Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on February 3, 2011 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

The following ***Authority Members*** *were in attendance:*
Bill Conroy, Designee of the Commissioner of Health and Senior Services (Chair pro tem); Maryann Kralik, Designee of the Commissioner of Banking and Insurance (via telephone); Eileen Stokley, Designee of the Commissioner of Human Services (via telephone); Suzette Rodriguez, Public Member (via telephone); and Ulysses Lee, Public Member (via telephone).

The following ***Authority staff members*** *were in attendance:*
Mark Hopkins, Lou George, Steve Fillebrown, Ron Marmelstein, Suzanne Walton, Michael Ittleson, Brooke Liebowitz, Taryn Jauss, Carole Conover, Bill McLaughlin, Jessica Waite-Lucas, and Edwin Fuentes.

The following ***representatives from the State and/or the public*** *were in attendance:*
Clifford Rones, Deputy Attorney General; David Reiner, Governor's Authorities Unit; Danielle Cheung and Estelle Dick, JP Morgan; Thomas Scott, Saint Barnabas Health Care System; Kay Fern, Evergreen Financial; Maryann Kicenuik, Windels Marx Lane & Mittendorf; Anthony Orlando and Jim Stanton, Englewood Hospital and Medical Center; and Ryan Feeney, NJ Office of Public Finance.

CALL TO ORDER

Executive Director Mark Hopkins called the meeting to order at 10:02 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 27, 2010 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 the *Courier Post,* enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

Mr. Hopkins then stated that in the absence of the Authority's Chair and Vice-chair, a Chair pro tem was needed to lead the meeting. Ms. Kralik nominated Mr. Conroy to serve as Chair pro tem; Mr. Lee seconded. The vote was unanimous and the motion carried.

1. APPROVAL OF MINUTES
December 16, 2010 Authority Meeting

Minutes from the Authority's December 16, 2010 meeting were presented for approval. Mr. Lee offered a motion to approve the minutes; Ms. Rodriguez seconded. The vote was unanimous and the motion carried.

2. CAPITAL ASSET PROGRAM LOAN APPROVAL

Ms. Suzanne Walton reported to Members that Englewood Hospital and Medical Center is requesting a CAP loan in the amount of $10 million to provide funds to finance and/or reimburse the Medical Center for various capital budget items including, but not limited to, a magnetic resonance imaging machine, infusion pumps, a telemetry system and IT equipment.

Englewood Hospital and Medical Center is a 520-licensed bed acute care facility located in Englewood, New Jersey. Its service area is primarily comprised of the 22 towns situated in the northern valley of Bergen County and residents in northern Hudson county and southern Rockland County, New York.

In addition to providing general acute care services, the Medical Center is one of the primary teaching affiliates of the Mt. Sinai School of Medicine in New York. The affiliation brings to the Medical Center residents in surgery, pediatrics and pathology, as well as critical care medicine fellows. Englewood also offers a broad range of clinical programs including the Breast Care Center, the Institute for the Advancement of Bloodless Surgery, the Vascular Institute, and the Family Birth Place and, in September of 2009, they completed construction of a new state of the art Emergency Department.

Financially, the Medical Center has reported positive bottom lines for the years 2007 through 2009 and is projecting a $5 million bottom line for year-end 2010. Englewood's cash position has also improved during that period - Days Cash on Hand has grown from 19.9 days in 2007 to 50 days cash on hand by year-end 2010. Management attributes their improved financial performance to Strategic Planning Initiatives adopted in 2004 and implemented over the past six years that focused on growth strategies, monitoring operations, quality of care and patient/physician and employee satisfaction.

Inpatient admissions have remained relatively flat and are projected to grow by a modest 2.2% in 2011. Outpatient admissions, however, have grown despite economic and competitive pressures; most notably, in the area of emergency room visits due to the new state of the art Emergency Department. Occupancy rates, when calculated on maintained beds of 360 rather than the licensed bed complement, increased to the 70% level and Average Length of Stay has declined from 4.9 days in 2007 to 4.7 day in 2010.

Ms. Walton concluded by stating that JPMorgan Chase Bank, provider of the credit and liquidity support for the CAP Program, performed an independent credit analysis and approved the loan subject to the Medical Center providing a first priority security interest in the equipment being financed with loan proceeds.

Mr. Conroy asked about the impact of recent changes in how Medicare observation cases were defined had on the number of admissions. Mr. Orlando noted that the hospital had 996 observation cases in 2010; in 2009 the hospital had around 300 observation cases.

