Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on December 15, 2016, on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, NJ.

*The following **Authority Members** were in attendance:*
Dr. Munr Kazmir, Vice Chair, (Chairing); Alison Gibson, Designee of the Commissioner of Health; Maryann Kralik, Designee of the Commissioner of the Department of Banking and Insurance; Jessica Feehan, Designee of the Commissioner of Human Services; and, via telephone, Suzette Rodriguez, Public Member.

*The following **Authority staff members** were in attendance:*
Mark Hopkins, Ron Marmelstein, Frank Troy, Bill McLaughlin, Carole Conover, Edwin Fuentes; Marji McAvoy, Ellen Lieber, Taryn Rommell, Debra Coons, John Johnson, Neetu “Nikki” Thukral, Nino McDonald, and Chris Kniesler.

*The following **representatives from the State and/or the public** were in attendance:*
Cliff Rones, Attorney General’s Office; Labinot Berlajolli, Governor’s Authority’s Unit; Jim Foley, Department of Health; Glenn Zirbser, Senior Vice President and Chief Financial Officer and Kim Alliano, Vice President of Finance, Kennedy Health System

CALL TO ORDER

Dr. Kazmir called the meeting to order at 10:08 a.m. and announced that this was a regular Meeting of the Authority, held in accordance with the schedule adopted at the May 26, 2016 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. November 17, 2016 Authority Meeting

Minutes for the November 17, 2016 Authority meeting were distributed for review and approval prior to the meeting. Dr. Kazmir asked for a motion to approve the minutes. Ms. Feehan made the motion. Ms. Kralik seconded. Dr. Kazmir, Ms. Kralik, Ms. Feehan and Ms. Rodriguez voted in the affirmative, Ms. Gibson abstained and the minutes were approved.

2. **NEGOTIATED SALE REQUEST**
<u>Kennedy Health System</u>

Dr. Kazmir called upon Edwin Fuentes to provide the Members with the details of the negotiated sale request by Kennedy Health System.

Mr. Fuentes began by introducing Glenn Zirbser, Senior Vice President and Chief Financial Officer and Kim Alliano, Vice President of Finance from Kennedy Health System.

Mr. Fuentes informed the Members that Kennedy Health System ("Kennedy") has signed a Memorandum of Understanding with this Authority to undertake a tax-exempt public offering of approximately $175 million of bonds. The proposed transaction is expected to finance the construction of a brand new patient care tower at Kennedy's Cherry Hill acute care campus; reimburse Kennedy for certain prior expenses; and pay the related costs of issuance.

Mr. Fuentes stated that Kennedy is a New Jersey not-for-profit organization that operates a 607 bed multi-campus hospital system with facilities in Stratford, Cherry Hill and Turnersville, New Jersey. Kennedy University Hospital in Cherry Hill is the core component of the System and is the major teaching affiliate of the Rowan University School of Osteopathic Medicine.

According to Mr. Fuentes, the consolidated audited financial statements provided with the Memorandum of Understanding indicate that Kennedy generated an excess of revenues over expenses of approximately $38.78 million for 2015 and $48.99 million for 2014. The unaudited information for the 6 months ending June 30, 2016, indicates excess revenues over expenses of $18.11 million versus $23.2 million for the same period in 2015. Kennedy has approximately 4800 full-time employees, and is currently rated A3 by Moody's Investor Services.

Mr. Fuentes told the Members that Kennedy and its affiliates have issued debt through this Authority on ten (10) occasions, with an aggregate par amount of $275,925,000 of which $75,945,415 remains outstanding as of November 30th.

Mr. Fuentes then said that Kennedy was requesting the use of a negotiated sale based on: sale of a complex financing structure; volatile market conditions; and large issue size. These reasons are considered under the Authority's policy regarding Executive Order #26, to be a justification for the use of a negotiated sale. Mr. Fuentes stated that staff is recommending the consideration of the resolution that was included in the meeting materials that approves the use of a negotiated public offering and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Fuentes concluded by saying that Staff intends to conduct an Informational Presentation at the January 2017 meeting followed by a Contingent Bond Sale Presentation at the February 2017 meeting. He then asked if the Members had any questions on the Kennedy Health Systems request. There were no questions.

