

Fall '09

MESSAGE FROM THE EXECUTIVE DIRECTOR



Since our last edition of the *Authority Note*®, I celebrated my fifth anniversary with the Authority. In some respects, it feels like I just walked through our office doors for the first time. And yet, looking back, a myriad of events have happened in health care and finance since my time here began.

We've witnessed years of explosive health care finance in New Jersey, with three consecutive years crossing the \$800,000,000 mark ('06, '07, and '08) which had only been surpassed twice before in the Authority's 37+ year history (in 1985 and 1998). That boom was followed by an abrupt bust with only two issues totaling approximately \$45,000,000 closing in the eight months between August '08 and May '09. Surprisingly, that slow spell was interrupted by our largest project in history: Virtua Health's \$564,645,000 issuance. With that financing, the Authority expects to reach over \$800,000,000 in financings again this year. It truly has been a rollercoaster for New Jersey health care finance.

During my five years here, we've seen several hospitals close and new facilities open. We've seen new financing products develop, existing ones used for the first time and others disappear altogether. I've even seen the disappearance of some products I watched first come to life, following the twists and turns of the needs of our borrowers and the abilities of the market.

For the most part, though, we've seen an evolution. As the markets changed, products were tweaked to foster flexibility;

(continued on page 6)



New Northwest Pavilion at Meridian Health System's Jersey Shore University Medical Center

NEW LOAN PROGRAM HELPS START-UP FQHCs

On August 11, 2009, the Authority announced a new loan program to ease the burden of start-up costs for Federally Qualified Health Care Centers ("FQHC").

FQHCs are community-based health centers designed to care for medically underserved, low-income or indigent patients. Being under- or non-insured, this population tends to wait for a health matter to become critical before seeking medical attention, which is often then provided in a hospital emergency room. When this happens, the patient's condition has been unnecessarily worsened due to the delay, the services are provided at a higher cost since they consume emergency resources, and the hospitals are often reimbursed very little, if at all, for the care provided.

FQHCs can provide this population with outpatient primary care, preventive care and some specialty care. By using facilities specifically designed for this purpose, the services are provided more

(continued on page 6)

JSUMC CUTS THE RIBBON: New Facilities Unveiled

On December 13, 2007, the Authority closed on \$242,125,000 in bonds on behalf of Meridian Health System for the "Transforming Care" project at Jersey Shore University Medical Center. On August 10, 2009, the new pavillion opened its doors with a ribbon cutting ceremony, welcoming the public to its new state-of-the-art facilities, designed to combine advanced medicine and exceptional care with vigilant attention to the patient experience.

"New money construction projects are always exciting because you get to see the facilities go from concept to reality," said Lou George, the Authority's Project Manager for the transaction. It was fortunate that Mr. George enjoyed this project because he ended up having to spend more time with it than most Authority financings.

The 2007 bonds were rated "AAA" by both S&P and Moody's and insured by Asset Guaranty. Issued as auction rate securities, the bonds enjoyed a low initial interest rate of just 4.0%. Within two months,

(continued on page 5)

BOTTOM-LINE IS CRITICAL:

Weak Margins Threaten Survival of Some Hospitals

By Joseph R. Zazzera, Managing Senior Financial Analyst, A.M. Best Company

The primary focus of not-for-profit hospitals is to provide communities with care that is safe, effective, efficient, timely, patient-centered and equal. In the 2001 *Crossing the Quality Chasm* study, the Institute of Medicine identified these as the six basic elements of quality healthcare.

While these should be health care's top priority, monitoring financial performance is also a crucial part of the equation. Without margin, there can be no mission. Thinking of themselves solely as "non-profits," hospitals risk long-term sustainability and viability. Many New Jersey hospitals have struggled to meet the national average of a 1-3% operating margin, with several reporting negative or near break-even operating results.

In recent years, financially distressed hospitals across the country have been forced to discontinue services, narrow the breadth of procedures and eliminate vital community programs. Many have been forced to close, merge or consider joint ventures, resulting in a national decline in the number of acute-care facilities. This trend has delivered a notable number of closures to New Jersey.

