hospital's Emergency Department. Bond proceeds will also be used to pay the related costs of issuance.

From a financial perspective, the hospital has maintained strong financial metrics and currently maintains credit ratings of A2/A- from Moody's and S&P. The hospital has consistently reported positive results from operations and bottom line. According to the audited financial statements and the Authority's Apollo Report, RWJ generated an excess of revenues over expenses of $49.19 million and $42.06 million for the years ending 2012 and 2011. Unaudited numbers for the first three months of 2013 reflect an excess of revenues over expenses of $26.2 million.

The hospital is also well utilized. Since FY2009, inpatient admissions have remained constant at approximately 37,000 annually, as have occupancy rates at approximately 85%. Utilization statistics are projected to remain constant for the foreseeable future.

Financial ratios designed to measure the hospital's liquidity, operating performance and capital structure have consistently outperformed statewide medians. Based on unaudited numbers as of March 31, 2013, RWJUH has 279 days cash on hand, an operating margin of 2.26% and debt service coverage of 6.12 times.

RWJ has issued debt through this Authority in 1991, 1992, 1996, 2000, 2003, 2004 and 2010 totaling $390,623,375 of which $172,245,000 remains outstanding. The most recent issuance by the Authority on behalf of RWJ occurred in 2010, when the Authority issued revenue and refunding bonds in the amount of $126,415,000.

Review of Management Projections

Mr. MacDonald introduced Mr. Stephen Fillebrown, the Authority's Director of Research, Investor Relations and Compliance, to review the financial projections for Robert Wood Johnson University Hospital. Mr. Fillebrown informed the Members the forecast period is for 2013 through 2018. As there will be phased construction, the proceeds will not be completely spent until 2017.

The projections show positive operating margins ranging from 1.7% to 3.6%, and stable profit margins from 4.1% to 6.2%, which are very good for a New Jersey hospital, and also very consistent with the historical performance of RWJUH. Days cash on hand range from 280 days to 299 days, which is also above New Jersey medians, but very consistent with recent performance. Days in accounts payables are stable at 60, and accounts receivable are constant at 48 days. The debt service coverage ratio stays at over 4 times, even after debt service begins in 2017. New borrowing puts debt to revenue above the statewide median at first, but by the end of the forecast period, the number is very close to the statewide median.

Mr. Fillebrown summarized that the projections predict solid financial performance commensurate with the hospital's strong ratings. He informed Members that key assumptions included, in regards to volume: that inpatient admissions would have less than 1% growth in 2014 to 2016 and 1.8% in 2017 and 2018; that length of stay is projected to be flat at 5.43 days; and outpatient volume is projected to rise by 5-8% annually, consistent with recent trends.

In regards to expenses, key assumptions included: that total salary expense increase by between 4% and 14% per year, driven by across the board salary increases of 2.5-3% per year, modest growth in FTEs to accomodate the increased volume, and the hiring of more physicians (which drives up average salary per FTE); fringe benefits are assumed to be constant at about 19% of salaries; and supplies and other expenses increase by between 1.4% to 5.7% over the forecast period. The year with the relatively low 1.4% increase is the direct result of savings associated with this project, as parking and office space will reduce parking fees and rent on outside office space.

In regards to revenues, key assumptions included: Revenue rising by 4.8% to 6.4% per year, reflecting minimal volume increases, a 1% increase per year in Medicare rates and a 5% increase per year in managed care rates; Medicaid rates are assumed to be constant, and there is no change in payer mix. In short, the strong projected results can be achieved through generally conservative assumptions.

Detailed Project Presentation

Mr. Fillebrown then introduced Mr. David Bogle from Robert Wood Johnson University Hospital for a detailed project presentation. Mr. Bogle informed the Members that the proposed project consists of three main projects. The first, called the East Tower Project, is a combination of parking and office space. It also provides a secondary incoming electric feed from PSE&G and a new generator plant to help fortify the electrical infrastructure of the campus.

The project is on the western edge of campus, near the New Brunswick train station and the new center of downtown. There are nine stories of parking, which will all be used for employee parking, with 60,000 square feet of office space on two floors above it. It is designed to create passageways for traffic in the hospital to be able to get to the downtown area. The office space will be used to relocate and consolidate various departments that are currently in office buildings downtown, or are currently in the hospital, but are in the way of the proposed Emergency Department (ED) expansion. Preliminary site work and prep work have begun on this project.

The second project, just up the street on Route 27, is a vertical expansion, and is the bed tower and OR expansion project. This expansion is designed so the new OR floors will plug right into the existing OR suite, and the patient towers will connect via bridge to the main patient tower. It is necessary to relocate two inpatient units to this tower to make room for the Emergency Department expansion.

The third portion will be the renovation and expansion of the Emergency Department. The new ED will double in size, to 50,000 square feet.

