Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on September 30, 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 (via telephone); Cindy Kirchner, Designee of the Commissioner of Health and Senior Services; and Suzette Rodriguez, Public Member (via telephone).

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

The following ***representatives from the State and/or the public*** *were in attendance:*
Don Pelligrino, Bridgeway Assisted Living; John DiAngelo, South Jersey Healthcare Systems; John Colosmino and Dominic Colaizzo, Aon Risk Services; John Dellocomo, CentraState; Kay Fern, Evergreen Financial; Gary Walsh and Maryann Kicenuik, Windels, Marx, Lane & Mittendorf; Garrick Stoldt, Saint Peter's Healthcare Systems; John Kelly, Wilentz Goldman & Spitzer; Scott Kobler, McCarter & English; Alex Dinkels and John Brodsky, Fairmont Capital Advisors; Estelle Dick, JP Morgan Chase; Tom Hower, Governor's Authorities Unit; and Clifford Rones, Deputy Attorney General.

CALL TO ORDER

Vice-Chairman Gus Escher called the meeting to order at 10:10 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

a. August 26, 2010 Authority Meeting

Minutes from the Authority's August 26, 2010 meeting were presented for approval. Ms. Kralik offered a motion to approve the minutes; Ms. Kirchner seconded. The minutes were approved unanimously.

b. September 16, 2010 Special Authority Meeting

Minutes from the Authority's September 16, 2010 meeting were presented for approval. Ms. Kralik offered a motion to approve the minutes; Ms. Kirchner seconded. The minutes were approved unanimously.

2. **CONTINGENT BOND SALE**
<u>Bridgeway Assisted Living, LLC</u>

Suzanne Walton introduced Donald Pelligrino, the Owner of Bridgeway Assisted Living and Chief Executive Officer of Bridgeway Senior Healthcare. Following the introduction, Ms. Walton stated that Bridgeway would be seeking the Members approval of a contingent sale of bonds on behalf of Bridgeway Assisted Living L.L.C. ("Bridgeway" or the "Borrower") in an aggregate principal amount not to exceed $6 million. The proceeds of the bonds will be used, together with other available moneys, to (1) currently refund and redeem all of the Authority's outstanding Revenue Bonds (The Avalon at Bridgewater Assisted Living Project) Series 1999A, including, without limitation, the payment of a 1% redemption premium, and (2) pay certain costs incurred in connection with the issuance and sale of the Series 2010A Bonds.

She noted that the financing will be structured as a variable rate transaction and will bear interest at a floating index rate from the date of closing until the final maturity date of the bonds, which shall be no later than ten years from their date of issuance. The Index rate equals 45 basis points plus 69% of the sum of the one month LIBOR plus a spread of 300 basis points, determined initially on the closing date and recalculated monthly. If the rate were being set today, it would be approximately 2.75%. –[.69 x (.33 + 300 bpts) + 45 bpts].

The bonds will be privately placed with TD Bank and will be secured by a pledge of gross receipts, a mortgage on the facility and an assignment of all contracts, licenses and permits relating to the facility.

Bridgeway has agreed to provide an initial disclosure document and to provide continuing secondary market disclosure for the life of the bonds. Therefore, in accordance with Authority policy, the Authority will require an Investor Letter, as in the past; however the letter will not require indemnification language or the need for similar investor letters from future bondholders. Ms. Walton added that, as required by Authority policy, the Borrower had also prepared management projections through the year 2011.

<u>BOND RESOLUTION</u>

John Kelly of Wilentz, Goldman & Spitzer, PA stated that the Bond Resolution authorizes the issuance of the Series 2010 Bonds in an aggregate principal amount not to exceed $6 million and shall bear interest initially at an Index Floating Rate not to exceed seven percent (7%) per annum and, thereafter, the interest rate on the Series 2010 Bonds shall not exceed twelve percent (12.0%) per annum. The Bonds will have a final maturity of no later than ten (10) years from their date of issuance and will be subject to redemption prior to maturity on such terms and conditions, as shall be set forth in the Trust Agreement. It authorizes the execution of a Bond Purchase Agreement prior to the close of business on December 15, 2010.

The Series 2010 Bonds shall be issued and sold on a direct purchase basis to TD Bank, N.A. in its capacity as purchaser of the Series 2010 Bonds on the terms and conditions set forth in the Bond Purchase Agreement and prior to, or simultaneously with, the issuance and delivery of the Bonds, the Authority shall receive an executed Investor Letter from the Purchaser.