Dr. Kazmir asked for a motion to approve the use of a negotiated sale on behalf of Kennedy Health System. Ms. Gibson made the motion. Ms. Kralik seconded. Dr. Kazmir asked if the Members had any questions on the motion. He then called for a vote. All Members voted in the affirmative and the minutes were approved.

AB RESOLUTION NO. QQ-48

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

(attached)

3. FINANCE COMMITTEE REPORT
Proposed 2017 Budget

Dr. Kazmir called upon Suzette Rodriguez to give the report of the Finance Committee.

Ms. Rodriguez told the Members that the Finance Committee met on December 7, 2016 to discuss the Authority's proposed 2017 budget.

Ms. Rodriguez stated that the proposed 2017 cash budget includes an estimated income of $3.85 million, which is a 9.06% decrease from 2016. The estimated expenses are budgeted at $3.488 million, which is a decrease of 10.13% from 2016. The budget, however, includes revenues over expenses of $362,960, or an increase of 2.66% over 2016.

Ms. Rodriguez noted that the 2017 Budget does not include any cost of living or merit-based salary increase. She then turned the meeting over to Executive Director Mark Hopkins to review the details of the 2017 Budget.

Mr. Hopkins began by explaining the reasons for the delay in the budget and the issues encountered. In 2016, 86% of the financings were refunding transactions. The refundings, combined with the new fee structure, required recalculations of anticipated revenue. There were ten (10) RWJ, Barnabas and Children's Specialized Hospital bonds that were refunded and refinanced that resulted in a net loss of $106,238 in annual fees. In addition, Inspira Health refunded South Jersey and Underwood bonds for a net loss of $8,426 in fees. However, the AHS partial refunding resulted in a net increase of $43,811. Additionally, the Authority expects to refund the bonds issued on behalf of Hackensack University Medical Center and Meridian Health, as a result of the recent merger of the two. To be conservative, staff has budgeted that $600 million of the outstanding approximately $1.1 billion of bonds will be refunded using tax-exempt bonds and the remaining over $500 million in bonds would be refunded using taxable bonds not issued by the Authority.

Ms. Gibson asked whether the Kennedy Heath System transaction they voted on today was being counted in the 2016 or 2017 budget year. Mr. Hopkins replied that it is being in the 2017 budget proposal as well as the three (3) other financings that the Authority knows are coming in.

On the expenditure side, the Governor's Authority Unit requested that an estimate for the bond management and accounting software contract be included. Additionally, the cost for advertising the RFP was added into the budget.

Mr. Hopkins then presented the 2017 Budget. He highlighted the following budget items compared to the 2016 budget:

- Annual revenues are expected to be $3,851,566, a decrease of $383,723 or 9.06%.
- Annual expenses are expected to be $3,488,606, a decrease of $393,372 or 10.13%
- Net income differences from the 2016 budget are projected as follows:
    - Annual fees will decrease by $391,001 or 9.8%
    - Initial fees will increase by $8,000
    - Per series fees will increase by $10,000
    - Interest income will increase by $15,250

Mr. Hopkins then identified other significant expense variances from the 2016 budget:

- Salaries are expected to decrease by $136,362 or 8.32%, due primarily to reducing staff from 24 to 22.
- Fringe benefits are expected to decrease by $121,772 or 12.1%, also due to the reduction in staff.
- Actuarial services will decrease by $25,000 as it is only required every two years.
- Bankruptcy Counsel's fees will decrease by $250,000 as the bankrupt St. Michael's Medical Center has been sold and no other bankruptcies are expected.
- Dues and Subscriptions will increase by $4,121 or 24.78% due to a NAHEFFA request for additional dues to fund advocacy efforts.