A.M. Best believes that financial performance and long-term solvency are a function of financial and operational metrics and strategies related to: ownership structure; diversity and strength of management and staff; board governance; state and federal regulation; third-party reimbursement; expense management; volumes and occupancy; physician alignment; service area demographics and health status; competition; level of debt, ability to service debt and sources of debt service coverage; and sources and diversity of revenue and earnings. These key factors point to the root drivers and causes of favorable vs. unfavorable performance.

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FINANCING NOTES

On September 16th, the Authority issued \$30 million in bonds on behalf of **Shore Memorial Hospital**, a not-for-profit, 296 licensed-bed facility located in Somers Point. The bonds fell within the new parameters for bank qualification created by the Federal Stimulus in the American Reinvestment Act of 2009, making these the Authority's first series of bank qualified bonds.



Rendering of Shore Memorial Hospital's future campus

Bank qualified bonds are tax-exempt bonds for which a financial institution, in this case TD Bank, can deduct the carrying costs associated with the bonds, (i.e. the interest expense incurred to purchase or carry an inventory of securities). Previously, bank qualification could only be met by issuers that did not anticipate issuing more than \$10 million in a year, and "issuer" was interpreted to include conduit authorities. Because the Authority has always issued more than \$10 million in a year, none of its bonds could be bank qualified. The Federal Stimulus package, however, redefined "issuer" as the entity using the bond proceeds, in this case Shore Memorial, and raised the limit from \$10 million to \$30 million. Therefore, in this transaction, TD Bank can deduct the carrying costs associated with purchasing these bonds. This, in turn, helped the hospital negotiate a

more favorable interest rate.

The proceeds of the bonds will be used to finance costs associated with the construction and equipping of a new 4-story, approximately 141,900 square foot surgical addition to the hospital. The new surgical pavilion will include a new hospital entry, new outpatient procedure facilities, and a new surgical suite along with patient and staff support areas. A three-story connector and five-story elevator tower will

link the new construction to the existing hospital.

Shore Memorial actually plans to fund \$45 million for this project through Authority bonds, however, due to the \$30 million per calendar year limit for bank qualification, Shore Memorial will be issuing the remaining \$15 million in the first quarter of 2010.

Structured as a variable rate transaction, the bonds are priced based on an index rate that equals 69% of the sum of the 30 Day LIBOR plus a spread of 350 basis points, determined initially on the closing date and recalculated monthly. The bonds bore an initial interest rate of 2.58%.

"We are pleased to be able to work with

2009 NJHCFFA FINANCINGS

Completed Bond Issues	Par Amount
Christian Health Care Center	\$14,970,000
Virtua Health, Inc.	\$564,645,000
Community Hospital Group, Inc. (JFK)	\$152,925,000
Shore Memorial Hospital	\$30,000,000
Kennedy Health Facilities, Inc.	\$16,340,000
<i>Bonds Issued:</i>	\$778,880,000
CAP Loan	
South Jersey Hospital, Inc.	\$12,022,000
<i>CAP Loans closed:</i>	\$12,022,000



Renderings of Shore Memorial Hospital's Campus with the 4-story 141,900 square foot surgical addition



the new parameters of bank qualification in order to provide an advantageous transaction for Shore Memorial,” said Mark Hopkins, Executive Director of the Authority. “The bond market was challenged by the economic downturn, and the federal government took remedial action to help that market. It is important for us to work with those changes so that our borrowers and bondholders can get the benefits that the government intended for them.”

On October 1, 2009, the Authority successfully closed on \$16,340,000 in bonds on behalf of **Kennedy Health Facilities, Inc.** The proceeds of the bonds will finance the construction and equipping of a new sub-acute nursing unit at Kennedy’s skilled nursing facility in Sewell. Proceeds were also used to refinance the acquisition of licensing rights for 50 sub-acute beds to be placed in this nursing unit.

Kennedy Health Facilities, Inc. d/b/a Kennedy Health Care Center, a not-for-profit, wholly-controlled subsidiary of Kennedy Health System, Inc., is a 130-bed skilled nursing facility located on the Washington Township Kennedy Memorial Hospital campus. Certified by Medicare and Medicaid, the Center provides both long-term residential care and inpatient sub-acute rehabilita-

tion.