The Bond Resolution approves the form of the Bonds, the Loan Agreement, the Trust Agreement, the Letter of Instructions and the Direct Purchase Memorandum and authorizes the Authorized Officers of the Authority to execute such documents in the form presented to the Authority with such changes as counsel may advise and the executing Authorized Officer may approve. The Bond Resolution further appoints TD Bank, National Association as Trustee, Bond Registrar and Paying Agent for the Bonds.

The Resolution requires that the Borrower will covenant to comply with the provisions and requirements of the Tax Regulatory Agreement from the Borrower to the Authority, entered into as of February 15, 1999 in connection with the issuance of the Refunded Bonds (the "Original Tax Regulatory Agreement") as such Original Tax Regulatory Agreement may be amended, supplemented and/or restated to reflect the issuance of the Series 2010 Bonds, or any new tax regulatory agreement from the Borrower to the Authority which is entered into by the Borrower in replacement of, or substitution for, the Original Tax Regulatory Agreement.

Finally, the Bond Resolution authorizes and directs the Authorized Officers to execute and deliver such other documents and to take such other action as may be necessary or appropriate in order to effectuate the execution and delivery of the documents authorized under the Bond Resolution and the issuance and sale of the Bonds.

Ms. Kralik moved to adopt the proposed Bond Resolution on behalf of Bridgeway Assisted Living, as recommended by staff. Ms. Kirchner seconded. The vote was unanimous and the motion was carried.

AB RESOLUTION KK-33

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby approves the Bond Resolution entitled, "A RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE REFUNDING BONDS, BRIDGEWAY ASSISTED LIVING L.L.C. ISSUE, SERIES 2010."

Mr. Pelligrino thanked Authority staff, and in particular Ms. Walton, for their assistance in this transaction. He noted that the savings resulting from this issuance will enable Bridgeway to pass the cost savings along to the facilities' residents in terms of lower fees.

3. NEGOTIATED SALE REQUEST & INFORMATIONAL PRESENTATION
St. Peter's University Hospital

Mr. Hopkins introduced Garrick Stoldt, Chief Financial Officer of Saint Peter's University Hospital, and reminded Members to be aware that his presentation will serve as both a negotiated sale request and an informational presentation.

Mr. Hopkins informed Members that Saint Peter's University Hospital ("Saint Peter's") signed a Memorandum of Understanding with the Authority to undertake a tax-exempt financing, the proceeds of which will be used to refund the 1993F Bonds, the 2000A, and 2000B Bonds issued by the Authority on behalf of Saint Peter's. With costs of issuance and other costs, the total amount expected to be financed through the Authority is $95 million.

Saint Peter's University Hospital is a 478 licensed bed, not-for-profit acute care teaching hospital located in New Brunswick, New Jersey. The hospital also has 77 newborn bassinets. Saint Peter's is part of the Saint Peter's Healthcare System, Inc. which is sponsored by the Roman Catholic Diocese of Metuchen. The Margaret McLaughlin McCarrick Care Center, Inc., an affiliate of Saint Peter's, is also a member of the obligated group. It is a skilled nursing facility with 120 beds located in Somerset, New Jersey.

The Authority issued bonds on behalf of Saint Peter's in 1993, 2000, and 2007 totaling $237.4 million. As of June 30, 2010, a total of approximately $137 million remains outstanding including: $26.4 million of the 1993F bonds, $36.8 million of the 2000A, $29.3 million of the 2000B, $5.7 million of the 2000C and $65.2 million of the 2007 bonds. All of the 1993F bonds, and the 2000A and 2000B bonds, are expected to be refunded by the bonds currently under consideration, while the 2000C bonds and the 2007 bonds are expected to remain outstanding. The Authority also issued bonds in 1979, 1983, 1987, 1988, 1991, and 1994 for Saint Peter's, all of which have since been defeased or refunded.

According to its consolidated audited financial statements, Saint Peter's generated excess revenues over expenses of approximately $3.91 million for 2009 and $3.05 million for 2008. Unaudited information for the first half of 2010 shows a deficiency in revenues over expenses of approximately $7.5 million.