Mr. Hopkins explained that NAHEFFA has assessed its membership $3,000 for the advocacy efforts being conducted to prevent the elimination of tax-exempt municipal bonds. Ms. Gibson asked if there was a real risk in that happening. Mr. Hopkins explained that the debate has been going on for about 20-years. The Obama administration proposed a cap while the incoming administration is talking about eliminating tax-exempt bonds in favor of tax credits.

Mr. Hopkins then continued with his presentation:

- Software maintenance services will increase by $117,054 or 242.94% due to the expected purchase, installation and training for bond management and accounting software.
- Increases of under $1,000 are projected for each printing, payroll service and telephone expenses.

- Meeting, seminars and education will increase by $4,150 or 23.46% due to the increase in staff taking advantage of the Authority's tuition reimbursement program.
- Vehicle expenses will increase by $22,450 or 106.15% as the Authority pool car must be replaced.
- Small decreases are expected in the line items of office equipment rental/hardware maintenance and trustee fees.
- Insurance is expected to increase $7,439 or 6.88%: Directors and Officers Liability insurance is projected to increase by 5.0% and auto insurance will increase by 11.11% due to selling the 2008 Prius and the purchase of a 2017 Ford Fusion Hybrid.
- Office Rent and Electricity is expected to decrease $7,927, or 2.07%.
- Advertising is expected to increase $9,500 or 146.15% due to the broad advertising of the RFP for bond management and accounting software.
- Other expenses are expected to remain unchanged.

Mr. Hopkins asked if the Members had any questions regarding his presentation. There were no questions.

Ms. Rodriguez applauded the staff's due diligence to keep costs to a minimum as well as staff's ability to produce accurate budgets year after year. She specifically thanked Controller Marji McAvoy and Accountant Ellen Lieber for their efforts.

Ms. Rodriguez asked if the Members had questions for the Finance Committee or staff on the proposed 2017 Budget. There were no questions.

Ms. Rodriguez then made the motion for the Members to approve the 2017 Budget as presented.

Dr. Kazmir thanked Ms. Rodriguez for her Finance Committee Report report.

Dr. Kazmir stated that Ms. Rodriguez had made a motion to adopt the 2017 Authority Budget as presented and asked if there was a second. Ms. Gibson seconded the motion.

Dr. Kazmir asked if the Members had any questions on the motion. There were no questions.

Dr. Kazmir asked for a vote. All Members voted in the affirmative and the motion was adopted.

AB RESOLUTION NO. QQ-49

NOW, THERFORE, BE IT RESOLVED, that the Authority hereby adopts the proposed 2017 Authority Budget as recommended by the Finance Committee.

4. APPROVAL OF EXPENSES

Dr. Kazmir referenced a summary of Authority expenses and invoices provided to the Members. Ms. Kralik offered a motion to approve the bills and to authorize their payment. Ms. Gibson seconded the motion. Dr. Kazmir asked if the Members had any questions on the motion. He then called for a vote. All Members voted in the affirmative and the minutes were approved.

AB RESOLUTION NO. QQ-50

> **WHEREAS,** the Members of the Authority have reviewed the memoranda dated December 8, 2016 summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $20,790.00 and $196,788.25 respectively, and have found such expenses to be appropriate;
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> **NOW, THEREFORE, BE IT RESOLVED,** that the Members of the Authority hereby approve all expenses as submitted, and authorize the execution of checks representing the payment thereof.

5. STAFF REPORTS

Dr. Kazmir thanked Staff for the Project Development Summary, Cash Flow Statement and Legislative Advisory reports.

Dr. Kazmir asked Executive Director Hopkins to present his Executive Director's report.

Mr. Hopkins then presented the following items to Members:

1. Mr. Hopkins began by introducing Labinot Berlajolli, the new counsel from the Governor's Authority Unit.

2. Mr. Hopkins thanked the Authority Members for timely completing the ethics training required by Executive Order #41 (Codey).