The Center’s current 19-bed sub-acute unit is too small to meet the demand for referrals from area hospitals. The project financed by this bond issue will construct a two-story 60-bed addition, connected to the existing nursing home, to expand the Center’s sub-acute rehabilitation services. The existing 19-bed sub-acute unit will be converted to custodial care.

This project will allow the Center to differentiate between residential nursing home care and inpatient rehabilitation by providing separate entrances. The courtyard between the old and new wings will be enclosed to allow patients to spend time outside. Each floor will also have a kitchen and dining area open to both patients and visitors, and a second floor gym will be used for phys-

ical, speech and occupational therapy.

With a final maturity date of October 1, 2039, the transaction was structured as an unrated 30-year private placement that has a 24-month interest only period with principal being amortized over the subsequent 28 years.

Privately placed with TD Bank, the bonds are secured by first mortgage lien on the Center and by a first priority security interest on all business assets of Kennedy Health Facilities, Inc.

Because these are bank qualified bonds, TD Bank can deduct their carrying costs, which allowed for Kennedy to negotiate a more favorable interest rate. The bond structure includes a variable rate format with the rate equivalent to 69% of the sum of the adjusted LIBOR rate, plus 350 basis points. This resulted in an initial floating rate of 2.59%. §



Rendering of Kennedy Health Facilities, Inc.'s nursing unit to be built in Sewell, New Jersey

NJHCFFA STAFF NOTES

Congratulations to **Mark E. Hopkins** who celebrated 5 years as the Authority's Executive Director in August 2009. As in most businesses, the direction of the organization is determined by the interest of its leader. While all of the executive directors have been guided by the Authority's mission "to ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the state," the Authority's past executive directors have had a variety of perspectives, some from the banking industry, some from the healthcare policy side and others from a hospital standpoint.



Deputy Executive Director Steve Fillebrown presenting Mark Hopkins with his 5-year recognition

Before joining the Authority, Mr. Hopkins served as Deputy Attorney General where he represented the NJ Educational Facilities Authority and the NJ Housing and Mortgage Finance Agency as issuer counsel. Prior to that, Mr. Hopkins was an associate at McCarter & English in the Public Finance Practice Group where he represented the State, counties, municipalities, State and county authorities, investment banking firms and borrowers. In this capacity, he worked on project financings for governmental entities, non-profit organizations, acute and sub-acute healthcare providers, housing operators, public and private academic entities, cultural organizations, port operators, water facility operators and small manufacturers.

Mr. Hopkins' broad base of experience has helped him to contribute to the Authority in a wide range of aspects, from the creation of new financing programs to

providing assistance to the State for health care policy implementation. The Authority wishes to congratulate him on his service to the Authority and the health care community.

The Authority wishes to congratulate **Diane Johnson** on her promotion to Senior Assistant Account Administrator. Demonstrating strong dedication to the Authority's mission for more than 15 years, Ms. Johnson is responsible for maintaining Authority bond issue accounts within the Division of Operations and Finance. According to Jim Van Wart, Director of that Division, "Diane's experience and approachability make her a knowledgeable and pleasant asset to the Authority team." Congratulations, Diane, and we look forward to shared future successes with your assistance.



Diane Johnson

We continue to send wishes for strength and health to our three Authority staff members who have been struck with serious health concerns: **Mae C. Jeffries-Grant** (Administrative Assistant), **Wanda L. Lewis** (Senior Account Administrator), and **Susan M. Tonry, CPA** (Assistant Director of Research, Investor Relations and Compliance). You remain in our thoughts everyday. §



Mae Jeffries Grant



Sue Tonry



Wanda Lewis

NJHCFFA WELCOMES NEW MEMBER

On July 17, 2009, Neil N. Jasey was appointed Commissioner of the New Jersey Department of Banking and Insurance by Governor Jon S. Corzine. The appointment followed shortly after the former Commissioner, Steven Goldman, resigned from the post.