Mr. Hopkins noted that according to Saint Peter's, the 2010 losses are due primarily to a decline of inpatient admissions and several outpatient services, including the emergency department. Management represents that it has addressed the losses by: (i) implementing a reduction in force, (ii) eliminating unprofitable programs, (iii) renegotiating contracts to reduce the rates it pays, and (iv) making changes to management. It represents that these steps will result in annualized savings of approximately $15 million. Additionally, beginning in July, Saint Peter's received an increase in its charity care and special hospital relief subsidy funds which will result in an improvement of approximately $5.7 million in the second half of 2010.

Saint Peter's is requesting that the Authority permit the use of a negotiated sale based on: (i) sale of a complex or poor credit and (ii) the 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 to Members the consideration of the resolution, included in the meeting materials, 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.

Mr. Hopkins added that, after performing a competitive process, Saint Peter's has selected Goldman Sachs as Senior Managing Underwriter for the bonds. Saint Peters has also requested that the Attorney General's office appoint the law firm of Windels, Marx, Lane & Mittendorf to serve as bond counsel on the transaction.

Ms. Kirchner moved to approve the use of a negotiated sale on behalf of Saint Peter's University Hospital. Ms. Kralik seconded. The vote was unanimous and the motion was carried.

AB RESOLUTION NO. KK-34

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the attached form of the "RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY NEGOTIATED TRANSACTION PURSUANT TO EXECUTIVE ORDER #26."

(attached)

4. CAPITAL ASSET PROGRAM LOAN APPROVAL
CentraState Medical Center

Ms. Walton referred Members to a summary of a loan application the Authority received from CentraState Medical Center ("Medical Center"). CentraState is requesting Authority approval to borrow $10,000,000 from the Capital Asset Program. The proceeds of the loan will be used to (a) finance the relocation and expansion of their Radiation Oncology Department, (b) fund the purchase of a linear accelerator, (c) fund a portion of capitalized interest, and (4) pay the related costs of issuance.

CentraState is a 273-bed general acute care hospital located in Freehold Township, New Jersey and is a subsidiary of CentraState Healthcare System, Inc. The Medical Center provides a broad range of adult, pediatric and newborn acute care services, as well as numerous outpatient, ambulatory and emergency care services from its location in the center of Monmouth County, New Jersey.

Due to increasing volume, CentraState plans to relocate and expand its Radiation Oncology Department from its current location in the Medical Arts Building to the Ambulatory Campus. Both buildings are situated on the footprint of the Medical Center's Freehold campus. As part of the project financing, CentraState also plans to purchase a linear accelerator in order to accommodate the additional volumes. The total project cost is estimated to be $9.87 million and the Medical Center will fund capitalized interest during the 12 month construction period.

Ms. Walton reported that the Medical Center has been profitable for the periods 2007 through 2009. In FY 2009, operating income of $4.3 million generated a 1.96% operating margin and Cash and Board Designated funds grew to $131.5 million. However, there was a material decline in inpatient admissions during FY 2009 due to the departure of several surgeons and obstetricians and the classification of 440 cases as observation stays rather than inpatient admissions due to recent changes in Medicare. Management has recruited replacement surgeons and expects inpatient volume to grow 2.4% per year through FY 2015. Ms. Walton noted that the financial ratios for the Medical Center are strong and, in many cases, outperforming the 2009 statewide medians. Days Cash on Hand of approximately 236 days and debt service coverage of 2.38 times indicates that the Medical Center has the ability to service this debt.

Based upon this data and their in-house credit analysis, JPMorgan Chase Bank has approved the loan subject to CentraState providing a Note under the Master Trust Indenture. The loan will be secured on parity with the existing Series 1998 and Series 2006A and B bondholders which includes a pledge of gross receipts of the Obligated Group and a mortgage. Given the existing Series 1998 and Series 2006A and B Bonds are insured by AMBAC Assurance Corporation and Assured Guaranty respectively, bond insurers' consent to incur this debt will be required prior to closing on this loan.

Authority staff has received verbal approval from both insurers; however, they will need to see the finalized loan documents before giving their final signoff. Ms. Walton added that there is no reason to believe that the insurers will not give their consent.

Ms. Walton requested the Member's consideration of the resolution, which approves 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.

Ms. Stokley moved to approve a Capital Asset Program loan of $10,000,000 on behalf of CentraState Medical Center. Ms. Kralik seconded. The vote was unanimous and the motion was carried.

