Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on November 18, 2010 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

The following ***Authority Members*** *were in attendance:*
Vice-Chairman Gus Escher, Public Member; Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Eileen Stokley, Designee of the Commissioner of Human Services; Bill Conroy, Designee of the Commissioner of Health and Senior Services; 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, Marji McAvoy, Wanda Lewis, Taryn Jauss, Arvella King, Carole Conover, Jessica Waite-Lucas, and Edwin Fuentes.

The following ***representatives from the State and/or the public*** *were in attendance:*
Clifford Rones, Deputy Attorney General; Thomas Hower, Governor's Authorities Unit; John DiAngelo, Senior Vice-President and CFO, South Jersey Healthcare; Erica Craner, Tracy Williams (via telephone) and Sandra Casas (via telephone), Marsh USA; Lisa Udouj (via telephone), Chartis; Debbie Hughes (via telephone), ACE Insurance; Bill Mayo, NJ Division of Risk Management; Ryan Feeney, NJ Office of Public Finance; and, Kay Fern, Evergreen Financial.

CALL TO ORDER

Vice-Chairman Gus Escher 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.

1. APPROVAL OF MINUTES
<u>October 28, 2010 Authority Meeting</u>

Minutes from the Authority's October 28, 2010 meeting were presented for approval. Mr. Conroy offered a motion to approve the minutes; Ms. Kralik seconded. Mr. Escher, Mr. Conroy, Ms. Kralik, and Mr. Lee voted to approve the minutes; Ms. Rodriguez abstained.

2. DIRECTOR'S & OFFICERS LIABILITY COVERAGE RENEWAL & PUBLIC OFFICIALS INSURANCE POLICY

Mr. Michael Ittleson introduced to Members the Authority's broker, Erica Craner from Marsh USA, who attended the meeting in person. He further introduced Tracy Williams and Sandra Casas, also from Marsh USA, Lisa Udouj, underwriter from Chartis and Debbie Hughes, underwriter from ACE, all of whom were attending the meeting via telephone.

Mr. Ittleson noted to Members that the first part of his presentation will cover the renewal of the Authority's Directors and Officers Liability policy ("D&O"), and the second part will cover the potential purchase of a new Public Officials policy, also referred to as an Errors and Omissions policy ("E&O").

Mr. Ittleson reported that the expiring D&O policy is with Chartis and was a one-year policy with a $20 million limit of liability and a deductible of $175,000. The premium was $72,810.00 with a NJ Surcharge of $655.00 for a total cost of $73,465.00.

The Authority's broker approached Chartis, Chubb, Beazley Insurance, ACE, CNA and Hiscox regarding a D&O policy. CNA and Hiscox declined to quote because they could not meet the underwriting guidelines nor meet the $20 million limit of liability. ACE declined to quote because they felt they could not be competitive at the $20 million limit. Beazley offered only a $10 million limit with a deductible of $175,000 for a premium of $65,000, and Chubb offered only a $10 million limit with a deductible of $250,000 for a premium of $90,000. Ultimately the best offer came from Chartis, which offered a $20 million limit with a deductible of $175,000 for a premium of $71,400 and a NJ surcharge of $643.00 for a total of $72,043 or $1,422 less than the expiring policy.

Mr. Ittleson stated that based on this information, staff is asking the Members consideration in approving the renewal of the D&O policy with Chartis, with a $20 million limit of liability, a deductible of $175,000 with a premium of $71,400 and a NJ surcharge of $643.00. He added that this premium is $1,422 less than the expiring policy with no loss in coverage.

(Ms. Stokley arrived at 10:10am.)

Mr. Conroy made a motion to approve the renewal of the D&O policy with Chartis, with a $20 million limit of liability, a deductible of $175,000 with a premium of $71,400 and a NJ surcharge of $643.00. Mr. Escher seconded the motion. All Members voted in favor of the motion, with the exception of Ms. Kralik, who abstained. The motion carried.

AB RESOLUTION NO. KK-46

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the renewal of the D&O policy with Chartis, with a $20 million limit of liability, a deductible of $175,000 with a premium of $71,400 and a NJ surcharge of $643.00.