In regards to the office space in the parking garage, Ms. Charters asked if the office space would all be above the garage, and if it would all be used in-house, or if any of it would be privatized. Mr. Bogle responded that the 60,000 square feet of office space would all be above the parking garage, with 30,000 square feet on each of two floors. The office space would all be used internally, primarily relocating and consolidating IT and finance staff.

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

Co-Managers

Ms. Suzanne Walton reminded Members that last month they were notified that Robert Wood Johnson University Hospital had completed a competitive process and had selected J.P. Morgan Securities to serve as its Senior Manager. In addition, the hospital asked the Authority to consider the appointment of the firms of Wells Fargo and PNC as co-managers.

Based upon current market conditions and the size of this transaction, Staff recommended the assignment of four co-managers. Staff supports the appointment of the two firms requested by the borrower and proposes adding the firms of Janney Montgomery Scott, LLC and Estrada Hinojosa as co-managers.

Janney Montgomery Scott, LLC is a full-service broker dealer headquartered in Philadelphia that offers institutional and retail capability. Estrada Hinojosa & Company is a Hispanic-owned Minority Business Enterprise that specializes in public finance. Both firms have sufficient capital to participate in the underwriting.

Therefore, Staff requested Members approve the naming of Wells Fargo, PNC Capital Markets, Janney Montgomery Scott and Estrada Hinojosa as co-managers on the RWJUH Series 2013 transaction.

Dr. Kazmir offered a motion to approve naming Wells Fargo, PNC Capital Markets, Janney Montgomery and Estrada Hinojosa as co-managers for the Robert Wood Johnson University Hospital transaction; Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. NN-03

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby approves the naming of Wells Fargo, PNC Capital Markets, Janney Montgomery Scott, LLC and Estrada Hinojosa as co-managers for the Robert Wood Johnson University Hospital transaction.

4. NEGOTIATED PRIVATE PLACEMENT & INFORMATIONAL PRESENTATION

Robert Wood Johnson University Hospital at Hamilton

Mr. Mark Hopkins stated that his presentation would serve as a negotiated sale request, a private placement request and an informational presentation, and introduced Skip Cimino, the President and Chief Executive Officer for Robert Wood Johnson University Hospital at Hamilton.

Mr. Hopkins informed Members that Robert Wood Johnson University Hospital at Hamilton, Inc. (RWJ Hamilton), a subsidiary of RWJ HealthCare Corp., has signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing of approximately $22 million, the proceeds of which will be used to currently refund all of the Series 2005A Revenue and Refunding Bonds issued by the Authority; fund a debt service reserve fund, if required, and pay the related costs of issuance.

RWJ Hamilton is a not-for-profit community acute care facility located in Hamilton Township. The hospital provides a full range of comprehensive services including medical, surgical, women's health, maternal-child care, emergency services, neurology, occupational and corporate health, radiology, rehabilitation and through an affiliation with the Cancer Institute of New Jersey in New Brunswick, cancer care.

During March 1994, RWJ HealthCare Corp. (RWJHCC) became the sole member of the parent corporation of the hospital, RWJ HealthCare Corp. at Hamilton, and is also the sole member of the Robert Wood Johnson University Hospital New Brunswick. Under the terms of their agreement, the hospital maintains its board and continues to exercise local control, but requires RWJHCC authorization for key decisions including approval of annual budgets, entering into borrowing arrangements and strategic planning.

Outstanding Authority issued obligations of RWJ Hamilton include: Series 2002 Variable Rate Revenue Bonds, Series 2005A Revenue and Refunding Bonds, and Series 2005B Revenue Bonds. The total outstanding Authority debt issued on behalf of RWJ Hamilton is approximately $107.22 million.

Unaudited financial statements from 2012 indicate that RWJ Hamilton had an excess of revenues over expenses of $2.1 million compared to expenses exceeding revenues by $644,000 for the same period of 2011. RWJ Hamilton has 276 licensed beds and employs approximately 1,210 people. The hospital is currently unrated by the major credit rating agencies. Based on unaudited numbers for year-end 2012, RWJ Hamilton has 85.50 days cash on hand, an operating margin of .54% and debt service coverage ratio of 2.38 times.

RWJ Hamilton has asked that the Authority permit the use of a negotiated sale based on the sale of bonds for a complex or poor credit and volatile market conditions. These reasons are considered under the Authority's policy regarding Executive Order #26, to be a justification for the use of a negotiated sale, therefore, Mr. Hopkins recommended the consideration of the resolution approving the use of a negotiated sale and the forwarding a copy of the justification in support of said resolution to the State Treasurer.

RWJ Hamilton also conducted an analysis to determine whether to proceed with a private placement or a public offering. Based upon its analysis, a private placement would reduce costs of issuance; expedite the issuance of the refunding bonds; and avoid the requirement for a debt service reserve, thereby lowering the amount borrowed.

The Attorney General's Office has assigned Wolff & Sampson to serve as Bond Counsel on this transaction.

RWJ Hamilton has indicated that it has completed a competitive process to name a placement agent and wishes to utilize the services of BC Ziegler as the placement agent for the bonds. Amongst the criteria used in making this selection were experience working with unrated borrowers and ability to secure price competitive term sheets from institutional investors.