Coming out of retirement for the position, Mr. Jasey's previous experience includes 30 years of employment with Prudential Insurance Company of America, where he served as Vice President and General Counsel for Prudential Property and Casualty Company, Vice President Enterprise Planning, and Vice President and Deputy General Counsel. His many accomplishments included leading the largest section of Prudential's corporate law department with 280 employees and a total budget of \$68 million. He was also co-leader of the insurance negotiating team on the Mutual Benefit Life workout.

Mr. Jasey serves his community as President of the Board of Trustees for Family Connections, Inc., and is Chairman of the Board of Trustees of the Cristo Rey Model high school in Newark.

Mr. Jasey earned a J.D. at Columbia University and an A.B. in Political Science at Princeton University where he graduated magna cum laude. He is married to Assemblywoman Mila Jasey, with whom he has three grown children and a grandson.

Ex-Officio members are permitted to appoint a designee to represent them on the Authority's board and vote on their behalf. Maryann Kralik served as the Department of Banking and Insurance's designee on behalf of both former Commissioner Goldman and his predecessor Acting Commissioner Donald Bryan. She has been designated by Commissioner Jasey to continue her service as the Department's representative to the Authority. §

FQHC LOANS

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cost-efficiently. Further, patients are able to maintain good health, which, in addition to improving one's quality of life, reduces health care costs in the long run.

"FQHCs are an integral part of New Jersey's goal for a more rational health care system," says William Conroy, representing the New Jersey Department of Health and Senior Services. Unfortunately, because start-up FQHCs cannot demonstrate an established financial track record, it can be difficult for these organizations to get cost-effective financing. By meeting strict federal standards, FQHCs do receive start-up funding from federal grants, charitable contributions and, occasionally, hospitals; however, they are often forced to obtain the remaining costs through conventional bank loans, sometimes with interest rates in the double digits.

Through the Authority's loan program, these start-up costs could be financed at a monthly variable rate equal to the monthly interest rate paid by the NJ Cash Management Fund plus 200 basis points. At the time of print, this resulted in an interest rate of approximately 2.3%.

Once in operation, FQHCs receive cost-based reimbursement for Medicaid patients and free malpractice coverage under the Federal Tort Claims Act, which is a significant saving for the provision of medical care.

Still, these loans carry considerable risk to the lender. Therefore, the Authority will carefully review the applicants, who will be required to provide: historic financial information and audits, a current budget, three-year projections, utilization statistics, all documentation from existing outstanding loans and grants, a copy of the Section 330 approval qualifying it as an FQHC, curriculum vitae for key staff and the Board of Directors, and a letter from the IRS confirming its 501(c)(3) status. The Authority will require security in the form of a mortgage and/or a lien on the gross revenues or accounts receivable of the FQHC.

"We are very excited about this program and its potential to ease some of the financial burden of hospital-provided charity

care," says Mark Hopkins, the Authority's Executive Director. "My one regret is that we have a very limited amount of funds available to lend to these organizations at this point. That is one of the reasons we thought this program would be a good fit for us, though. Often, these FQHCs only need from a few hundred thousand to a couple million dollars to fill the cost gap to get up and running."

The loan program will be a revolving pool, so that as the principal and interest on each loan is repaid, those funds can be lent to another start-up FQHC. The Authority hopes to be able to add to the loan pool with future increases in its fund balance. "If it facilitates the extension of healthcare coverage and takes some of the stress off hospitals, it has my support," says Ulysses Lee, a Public Member who sits on the Authority's six-member Board, all of which championed the program.

For more information on this loan program, contact the Authority at info@NJHCFFA.com. §

FAREWELL TO A NJHCFFA FRIEND

The Authority bids farewell to recently retired Donald Bryan who, having served in the Department of Banking & Insurance for 27 years, was referred to by then



Donald Bryan

Commissioner Steven Goldman as "an institution and a model public servant."

Mr. Bryan served as Acting Commissioner on two separate occasions, first under Governors Donald DiFrancesco and James McGreevey, and later under Governors Richard Codey and Jon S. Corzine.