3. Mr. Hopkins reminded the Members that there will be an Audit Committee meeting immediately following this meeting. The purpose of the meeting is to meet with the auditors prior to their work on the Authority's 2016 audit, as required by Executive Order #122 (McGreevey). Audit Committee Members include Alison Gibson, Maryann Kralik and Ryan Feeney. He also mentioned that there will be a Special Authority Meeting on January 10, 2017 to considered several amendments to the RWJBarnabas transaction.

4. Hospital & Other News

   a. After announcing their merger talks in July, Princeton Healthcare System and the University of Pennsylvania Health System Monday reached a definitive agreement to merge. The merger will now be subject to federal and State regulatory review before it can become final.

   b. Samaritan Healthcare & Hospice held its dedication ceremony for its new $15 million freestanding inpatient hospice facility in Voorhees on November 30th. The Authority provided approximately half the financing for the facility.

   c. In addition to the new patient tower at Kennedy Health's Cherry Hill campus, which was the subject of today's negotiated sale request, Kennedy is also planning a new seven-story patient tower and a parking garage on its Washington Township campus. The project is expected to cost a little over $200 million, add 60 to 90 beds, 700 parking spaces and be completed in early 2021.

   d. Hackensack Meridian Health announced a partnership with Memorial Sloan Kettering to focus on cancer care and research for new therapies through sharing information and best practices.

   e. Valley Health System and Mount Sinai Health system also announced that they are partnering to enable Valley to provide enhanced inpatient and outpatient cancer services by offering an expanded roster of clinical trials and convenient access to Mount Sinai's experts in cancer care.

   f. Trinitas Regional Medical Center and St. Joseph's Regional Medical Center announced they will be working together to form the new Integrated Behavioral Health Network that will focus on serving patients with chronic mental health issues and substance abuse disorders.

   g. NJBiz has selected RWJBarnabas Health's CEO Barry Ostrowski as Executive of the Year for 2016.

   h. Raritan Bay Medical Center and Palisades Medical Center, part of Hackensack Meridian Health, will be joining Tier 1 of Horizon Blue Cross Blue Shield's Omnia network effective January 1st.

   i. The United States Supreme Court has agreed to hear appeals by Christian affiliated hospitals from lower court rulings allowing employee lawsuits alleging the hospitals wrongly claimed a religious exemption from the federal pension law known as ERISA. New Brunswick's St. Peter's Healthcare System is one of those hospitals appealing and several other New Jersey Catholic hospitals are expected to be affected by the Supreme Court's decision, including St. Joseph's.

j. In ratings actions:

    i. Fitch affirmed its "BBB" rating of $254.98 million of bonds issued by the Authority on behalf of University Hospital with an outlook of stable;

    ii. Fitch also released reports on the overall U.S. healthcare outlook, which it said was stable despite political uncertainty, and a rating outlook for nonprofit hospitals, which it also said was stable with a sector outlook of negative, citing growing pressure on hospitals and rising uncertainty, which it predicted would see most ratings affirmed but more downgrades than upgrades in 2017;

    iii. Moody's issued a report that the large-scale mergers of nonprofit hospitals in New Jersey was a credit positive for those systems but will present a challenge for small independent hospitals, particularly in light of reduced State subsidies;

    iv. Moody's also released a stable outlook for 2017 with regard to nonprofit hospitals and public healthcare based on volume and revenue growth but cautioned on operating pressures.

k. Numerous articles are being provided today on legislation seeking to rein in charges to patients and insurers when they find themselves seeking services from hospitals and/or hospital doctors who are out of network with the patient's insurer. The leading bill on the subject, sponsored by Senator Vitale, was pulled from a scheduled committee hearing at the last minute. Hospitals and doctors are opposing the bill, which would require out of network billing to be arbitrated with rates capped at from 100% to 250% of Medicare payments. CarePoint commissioned a RAND study that found that such legislation could devastate the State's acute care hospitals, resulting in a 50% increase in hospitals with a negative operating margin. Health Affairs contested CarePoint's RAND study finding little if any impact on the vast majority of New Jersey hospitals.