Ms. Charters asked the Members' pleasure with respect to the adoption of the resolution supporting the issuance of bonds by negotiated private placement pursuant to Executive Order #26 on behalf of Robert Wood Johnson University Hospital at Hamilton. Dr. Kazmir offered a motion to adopt the resolution; Mr. O'Neill seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. NN-04

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts the resolution entitled "RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY PRIVATE PLACEMENT TRANSACTION PURSUANT TO EXECUTIVE ORDER NO. 26."

(attached)

5. EXTENSION OF PRINTING CONTRACT

Ms. Ellen Lieber reported that the first one-year extension of the Authority's printing contract with McElwee & Quinn for the printing of Preliminary and Final Official Statements and other related documents expires on October 31. The contract had initially been awarded after an RFP in the summer of 2010. The contract allows for three additional one-year extensions at the option of the Authority at the original terms and conditions. Members had approved the first extension at the Authority meeting on June 28, 2012. Staff has been pleased with the quality and timeliness of McElwee & Quinn's work and therefore, is asking the Members' consideration in appointing McElwee & Quinn to the second one-year extension for the period November 1, 2013 through October 31, 2014.

Dr. Kazmir moved that the Authority appoint McElwee & Quinn to the second one-year extension allowed under the printing service contract, for the period of November 1, 2013 through October 31, 2014. Mr. Lovell seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. NN-05

NOW, THERFORE, BE IT RESOLVED, that the Authority hereby approves the second one-year extension allowed under the contract with McElwee & Quinn for printing services for the period of November 1, 2013 through October 31, 2014.

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. Lovell seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. NN-06

> **WHEREAS,** the members of the Authority have reviewed the memoranda dated June 19, 2013, summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $116,749.33 and $9,300.38 respectively, and have found such expenses to be appropriate;
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> **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 and Legislative Advisory reports.

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

1. Hospital & Other News

a. On June 1, Hackensack University Medical Center at Pascack Valley opened to patients. Governor Christie and Commissioner O'Dowd attended a ceremony for the opening in late May.

b. Governor Christie announced on June 10 that Cooper Health System has entered into a partnership with MD Anderson Cancer Center to provide the world-class cancer treatment MD Anderson is known for at Cooper.

c. Several new hospital transactions have been announced recently:

i. Hunterdon Healthcare and Atlantic Health System have created the jointly owned Midjersey Health Alliance. The alliance will benefit from larger purchasing power and better coordination of care for both systems' patients.

ii. Barnabas Health is being considered by the University of Medicine and Dentistry of New Jersey to provide consulting services to University Hospital to help it remain financially stable as it embarks as a stand-alone state instrumentality. This contract is subject to review by the Commissioner of Health.

iii. Robert Wood Johnson University Hospital has announced that it intends to acquire Somerset Medical Center in Somerville. Final details are still being worked out and the transaction is subject to CHAPA and Certificate of Need review.

iv. Raritan Bay Medical Center has entered into a Letter of Intent to be acquired by Prospect Medical Holdings, a for-profit hospital company with five hospitals in California and two in Texas.

d. Hunterdon Medical Center is celebrating its 60th anniversary next month.

e. The State legislature has passed a budget that is awaiting the Governor's signature.

f. The State legislature is considering a bill that would allow four counties and five cities to impose a tax on hospitals within their borders. The goal is to use the tax to leverage more federal matching dollars to provide funds for the hospitals that provide services to a large number of low income patients. Twenty percent of the tax, however, can be used for other purposes by the taxing entity. Suburban hospitals are objecting and the legislature postponed a vote on the bill scheduled for the day before yesterday.

g. The following ratings actions were taken in the last month:

(i) Fitch affirmed the A+ rating on the bonds issued by the Authority on behalf of AtlantiCare Health System in 2007, with an outlook of stable.

(ii) Standard & Poor's and Fitch each rated the bonds currently being issued by the Authority on behalf of Palisades Medical Center at BBB- and BBB, respectively. Moody's upgraded bonds the Authority issued on behalf of Palisades Medical Center previously to Ba1 from Ba2, with an outlook of positive.

(iii) Moody's affirmed the A2 bond rating of bonds issued by the Authority on behalf of South Jersey Hospital System.

h. In regards to St. Mary's Hospital and St. Michael's Medical Center, Mr. Hopkins had a public update that both are continuing to go through the regulatory processes of CHAPA and Certificate of Need review. St. Mary's is far along in the process; St. Michael's is trailing behind by about a month-and-a-half to two months. He did not have any additional information that needed to be shared with Members, so unless Members wanted to discuss the update further, there would not be a need for an Executive Session.

As there was no further business to be addressed, following a motion by Dr. Kazmir and a second by Mr. Lovell, the Members voted unanimously to adjourn the meeting at 10:40 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 JUNE 27, 2013.

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Carole A. Conover, Assistant Secretary