NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

MEMORANDUM

TO: Brian Wilton, Deputy Chief Counsel
Governor's Authorities Unit

FROM: Carole A. Conover CAC
Assistant Secretary

DATE: November 15, 2018

SUBJECT: Minutes from the Authority's November 15, 2018 Meeting

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Enclosed are two (2) certified copies of the minutes from the Authority's November 15, 2018 Meeting, which are submitted for the Governor's consideration of the following actions taken by the Authority:

1. The Authority Members approved a resolution expanding the Federally Qualified Health Center Direct Loan Program to provide a loan to Neighborhood Health Services.

2. The Authority Members approved UBS Financial Services as a Senior Manager, a Co-manager and a Placement Agent.

3. The Authority Members adopted a resolution approving a one-year extension for Mercadien to serve as the Authority's auditor as permitted by contract.

4. The Authority Members adopted a resolution approving the Authority's 2019 budget,

5. The Authority Members adopted a resolution approving the renewal of the Director and Officers Liability Insurance policy.

6. The Authority Members adopted resolutions approving routine operating expenses for September.

Please call me if I may be of assistance.

CAC:cdk

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NEW JERSEY HEALTH CARE FACILITIES

FINANCING AUTHORITY

MEETING MINUTES

November 15, 2018

Certified: Carole Conover

Carole A. Conover
Assistant Secretary

Minutes of the New Jersey Health Care Facilities Financing Authority Meeting held on November 15, 2018 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; Robin Ford, Designee of the Commissioner of Health; Mary Ann Kralik, Designee of the Commissioner of Banking and Insurance; Greg Lovell, Designee of the Commissioner of Human Services; and, Suzette Rodriguez, Public Member

*The following **Authority staff members** were in attendance:*
Mark Hopkins, Frank Troy, Ron Marmelstein, Bill McLaughlin, Carole Conover, Alpa Patel, Edwin Fuentes and Chris Kniesler

*The following **representatives from the State and/or the public** were in attendance:*
Brian McGarry and George Loeser, Attorney General's Office; Craig Ambrose, Governor's Authorities Unit; and, via telephone, Patty Esposito and Mary Chalmers, Marsh USA and John Kelly and David Stein, Wilentz Goldman and Spitzer

CALL TO ORDER

Dr. Kazmir 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 24, 2018 and August 23, 2018 Authority meetings. Complying with the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to *The Star-Ledger* and the *Courier Post* and to all newspapers with mailboxes at the Statehouse, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

1. APPROVAL OF MINUTES

October 25, 2018 Authority Meeting

Minutes for the Authority's October 25, 2018 Authority meeting were distributed for review and approval prior to the meeting. Dr. Kazmir asked for a motion to approve the minutes. Mr. Lovell made the motion. Ms. Rodriguez seconded. Dr. Kazmir asked if there were any questions on the motion. There were no questions. All Members voted in the affirmative and the minutes were approved.

2. APPROVAL OF FQHC DIRECT LOAN
Neighborhood Health Services Corporation

Dr. Kazmir asked Executive Director Mark Hopkins to explain the details of the Federally Qualified Health Center Direct Loan to Neighborhood Services Corporation

Mr. Hopkins began by reminding the Authority Members that they had previously approved setting aside up to $3,500,000 of the Authority's fund balance to be lent out under the Authority's Federally Qualified Health Center Direct Loan Program for start-up Federally Qualified Health Centers ("FQHCs") and to expand services at FQHCs. Three million dollars has been lent out to date but today, after loan repayments, at least $750,000 will be available under the program.

Mr. Hopkins informed the Members that the Authority has received a request for a $750,000 FQHC Direct Loan for Neighborhood Health Services Corporation. Neighborhood Health entered Chapter 11 bankruptcy in January of 2015. In October of this year, due to Neighborhood Health's failure to successfully reorganize over the previous 33 months, the bankruptcy court appointed a Trustee to oversee the day-to-day operations of Neighborhood Health and assist it in reorganizing. The Trustee has requested, on behalf of Neighborhood Health, that the Authority provide a $750,000 loan under its FQHC Direct Loan Program to assist Neighborhood Health in continuing operations until it can reorganize under Chapter 11 of the Bankruptcy Code, which includes, but is not limited to, selling and leasing back all or part of the property and building, or partnering with or selling to another organization.

According to Mr. Hopkins, in order to approve the request, Authority Members will need to further expand the purposes for which FQHC Direct Loan Program Loans can be made to include working capital and other purposes required by FQHCs.