"He was kind and dedicated," says Maryann Kralik, his Authority designee. "He knew the Department inside and out and used this knowledge to contribute positively to New Jersey's banking and insurance practices." The Authority wishes him well. §

JSUMC

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the auction rate market crashed, and in February 2008, Meridian was paying rates as high as 12%.

The Authority staff worked swiftly with Meridian to convert the bonds. Using two different structures to gain flexibility in a volatile market, Meridian converted \$145,125,000 to a fixed rate of 5.0% and \$97,000,000 to a variable rate with an initial rate of 2.60%. "I was pleased we were able to help Meridian respond to the market to recover a more stable low rate," says Mr. George. "It was a learning experience for investors, borrowers, conduits and banks across the board."

Construction steadfastly continued during the tumultuous market activity. Fighting against the expectation of hospitals to be drab, confusing, and uncomfortable, Jersey Shore used this transformation to build and renovate a century-old campus with a pure focus on the people.

Jersey Shore's expansion project consisted primarily of a four-story Northwest Pavilion and a three-story Diagnostic and Treatment Building, both connected by the new Kurr Atrium.

The **Northwest Pavilion** adds:

- a state-of-the-art emergency dept.,
- a revamped 24/7 trauma unit with its own operating room,
- three new nursing units, and
- an additional 36-bed "shell" floor for future capacity needs.

The **Diagnostic and Treatment Building** adds:

- six new surgery suites,
- a new kitchen and dining area, and
- space for an additional 12 intensive care unit beds to meet future needs.

Now laid out in three distinct zones (a patient zone, a diagnostic and treatment zone, and the zone encompassing the ER/trauma and outpatient services) patients and visitors will find the new campus more navigable, more accessible and more visually appealing.

"We applaud Meridian and Jersey Shore for their groundbreaking facilities and design," said the Authority's Executive Director, Mark Hopkins. "It is an honor to be able to help such new and exciting facilities come to life." §

EXEC. DIR. *(continued from front page)*

procedures were streamlined to lock in lower rates.

Health care is evolving, too. As technology improves, facilities are providing more consistent and economical record keeping. As people come to expect expediency, ERs and labs are becoming as efficient as possible. As complicated billing and accounting practices muddy bottom-lines, providers and insurers are looking to meet in the middle.

In the future, we may view this volatile time as a revolution of sorts for health care finance. Over these past five years, as it had for decades before, the Authority's board and staff worked with perseverance and integrity to meet its challenges head on. We will continue to do so, growing and learning with every twist and turn. §

BOTTOM-LINE *(continued from page 2)*

However, the financial performance of the hospital industry cannot solely be determined by a few measures. Hospitals differ vastly by location, scope of services, size, strategy, structure, processes and people. Such diversity of the hospital marketplace makes analysis a complex undertaking.

A.M. Best believes that the not-for-profit hospital market will remain challenged in the near term due to capital and investment market volatility, negative economic conditions, narrow margins, decreased charity care reimbursement, increased competition and the growing need for capital expenditures – particularly IT, such as computerized physician order entry and e-records. As hospital management teams seek to improve facilities, equipment and information systems, organic expansion through retained earnings and access to capital markets are critical as hospitals take steps to improve their services while reducing expenses and preserving liquidity.

Of course, the evolving regulatory environment and potential for government reform under the Obama administration could have a major impact on the entire hospital and health care industry. A.M. Best will be monitoring these issues closely as they evolve over the coming year. §



SENIOR NJHCFFA STAFF

Mark E. Hopkins
Executive Director

Stephen M. Fillebrown
Deputy Executive Director,
Director of Research, Investor Relations and
Compliance

James L. Van Wart
Director of Operations and Finance,
Custodian of the Public Record

Louis R. George
Director of Project Management

NJHCFFA MEMBERS

Ex-Officio Members

Heather Howard, J.D. · Chairman ·
Commissioner of Health and Senior Services

Jennifer Velez, Esq. ·
Commissioner of Human Services

Neil N. Jasey ·
Acting Commissioner of Banking & Insurance

Public Members

Gustav Edward Escher, III. ·

Ulysses Lee ·

The Authority currently has two Public Member vacancies.

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