Mr. Ittleson then reported on the proposed purchase of a Public Officials policy, also referred to as an E&O policy. During the renewal of the Authority's Commercial Package policy in April of this year, a couple of insurers would not provide premium quotes because the Authority did not have an E&O policy. Staff sought advice from the Authority's broker and the Acting of Director of Risk Management for the State of New Jersey regarding the purchase of this additional coverage. Based on advice, staff decided to look into purchasing E&O insurance.

The Authority's broker approached ACE, Chartis, Ironshore and Landmark regarding an E&O policy. Ironshore and Landmark declined to quote due to the nature of the Authority's business. and Chartis does not underwrite E&O policies for public entities. That left ACE which offered a $1 million limit of liability with a deductible of $50,000 for a premium of $13,373.00 and a NJ Surcharge of $134.00 for a total of $13,507.00. The policy also came with a "Side Car Expense

Tower" in the amount of $1 million. The main policy limit covers indemnity and defense costs, while the tower covers expense costs. Mr. Ittleson reported that it is his understanding that if the Authority is sued, the defense costs go through the tower first and then the main policy will pick up any remaining defense costs and any pay out to the plaintiff if the Authority loses the suit.

Mr. Ittleson recommended two options for the Members to consider. The first option is to purchase the $1 million policy offered by ACE, with a deductible of $50,000, a premium of $13,373, and a NJ surcharge of $134.00. The second option would be to reserve $1 million of the Authority's fund balance to help cover the cost of any suit filed that would not fall under the Authority's current D&O policy. Mr. Ittleson noted that the second option would save the Authority a little over $13,500 in premium costs.

Ms. Casas of Marsh interjected that there was a third option: If the Authority wished to remove the Employment Practices Liability portion of the E&O policy, which is already covered under the Authority's D&O policy, the premium would be lowered to $9,320 per year. Mr. Ittleson stated that this option had not been presented to him before.

Mr. Conroy made a motion to table the discussion of the purchase of an Errors & Omissions Insurance Policy until the December meeting, provided that ACE submits a new proposal. Ms. Stokley seconded the motion. The motion passed unanimously.

AB RESOLUTION NO. KK-47

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby tables the decision to purchase an Errors & Omissions Insurance Policy until the December meeting.,

3. CAPITAL ASSET PROGRAM LOAN APPROVAL
South Jersey Healthcare

Ms. Suzanne Walton introduced John Di Angelo, Senior Vice President of Finance and Chief Financial Officer of South Jersey Healthcare. She reference a summary of a loan application the Authority received from South Jersey Hospital requesting to borrow $30,000,000 from the Capital Asset Program to finance several construction /renovation projects and to reimburse the Hospital for previously acquired capital equipment.

South Jersey Hospital operates two acute care hospitals: the South Jersey Healthcare Regional Medical Center (the "RMC") in Vineland, Cumberland County, New Jersey and the South Jersey Healthcare Elmer Hospital ("Elmer") in Elmer, Salem County, New Jersey. The RMC has a licensed bed capacity of 325 beds, 270 of which are located at the campus in Vineland and 55 of which are located in SJH's Bridgeton Health Care Center located in Bridgeton, New Jersey The 55 beds located at the Bridgeton site are for acute, inpatient psychiatric services. Elmer is licensed for 96 beds. Thus, the total licensed bed capacity of South Jersey Hospital is 421 beds.

The proceeds of the loan will be used to (1) finance the expansion and renovation of the existing Level II nursery to become a Level III Neonatal Intensive Care Unit ("NICU"), including the addition of 6 bassinets; (2) purchase land and renovate an existing building on campus to house the

Medical Center's Program for All-inclusive Care to the Elderly (PACE); (3) reimburse the Medical Center for capital equipment and (4) pay the related costs of issuance.

Ms. Walton noted that historical financial and utilization data was also included in the Member's mailing package which demonstrated that SJH has reported strong operating performance and positive bottom lines for the periods 2007 through 2009 and year to date. In 2009, operating performance softened due to the downturn in the economy but management anticipated the decline and budgeted accordingly. As a result, SJ has been able to maintain its profitability levels.

She further reported that inpatient admissions have grown during the years 2007 through 2009. In the first six months of 2010 admissions were relatively flat but volume has picked up in the third quarter. Occupancy levels have remained in the 66 percentile and average length of stay has come down from 5.17 days in 2007 to 4.74 ytd.

Financial ratios for South Jersey are strong and outperforming the 2009 statewide medians in many categories including Days Cash on Hand of approximately 263 days, an operating margin of 4.48% and three times debt service coverage.