Mr. Lee offered a motion to approve the a Capital Asset Program loan in the amount of $10,000,000 on behalf of Englewood Hospital and Medical Center; Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. KK-56

> **NOW, THEREFORE, BE IT RESOLVED**, that Authority Members hereby approve a Capital Asset Program loan in the amount of $10,000,000 on behalf of Englewood Hospital and Medical Center.

(attached)

3. NEGOTIATED SALE REQUEST

Mr. Hopkins reported to Members that the Atlantic Health System ("AHS") has signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing of approximately $150,000,000, the proceeds of which will be used to pay, or reimburse AHS, for costs of expansions, renovations and other capital improvements to Morristown Memorial Hospital, Overlook Hospital and AHS's corporate headquarters. In addition, proceeds may be used to refund prior bonds issued on behalf of AHS's obligated group and for costs of issuance.

AHS is a New Jersey not for profit organization which has several subsidiary and affiliated organizations. Among its subsidiaries is AHS Hospital Corporation which has, among other entities, two divisions operating as hospitals, Morristown Memorial Hospital in Morristown and Overlook Hospital in Summit. Mr. Hopkins reminded Members that last fall AHS entered into a merger agreement with Newton Memorial Hospital. That merger is moving forward but has not yet been completed.

In 2008, the Authority issued a total of $354,220,000 in bonds on behalf of Atlantic Health System in three separate series. Approximately $341,841,000 of those bonds remained outstanding as of September 30, 2010. The Authority also issued bonds on behalf of Atlantic Health System, in 1997, 2003, 2004, 2006 and 2007 which have since been defeased or refunded.

According to the consolidated audited financial statements provided with the Memorandum of Understanding, AHS generated an excess of revenues over expenses of approximately $36.8 million for 2009 and a deficiency of revenues over expenses of approximately $25.6 million for 2008. The loss in 2008 is primarily attributable to a $41 million non-operating loss which included a $31 million net loss in investment income. Unaudited information through September 30, 2010 shows, AHS generated excess revenues over expenses of approximately $14.8 million.

AHS has asked that the Authority permit the use of a negotiated sale based on large issue size. This reason is considered under the Authority's policy regarding Executive Order #26, to be a justification for the use of a negotiated sale, therefore, Authority staff is recommending the consideration of the resolution approving the use of a negotiated sale and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

After performing a competitive process, AHS selected Goldman Sachs & Co. as Senior Managing Underwriter for the bonds. AHS has also requested the Attorney General's approval to have Windels, Marx, Lane & Mittendorf serve as bond counsel on the financing. The Attorney General's Office has not yet approved a bond counsel assignment.

Ms. Kralik made a motion to permit the pursuit of a negotiated sale on behalf of Atlantic Health System. Ms. Rodriguez seconded the motion. The motion passed unanimously.

AB RESOLUTION NO. KK-57

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves a motion to permit the pursuit of a negotiated sale on behalf of Atlantic Health System.

(attached)

4. DEBT MANAGEMENT PLAN – 2011

Mr. George reported to Members that under Executive Order No. 26, the Authority is required to prepare an annual debt management plan and submit it to the treasurer. The Authority's plan for 2011 reflects the financings completed during 2010, and identifies five (5) financings that are anticipated during 2011. Of the five (5) financings, the AHS Hospital Corporation and the Saint Barnabas Health System financings are the most probable of being completed. The Saint Peter's financing was approved by the Members last year but has not been priced since the market has changed and the transaction is interest rate sensitive. If the market should come back, the Authority will definitely complete this transaction. In accordance with the approved Bond Resolution, the Authority staff must sign a Purchase Contract no later than March 23, 2011. The Meridian Health System transaction is also interest rate sensitive and would only be undertaken if a refinancing would generate sufficient savings. The AtlantiCare financing could possibly be completed in the last quarter of this year, but the system still has a significant amount of work in that they have to obtain the various planning and zoning board approvals for their project.

There are a couple of potential borrowers involved with Assisted Living Facilities that have expressed an interest in financings but they haven't materialized to the point of including them in this report. The proposed plan also excludes Capital Asset Program loans, since these transactions do not involve the issuance of new debt.

As in prior years, the total volume for 2011 is subject to change, depending upon market conditions and borrowers' preferences. At this time, Authority staff is requesting the Members consideration in approving the proposed plan and an authorization to submit it to the State Treasurer.

Ms. Kralik made a motion to adopt the proposed 2011 debt management plan and submit it to the Treasurer in accordance with the requirements of Executive Order No. 26. Ms. Rodriguez seconded the motion. The motion passed unanimously.

AB RESOLUTION NO. KK-58

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves a motion to adopt the proposed 2011 Debt Management Plan and submit it to the Treasurer in accordance with the requirements of Executive Order No. 26.