AB RESOLUTION NO. KK-35

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby approves a Capital Asset Program loan of $10,000,000 on behalf of CentraState Medical Center, as recommended by staff.

Mr. Escher asked what the actual equipment cost of the linear accelerator was. Mr. Dellocomo said that cost of the unit was approximately $5,000,000. The other half of the $10,000,000 loan would be used for infrastructure and other capital needs to support the installation and usage of the linear accelerator.

5. APPROVAL OF CAPTIVE INSURANCE COMPANY AND AMENDMENTS TO LOAN AGREEMENTS AND OTHER BOND DOCUMENTS
South Jersey Hospital

Ms. Arvella King introduced Mr. John DiAngelo, System the Senior Vice President, Finance and Chief Financial Officer from South Jersey Health System; Dominic Colaizzo, the Managing Director, National Health Care practice; and, John Colosimo, Senior Broker/Senior Account Executive from Aon Risk Solutions.

Ms. King reported to Members that historically South Jersey Health System ("System") had purchased its primary professional liability coverages from Princeton Insurance Company. She noted that the policy with Princeton is on a claims made basis. The System is restructuring its insurance program to improve its risk management program, realize cost savings, and improve the financial security of the program.

As part of the restructuring process, the System is requesting approval to use a captive insurance company to provide their primary professional liability coverages. In anticipation of setting up a captive insurance company and requesting the Authority's approval to change their current program, the System is also requesting their loan agreements be amended to adopt the Authority's existing policy for insurance covenants. The existing policy provides for either a Qualified Insurance Rating, or a series of professional certifications that the Authority can rely upon, indicating that the captive is sufficiently funded and is compliant with the laws and regulations for a captive insurance company.

The System has submitted in advance of this meeting all certifications required for compliance under the new policy as adopted at the Authority's February 2008 Authority meeting. Maryann Kicenuik from Windels, Marx, Lane, and Mittendorf acted as Bond Counsel and reviewed each Series of bonds. Ms. Kicenuik has provided, along with the proposed amendments, an opinion for each Series of bonds, as required in the respective Bond documents, that state the amendments are permitted and do not materially adversely affect the rights of bondholders, nor will the amendments adversely affect the tax exempt nature of the bonds.

Ms. King then turned to the System's request to form a captive insurance company. She noted that Aon Risk Services, a nationally recognized independent insurance consultant, has served the System as their insurance consultant since October 2004. They have assisted the System in setting up a captive insurance company in Bermuda. Upon completion of the incorporation process, the System will own and operate a fully licensed captive insurance company, Juno Assurance, Ltd. The System anticipates Juno will be fully operational to provide coverage effective November 1, 2010 and will be in full compliance with all Bermuda statuary requirements. Juno will initially be capitalized with $1 million in cash. This is in excess of Bermuda statutory requirements. The first year premium of $1,892,644 combined with the capitalization will be in excess of the actuarially computed 75% confidence level of $1,475,000. This funding is consistent with the Authority's funding requirements as stated in the new policy.

Based on this review by staff, Ms. King requested the Authority's consideration of the resolutions approving the amendments to the loan agreements and the use of a captive insurance company.

Ms. Kirchner moved to approve a request from South Jersey Hospital to approve the formation of a Captive Insurance Company and Amendments to various Loan Agreements and other Bond Documents, as recommended by staff. Ms. Kralik seconded. The vote was unanimous and the motion was carried.

AB RESOLUTION NO. KK-36

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the proposed amendment to the Loan Agreement and approves the use of the proposed captive on behalf of South Jersey Health System; and,

BE IT FURTHER RESOLVED, that such approval is conditioned on compliance with the Authority's reporting requirements for captive and/or self-insurance programs, as the requirements are hereby incorporated in the Authority's loan agreements, as stated in the attached "INSURANCE COVENANT"

6. EXTENSION OF CONTRACT FOR THE CAPITAL ASSET PROGRAM ADMINISTRATOR

Ms. Jessica Waite-Lucas introduced Alex Dinkels and John Brodski from Fairmount Capital Advisors. She reported to Members that in August 2007, the Authority conducted an RFP for a program administrator for the Capital Asset Program, Series A-D. Fairmount Capital Advisors was selected and the Authority entered into a contract with them. The original contract was for a three-year period subject to two one year extensions. Fairmount has agreed to a one-year extension with the same terms. Therefore, at this time staff requests the Members' consideration of appointing Fairmount for the first year of two possible one-year extensions.