She added that, based upon this data and their own credit analysis, JPMorgan Chase Bank has approved the loan subject to South Jersey Hospital, Inc. providing a Note under their Master Trust Indenture. The loan will be secured on parity with the existing Series 2002, 2004, 2006 Bondholders and 2009 Note holders which includes a pledge of gross receipts of the Obligated Group and a mortgage on the Regional Medical Center.

Ms. Walton asked for Member's consideration of the proposed resolution, approving the new loan subject to the receipt of all necessary loan documentation as required, and subject to the Borrower meeting all loan, collateral and security requirements of JPMorgan Chase Bank.

Mr. Conroy made a motion to approve the resolution approving a Capital Asset Program Loan of $30,000,000 to South Jersey Hospital. Ms. Kralik seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. KK-48

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves a resolution approving a Capital Asset Program Loan of $30,000,000 to South Jersey Hospital.

(attached)

Mr. Escher congratulated representatives from South Jersey Healthcare. Mr. Hopkins further congratulated South Jersey Healthcare's Senior Vice President of Finance and CFO, Mr. John DiAngelo, who recently named CFO of the Year by NJ BIZ, New Jersey's weekly business journal. Mr. DiAngelo was selected from more than 25 CFOS who were nominated in the "Large Non-Profit" category.

4. FINANCE COMMITTEE REPORT

Mr. Ulysses Lee presented his Finance Committee Report to Members:

The Finance Committee met on October 12, 2010 to discuss the Authority's proposed 2011 budget. Following this meeting, the Authority submitted the recommended proposed 2011 budget to the Governor's Authorities Unit. After reviewing the budget, the Authorities Unit requested that the Authority modify its proposed budget to reflect a zero increase over the 2010 budget. The budget that had been submitted following the October Finance Committee reflected an increase of $40,000 over the prior year approved budget. The Finance Committee then held a special meeting on November 15, 2010 to review the proposed change to the budget. At that meeting, Authority staff recommended a $45,000 cut in the line item for "New Financing Projects."

The proposed budget presented today to Members estimates total operating expenses of $3,669,002.02, an estimated operating income of $4,121,295.00, an estimated Health Information Exchange ("HIE") Grant salary reimbursement of $112,715.00, and an estimated interest income of $9,144.00, yielding an anticipated overall net income of $574,152.00 for 2011. As a percentage of the budget, operating income projections increased 6.57%, interest income decreased 75.67%, and expected operating expenditures decreased .07%.

Mr. Lee pointed out the few differences between the 2010 budget as adopted, and the one proposed for 2011:

1. **Fees** - The economic crisis/recession that slowed Authority financing activity from the 2nd half of 2008 through most of 2009 has lessened somewhat and, along with a lower interest rate environment on bond financings, has resulted in an increase in the Authority's financing activities in 2010. Because of this increase in financing activities, the proposed budget projects an increase in annual fees of $237,759.00 and an increase in initial/per series fees of $18,250.00. Capital Asset Initial Fees remain unchanged.

2. **Contracts** – The line item for Other Operating Income projects an increase of $6,345.00 due to new contracts entered into for the reimbursement from DHSS for the shared Construction Manager position and for the Financial Analysis Services position to manage Apollo Data.

3. **Interest Income** - Interest Income is projected to decrease by $28,446.00 versus the 2010 budget. The decrease in interest income is due to the fact that the amount outstanding on the $2,500,000.00 Bayonne/IJKG Propco LLC loan that was scheduled to mature in February 2013 was prepaid in full on June 7, 2010. Additionally, this past September, the Authority transferred $1,741,876.00 to its post-retirement trust to fully fund the trust through December 31, 2012.

4. **HIE Grant Salary Reimbursement** - This line item was added in July 2010 and is for the reimbursement due from DHSS for the Health Information Technology (HIT) Project Manager hired by the Authority. The increase in the amount budgeted for 2011 is due to the fact that the reimbursement for 2011 is for 12 months compared to only 4½ months in 2010.

5. **Staff Salaries** - Projected salaries for 2011 show a decrease of $21,770.00. The decrease is due to the retirement and other personnel changes. It should be noted that the 2011 budget continues to reflect salaries at their 2008 levels as a result of the wage freeze instituted by then Governor Corzine and continued under Governor Christie.