5. DELEGATION TO EXECUTIVE DIRECTOR TO ENTER INTO VOLUNTARY COMPLIANCE NEGOTIATIONS WITH IRS ON BEHALF OF SAINT BARNABAS

Mr. George introduced Tom Scott, Senior Vice President at Saint Barnabas Corporation, and Maryann Kicenuik of Windels Marx, Lane & Mittendorf who serves as bond counsel.

Mr. George reported that the Authority issued bonds on behalf of Saint Barnabas Corporation in an amount of $120,400,000 in 2001 and $199,960,047 in 2006. Approximately $3.3 million of the 2001 bonds were used in part to refinance the Center State Health Issue Series A bonds that had initially been issued through the EDA in 1984 on behalf of Country Manor Nursing Home. Also included in this issue was approximately $522,000 for capital improvements at the nursing home. Again in 2006, a small portion of the bond proceeds, approximately $114,000 were used for capital projects at the nursing home.

Under the Tax Code, the Authority's bonds are classified as private activity bonds, which are taxable, unless the bonds meet certain criteria under the Tax Code allowing them to be categorized as qualified 501 (c)(3) bonds and hence tax exempt. The issuance of bonds on behalf of a 501(c)(3) organizations such as St. Barnabas meets the qualifying criteria and results in the tax exempt status of Authority bonds.

In December of 2007, Saint Barnabas sold Country Manor Nursing Home for $2.7 million to a private entity that was not a 501(c)(3) organization. Unless the sale proceeds are utilized in a manner permitted under certain safe harbor provisions of the Tax Code, the interest on the bonds could become taxable thereafter. The safe harbor provisions would have included redeeming a portion of the bonds or utilizing the proceeds for other qualified capital expenditures. Although Saint Barnabas did utilize the proceeds for qualified capital expenditures at that time, because of an internal oversight, they did not request the Authority to take actions that were necessary under the Tax Code. As a result, the exemption of the interest on the 2001 and 2006 bonds could be adversely affected.

Saint Barnabas Corporation and bond counsel discovered this oversight during 2010, and Saint Barnabas Corporation notified the Authority shortly thereafter. Since this was discovered by the borrower, it is possible under the Tax Code for the Authority, as the actual issuer and Saint Barnabas Corporation, as the borrower, to jointly request from the Internal Revenue Service a voluntary settlement agreement to assure continued tax exemption of interest on the bonds. Bond Counsel, with input from Saint Barnabas Corporation, drafted a "Form of Submission for a Request for a Closing Agreement" that includes a proposed settlement.

Bond Counsel also prepared a Resolution which asks the Members to approve the Form of the Submission and also authorizes an Authorized Officer to execute, acknowledge and deliver the Submission, as approved by the Members, to the IRS. The Resolution also authorizes execution of a closing agreement in the form provided by the IRS and acceptable to an Authorized Officer of the Authority and the Saint Barnabas.

Mr. George noted that the Authority's authorization is subject to an agreement by Saint Barnabas to pay all costs incurred in connection with the submission of the request to the IRS and the procurement of the closing agreement and to indemnify and hold harmless the Authority in connection with any losses or claims incurred by the Authority in this regard.

Mr. Conroy asked how Authority staff had come to the decision that entering into voluntary compliance negotiations with the IRS was the best approach. Mr. George reported that Bond Council had recommended this approach. Mr. George further explained that Saint Barnabas had used the proceeds of the bonds to fund other 501(c)(3) projects so were in compliance in that regard; however, Saint Barnabas should have approached the Authority which would have been required to hold a TEFRA hearing to reassign the proceeds of the bonds to other 501(c)(3) projects. Mr. Scott noted to Members that Saint Barnabas was committed to rectifying the problem and working with the Authority and the IRS to resolve the issue. Ms Stokley asked if the Authority could be held liable for Saint Barnabas' administrative error. Mr. Hopkins replied the Authority could be held liable, but that the Authority was indemnified under bond agreements between Saint Barnabas and the Authority.

Mr. Lee made a motion to authorize the Executive Director to enter into voluntary compliance negotiations with the IRS on behalf of Saint Barnabas Corporation. Ms. Stokley seconded the motion. The motion passed unanimously.

AB RESOLUTION NO. KK-59

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves a motion to authorize the Executive Director to enter into voluntary compliance negotiations with the IRS on behalf of Saint Barnabas Corporation.

6. PERSONNEL ISSUE

7. AMEND MEMORANDUM OF AGREEMENT WITH DHSS FOR FINANCIAL DATABASE MAINTENANCE & ANALYSIS
(Note: Agenda Items 6 & 7 were combined at the Authority Meeting.)