l. Articles on other New Jersey health care news include:

    i. New Jersey has the fifth highest number of top hospitals in the country according the latest Leapfrog Group hospital safety survey;

    ii. A survey released by UnitedHealthcare ranked New Jersey 9th in the country for quality of health care.

    iii. Assemblyman Gary Shaer introduced legislation to review the adequacy of regulations on network insurance programs to ensure that they provide access to a sufficient number of qualified providers and services;

iv. A new health care advocacy organization, backed by Horizon Blue Cross Blue Shield and composed largely of business and labor groups, has been formed to educate consumers about health care choices;

v. More New Jersey hospitals are merging to improve health and financial stability;

vi. New Jersey hospital mergers are creating a bifurcated market, exposing safety-net hospitals;

vii. Financial pressure is building on New Jersey's independent hospitals as a result of hospital mergers improving larger systems' negotiating power;

viii. According to the left-leaning think tank New Jersey Policy Perspective, repeal of the Affordable Care Act could cost New Jersey $3 billion in just the first year alone and reduce the insured population by 10%.

m. In national health care news, the following articles are provided:

i. President-Elect Trump's nominee to head the Department of Health and Human Services, U.S. Representative Tom Price, wants to repeal the Affordable Care Act and replace it with the Republican "A Better Way" plan providing tax credits for people to purchase health insurance, cap Medicaid support to states and promote more state Medicaid program flexibility, and provide Medicare as a subsidy to seniors to purchase commercial insurance policies;

ii. U.S. health care spending hit $3.2 trillion in 2015, increasing 5.8% over 2014;

iii. Federal programs now account for the highest share of health care spending at 29%, due largely to Medicaid expansion;

iv. Health care jobs led November job creation gains;

v. A study of cancer patients by Cancer Support Community found that Medicaid patients with cancer more often felt their doctors rushed through appointments, more likely experienced delays in getting appointments, were least likely to receive social and emotional support services and more likely to say they only "sometimes" got the coverage they needed compared with other non-Medicaid cancer patients;

vi. The Healthcare Financial Management Association has released a report demonstrating that health care organizations seeking approval for mergers have a better chance of getting regulatory approval and community support if they demonstrate that some of the resulting savings will be shared with consumers;

vii. Hospitals need to focus more on quality of care than on mergers and brand building according to an article in the Harvard Business Review;

viii. PricewaterhouseCooper's Health Research Institute's report on how health systems are improving price transparency;

ix. A report by Consumer Reports that finds several teaching hospitals are lagging in preventing central line bloodstream infections (none from New Jersey were noted).

n. In financial and municipal bond market news:

i. The National Association of Counties reported to Congress that capping the tax-exemption on municipal bonds at 28%, as proposed by the Obama administration, would have cost state and local governments approximately $175 billion over the last nine years, while eliminating tax-exemption on municipal bonds entirely, as proposed by several Republican plans, would have cost another $500 billion;

ii. Yesterday the Federal Open Market Committee raised its target interest rate 25 basis points and indicated that there were likely to be more interest rate increases over the next two years than it predicted at its last meeting.

5. Authority News

a. Mr. Hopkins expressed his thanks to the entire Authority staff for their work during this banner year for the Authority and expressed his sincere gratitude to the Authority Members for their cooperation and support throughout the year.

b. Mr. Hopkins then wished everyone a Happy New Year, a Merry Christmas, a Happy Hanukah and a Happy Kwanzaa.

Dr. Kazmir asked how many of the top-rated New Jersey hospitals were financed by the Authority. Mr. Hopkins said that he did not know, but he thought most of them were.

As there was no further business, following a motion by Ms. Feehan and a second by Ms. Gibson, the Members voted unanimously to adjourn the meeting at 10: 55 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 DECEMBER 15, 2016.

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Carole A. Conover, Assistant Secretary