6. **Fringe Benefits** - Fringe benefits show an increase of $76,209.00 versus the 2010 budget. The main areas of increase are in the health benefit premiums/prescription drug premiums, the dental premiums, the employer pension expense and the estimated payouts for retiree vacation and sick pay. Regarding the increase in the estimated payouts for retiree vacation and sick pay, the 2011 budget includes four (4) potential retirees. By comparison, the 2010 budget included only one (1) potential retiree.

7. **Office Expenses** - Of the 14 items listed under Office expenses, nine items have decreased, two remained unchanged, and only three increased. The increases were for office rent and electric, insurance costs, and the cost to archive documents.

8. **Contractual Services** – Costs for the Authority's Auditor, fees paid to the State for the purchase of investments through the Division of Investments for the Authority's Operating Account and for trustee-held funds, fees for legal services provided by the Attorney General's Office, bankruptcy service fees, and fees to the Governor's Authorities Unit have either decreased or remain unchanged.

Mr. Lee reported on the change between the budget recommended in October 2010, and the budget presented today that had been modified in November per the request of the Governor's Authorities Unit. The original proposed 2011 budget had reflected an increase of $67,260.00 for "New Financing Products – Developmental Phase" in anticipation of the potential to develop three new financing products during 2011. These products included a new financing mechanism for FQHCs, a product to support HIT projects, and working capital financings. The changes to the proposed budget made at the November 2010 Finance Committee meeting now anticipate that only one of these products may be developed in 2011, resulting in a cut to the originally proposed 2010 budget of $45,000. With this proposed budget cut, the Authority's proposed 2011 budget will be approximately $5,000 less than last year's adopted budget.

Mr. Lee thanked staff's due diligence to keep costs to a minimum, as well as the staff's ability to annually create a budget so on target that the Authority can operate within a very small margin of its estimates without going over. He particularly thanked Michael Ittleson and Taryn Jauss.

As there were no questions on the proposed budget, Mr. Lee made a motion to adopt the 2011 Authority Budget as presented. Mr. Escher seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. KK-49

NOW, THERFORE, BE IT RESOLVED, that the Authority hereby adopts the proposed 2011 Authority Budget as recommended by the Finance Committee.

5. AUDIT COMMITTEE REPORT

Mr. Conroy, Chair of the Audit Committee, reported that the Audit Committee met via conference call on November 16th to review the ranking report as presented by the Evaluation Committee. He noted that nine (9) firms had responded to the RFP.

After reviewing the ranking report, and in accordance with the Evaluation Committee's recommendation, the Audit Committee is recommending to Members that Mercadien be hired for a three-year contract as the Authority's Auditor, with the possibility for two additional one-year extensions.

Mr. Escher clarified for the record that the Evaluation Committee consisted of himself, Mr. Lee, and Ms. Rodriguez, and that the Audit Committee consisted of Mr. Conroy, Ms. Kralik and a representative from the Office of Public Finance. Mr. Hopkins added for the record that under Executive Order #122, the Authority's staff involvement in the choosing of the Auditor consists only of helping to craft the RFP and that it does not get involved in the ranking process. Mr. Conroy added that, in addition to cost, Mercadien distinguished themselves from other firms by making a distinct commitment to the proposed timeframe and by the experience they had working with government entities.

Mr. Conroy made a motion to approve the signing of a three-year contract with Mercadien to serve as the Authority's Auditor, with the possibility for two additional one-year extensions. Ms. Stokley seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. KK-50

NOW, THERFORE, BE IT RESOLVED, that the Authority hereby approves the signing of a three-year contract with Mercadien to serve as the Authority's Auditor, with the possibility for two additional one-year extensions.

6. APPROVAL OF EXPENSES

Vice Chairman Escher 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-51

WHEREAS, the Authority has reviewed memoranda dated November 10, 2010, 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, $24,737.67 and $45,866.96 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.

7. STAFF REPORTS

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

Mr. Hopkins reported to Members that Mr. Bill McLaughlin, Senior Project Manager, celebrated his tenth anniversary with the Authority this month. This concluded the Executive Director's report.

As there was no further business to be addressed, following a motion by Mr. Conroy and a second by Ms. Stokley, the Members voted unanimously 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 NOVEMBER 18, 2010.

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Carole A. Conover
Assistant Secretary