Mr. Hopkins reported to Members that Authority Staff would like to create the new position of the Director of Legal, Regulatory, Grants and Special Projects. The new position is needed to handle recent significant increases in the Authority's workload and responsibilities.

Mr. Hopkins noted that Authority's workload has increased over the past three years, primarily as a result of several developments:

1. In 2009, the Authority became the applicant and is the administrator of the $11.4 million federal Health Information Technology Grant on behalf of the State; the administration of this grant is time consuming due to the regulatory, reporting and compliance provisions of the American Recover and Reinvestment Act, pursuant to which it was enacted;
2. In addition to its role in the Early Warning System, created in 2008, DHSS has recently asked the Authority to take on the role of managing DHSS's Stabilization Fund Program;
3. Approximately three years ago, due to budget and staffing restraints, the Attorney General's office informed the Authority and other State authorities that it would be reducing the amount of time their attorneys could spend with authorities, thus requiring authorities to spend more of their own staff time on legal work, regulations and legislative developments;
4. The Federal Health Care Reform Act has created new regulations and new financing needs for health care organizations, such as incentivizing electronic medical records and shifting some primary care to federally qualified health centers; as such the Authority will need to find ways to provide financing and negotiate the related regulatory schemes; and
5. As a result of the 2008/2009 crisis in the financial markets, Congress enacted the Dodd-Frank Act which created new laws and is causing the promulgation of new regulations affecting the municipal bond market, which the Authority will have to keep up to date on and make adjustments to comply with.

Mr. Hopkins further noted that due to the fact that most of the Authority's additional workload results from legislative and regulatory changes as well as grants, the Authority staff felt that they needed to add an individual with an extensive background in these areas. The Director of Legal, Regulatory, Grants and Special Projects will oversee the Project Manager for the Health Information Technology Grant and will also share oversight of the Compliance Manager (with the Director of the Division of Research, Investor Relations and Compliance) and an Administrative Assistant (with the Director of Operations and Finance).

As a result of DHSS's desire to have the Stabilization Fund Program managed by the Authority, it has prepared an amendment to the existing Memorandum of Agreement between DHSS with the Authority to add to the existing services the Authority performs for DHSS the management of the Stabilization Fund Program. Based on the expected time expended by the Director of Legal, Regulatory, Grants and Special Projects on the Stabilization Fund Program, DHSS has agreed to reimburse the Authority for 25% of the salary, benefits and overhead costs associated with the position. As a result, the additional costs of the position will not cause the Authority to raise its fees but it will need to amend its budget slightly.

Mr. Hopkins requested the Authority Members approval of adding the position of Director of Legal, Regulatory, Grants and Special Projects. Additionally, Authority staff is requesting the approval of the Amendment to the Memorandum of Agreement between the Authority and the Department of Health and Senior Services. He noted that Members would be presented an Amendment to the Budget request at the February Authority meeting.

Ms. Kralik asked if the Governor's Authorities Unit had approved this new position. Mr. Hopkins reported that the Authorities Unit and DHSS had approved this addition to Authority staff.

Ms. Stokley made a motion to authorize the creation of a new position of the Director of Legal, Regulatory, Grants, and Special Projects. Mr. Lee seconded the motion. The motion passed unanimously.

AB RESOLUTION NO. KK-60

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves a motion to authorize the creation of a new position of the Director of Legal, Regulatory, Grants, and Special Projects.

Ms. Stokley made a motion to approve an amendment to the Memorandum of Agreement with DHSS. Mr. Lee seconded the motion. The motion passed unanimously.

AB RESOLUTION NO. KK-61

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves a motion to approve an amendment to the Memorandum of Agreement with the Department of Health and Senior Services.

8. APPROVAL OF EXPENSES

Mr. Conroy referenced a summary of Authority expenses and invoices. Mr. Conroy offered a motion to approve the bills and to authorize their payment; Ms. Kralik seconded. The vote was unanimous and the motion was approved.

AB RESOLUTION NO. KK-62

WHEREAS, the Authority has reviewed memoranda dated January 20, 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, $56,166.48 and $22,148.26 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.

Mr. Hopkins noted to Members that next month's expenses would reflect a reimbursement to the Human Resources Manager for a gift certificate purchased as an anniversary acknowledgement for Mr. Steve Fillebrown, who would be celebrating his 25th anniversary with the Authority. He reported that the New Jersey Redevelopment Authority had their minutes vetoed due to a similar program at their Authority among other things. Because of this, Authority Staff has decided to discontinue this program. The Human Resources Manager will be reimbursed for the purchase of the gift certificate, however the gift certificate will now be used for Authority expenses and the anniversary gift program terminated immediately.