Mr. Hopkins asked what amount the Authority paid Fairmount annually under the contract. To which Ms. Waite-Lucas responded $14,000.

Mr. Escher moved to approve the first of two possible one-year extensions for the Capital Asset Program Administrator contract. Ms. Kirchner seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. KK-37

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

7. AMENDMENT OF PROJECT
St. Peter's University Medical Center

Ms. Marji McAvory re-introduced Garrick Stoldt, the CFO from St. Peter's University Hospital to Members. She reported to Members that the St. Peter's University Hospital Obligated Group Series 2007 bonds were issued for the purpose of a current refunding of a portion of the Series F issue, as well as to fund the renovation of patient care projects with the focus on the areas of cardiology, perinatal and obstetrics, oncology, and other general projects on behalf of the hospital. These renovations included the relocation and renovation of existing rooms and units, and nursing units in the Perinatal and Obstetrics, Oncology, and the Medical/Surgical floors. In addition, the project included renovations for the admitting and internal patient flow areas, replacement of the roof of the G wing, and upgrades to elevators.

Ms. McAvoy explained to Members that this amendment arose when, during a recent reassessment of St. Peter's facilities, the Hospital determined a more pressing need to renovate the Emergency Department. Ms. McAvoy noted that there is about $11 million remaining in the Series 2007 project fund. Of this, about $2 million is earmarked for completing some of the original projects.

Under Section 4.5(a) of the Loan Agreement, St. Peter's is requesting to amend the scope of the construction of the new money project to include the remodeling of the Emergency Department and to postpone the renovation of two nursing units and the admission office. The Hospital is phasing the renovations. The amount freed up by amending the original project is sufficient to complete the current phase in the Emergency Department.

Ms. McAvoy told Members that the Hospital understands Authority staff will need evidence of DCA approval and demonstration of compliance with the Loan Agreement provisions relating to insurance, surety bonds and construction contracts to the extent applicable before any funds can be disbursed for the renovation of the Emergency Department.

Ms. McAvoy noted to Members that included in their Board package was a copy of a draft Resolution Authorizing an Amendment to the Loan Agreement and Series Resolution, prepared by Windels Marx Lane & Mittendorf, Bond Counsel for the transaction. Ms. McAvoy also added that the packet also included a Draft Amendment to the Loan Agreement which changes the scope of the Project, and a draft Opinion of Bond Counsel stating that the Amendment will not adversely affect the tax status of the bonds. She further noted that the Attorney General's office has stated no objection to the Authority's consideration of this matter.

Ms. Kirchner moved to approve the resolution authorizing an Amendment to the Loan Agreement and Series Resolution relating to the Authority's Series 2007 Issue on behalf of St. Peter's University Hospital. Ms. Stokley seconded the motion. The vote was unanimous and the motion carried.

AB RESOLUTION NO. KK-38

> **NOW, THEREFORE, BE IT RESOLVED,** that the Authority hereby approves the resolution authorizing an Amendment to the Loan Agreement and Series Resolution relating to the Authority's Series 2007 Issue on behalf of St. Peter's University Hospital.

8. AUTHORITY EXPENDITURES

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

AB RESOLUTION NO. KK-39

> **WHEREAS,** the Authority has reviewed memoranda dated September 23, 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, $96,663.50 and $96,657.09 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.

9. STAFF REPORTS

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

Mr. Hopkins then presented his Director's report. Mr. Hopkins noted that Mr. Steve Fillebrown was not in attendance at the Authority meeting due to a conflicting meeting at the State Health Planning Board, the topic of which is the potential sale of Meadowbrook Hospital to a for-profit entity. Mr. Hopkins stated that it was likely that the sale would be approved.

Mr. Hopkins added that the National Health and Educational Facilities Finance Authority's ("NAHEFFA") national fall conference was an excellent and informative event. The Authority and the New Jersey Educational Facilities Authority served as co-hosts for the event. The conference had well over 150 participants. He noted that the majority of the speakers were from New Jersey. Mr. Hopkins thanked staff for their contributions to event.

This concluded the Executive Director's report.

As there was no further business to be addressed, following a motion by Ms. Kirchner and a second by Ms. Stokley, the Members voted unanimously to adjourn the meeting at 10:47 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 ON SEPTEMBER 30, 2010.

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Carole A. Conover
Assistant Secretary