9. STAFF REPORTS

Mr. Conroy thanked staff for the Project Development Summary, Cash Flow Statement, Legislative Advisory, and Year-End Budget reports. Mr. Conroy then asked Mr. Hopkins to present his Executive Director's Report. Mr. Hopkins reported to Members the following:

1. Authority Members may recall that in June of 2007 it adopted Resolution No. HH-28 which lowered certain Authority fees but created an automatic annual adjustment to the amount of bonds the Authority's initial and fees would apply to (the "fee cap"). The resolution called for the adjustment of the fee cap commensurate with the increase in the average Consumer Price Index for all Urban Consumers of the New York City and Philadelphia area rounded to the nearest million. For the twelve month period ending December 2010 the Consumer Price Index for all Urban Consumers in the New York area increased 1.7055% and in the Philadelphia area increased 1.9826%, for an average increase of 1.84405%. Based on this increase and the fact the Authority rounds to the nearest million, the Authority will now collect its initial fee and annual fee up to the cap of $90,000,000 in bonds.

2. DHSS has received 12 applications for the Stabilization Fund Grants totaling approximately $110 million. The total amount of Stabilization Grants available is $30 million. As a result of legislation created from the Reinhardt Commission's recommendations, the grants are given to financially distressed hospitals in order to maintain health care access in communities where services are threatened.

3. Hospital News

   a. John R. Ernst retired as president and CEO of the Deborah Heart and Lung Center on December 31, 2010. Mr. Ernst served Deborah for 40 years in various capacities, culminating in the last six years as CEO and President. Joseph P. Chirichella was named the new President and CEO, effective January 1, 2011. Mr. Chirichella has worked at Deborah for over 30 years, most recently as Vice President of Operations.

   b. On January 21st, John McGee announced his resignation as President and CEO of Solaris Health System, which is the parent of JFK Medical Center in Edison. Mr. McGee was with Solaris since 1986. He will be replaced by Ray Fredericks, Solaris' current Executive Vice President and Chief Operating Officer.

   c. Hackensack University Medical Center and Hackettstown Regional Medical Center have signed an affiliation agreement to collaborate on clinical programs and services.

   d. The Hoboken Municipal Hospital Authority has announced that it has entered into negotiations with HUMC Holdco for the sale of Hoboken University Medical Center. HUMC Holdco is a for-profit entity formed by the same principals who bought Bayonne Medical Center in 2008.

   e. The Department of Health and Senior Services released its 2010 Hospital Performance Report in late January. The report showed significant improvement by New Jersey hospitals overall in several quality indicators. The cover and Commissioner's letter accompanying the report, which also contains the web address for the report, are being provided to you today along with summary data from the report.

4. Authority News

   a. Mr. Hopkins reported that he was invited by the National Association of Health and Educational Facilities Finance Authorities to attend the Municipal Securities Rulemaking Board's Annual Roundtable on Friday, January 14th in Alexandria, Virginia. The discussion included actions taken by the SEC arising from the Dodd-Frank Act including regulations on asset backed securities and municipal advisors. Also discussed was the requirement arising out of Basel III requiring banks to provide 100% collateralization for letters of credit by 2015.

   b. Stephanie Bilovsky, our Communications Specialist who began a one year leave of absence late winter of last year, in order to join her husband in Virginia, who is working on a project there, has informed us that she will not be returning to the Authority and intends to stay in Virginia because her husband was offered a permanent position there.

   c. As discussed at the last Authority meeting, because Sue Tonry does not intend to return to the Authority full-time for the foreseeable future, the Authority staff posted the position of Assistant Director of the Division of Research, Investor Relations and Compliance. After interviews, Arvella King, our current Compliance Manager, has been promoted to the position effective February 7, 2011.

d. Priscilla Copper, the Database Administrator and Administrative Assistant in the Division of Research, Investor Relations and Compliance, retired at the end of January. Priscilla served the Authority for over 23 years. She will be sorely missed. The Authority will be advertising to fill Priscilla's position with a dedicated Database Administrator. This will result in the Division of Research, Investor Relations and Finance sharing and Administrative Assistant with the Division of Project Management.

e. The Authority will also be advertising the position of Account Administrator made vacant last summer when Ron Marmelstein was promoted to Director of Operations and Finance. This position was included in the Authority's 2011 budget.

As there was no further business to be addressed, following a motion by Ms. Stokely and a second by Mr. Conroy, the Members voted unanimously to adjourn the meeting at 10:45 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 FEBRUARY 3, 2011.

Carole A. Conover
Assistant Secretary