In addition, due to the necessity to approve this loan in a short time and the borrower's lack of funds, there will be no title insurance and no appraisal of the property. It is unclear what the property is worth. As background, the City of Plainfield has it on its tax rolls at a value of $725,700. Mr. Hopkins said that the Authority has been informed of a 2006 appraisal that valued the property at approximately $6 million. Last January, a confidential purchaser entered into an agreement to purchase the property for $4.2 million, lease the building and four acres back to Neighborhood Health at a rent of $336,000 per year and develop the remaining three acres of the property. That offer fell through. In addition, a Google search shows the property was listed for sale in 2015 at $1.1 million. It is a seven (7) acre parcel with a sizable surface parking lot and a 35,000 square foot building consisting of medical office and administrative office space. Under the circumstances, Staff can make no assurance that the Authority will be able to recover the full loan amount.

Mr. Hopkins stated that Staff is recommending that several additional conditions be incorporated into the loan agreement or by order of the bankruptcy court, including:

1. The proceeds of the Loan shall be disbursed to the Trustee from time to time upon the written request of the Trustee and shall be used only to pay operating expenses of Neighborhood Health or such other costs as shall be approved by an Authorized Officer of the Authority;

2. The principal of the Loan shall be paid in sixty (60) consecutive monthly installments in an amount not less than one sixtieth (1/60th) of the outstanding principal balance, commencing the first day of the calendar month after the calendar month in which the execution and delivery of the Loan Agreement takes place;

3. The Bankruptcy Court shall have issued an order (i) approving the Loan by the Authority to Neighborhood Health, (ii) establishing the Loan as a debtor-in-possession financing for purposes of the Bankruptcy Code, (iii) determining that the Mortgage shall constitute a first priority lien on the Premises, thereby "priming" and taking priority over all other secured creditors in the Premises, (iv) requiring the Trustee to deliver to the Authority a cash flow projection covering at least a period of six (6) months from the date of execution and delivery of the Loan Agreement supplemented by weekly financial status reports relating to Neighborhood Health's operations, including cash flow statements, reconciliations to budget and, at least every four weeks, updated cash flow projections, for so long as any amounts are outstanding under the Loan, and (v) providing that, if the Trustee has not been successful in identifying a purchaser for the Premises and/or all or substantially all of the assets and business of Neighborhood Health by no later than the date that is four (4) months after the date of execution and delivery of the Loan Agreement, the Bankruptcy Court shall conduct an auction process to identify a potential purchaser within six (6) months of the date of execution and delivery of the Loan Agreement, which purchaser can either immediately upon purchase fully satisfy the Loan, or meets all of the following conditions: (A) is acceptable to the Authority, taking into consideration the purchaser's demonstrated ability to capitalize the acquisition of Neighborhood Health and its demonstrated experience in operating a health care facility, (b) agrees that it will assume the Loan under the same terms and conditions as are contained in the Loan Agreement, the Note and the Mortgage, and (c) is a "health care organization" within the meaning of the Act and agrees to operate at least a substantial portion of the facility as a health care facility; and

4. The Loan Agreement shall (i) provide that, in addition to the Mortgage on the Premises, all of Neighborhood Health's obligations under the Loan Agreement shall also be secured by a security interest granted by Neighborhood Health to the Authority in all of its other assets (which security interest may be subordinate to pre-existing liens), all as more fully set forth in the Loan Agreement, (ii) obligate Neighborhood Health to deliver to the Authority a cash flow projection covering at least a period of six (6) months from the date of execution and delivery of the Loan Agreement supplemented by weekly financial status reports relating to Neighborhood Health's operations, including cash flow statements, reconciliations

to budget and, at least every four weeks, updated cash flow projections, for so long as any amounts are outstanding under the Loan, and (iii) contain such other terms and conditions as an Authorized Officer, in consultation with counsel to the Authority, may determine are necessary or advisable in connection with the Loan (which determination shall be evidenced by such Authorized Officer's execution and delivery of the Loan Agreement).

Mr. Hopkins told the Members that a revised resolution incorporating the addition of the above-mentioned conditions has been provided at this meeting. The revised resolution also authorizes the expansion of the FQHC Direct Loan Program to permit loans to FQHCs for any of their corporate purposes, provided that such purposes are permitted pursuant to federal and State law and regulations applicable to Federally Qualified Health Centers, including, but not limited to, borrowing for working capital purposes.

According to Mr. Hopkins, drafts of the loan agreement, note and mortgage are not being provided today. The revised resolution provides that the loan documents will be in the customary form of Authority loan documents with such changes as are required to meet the requirements and parameters summarized above and contained in the revised resolution. Any other changes will be upon the recommendation and subject to the approval of the Attorney General's Office, Wilentz, Goldman & Spitzer, as the Authority's loan and bankruptcy counsel, and an Authorized Officer of the Authority.

Mr. Hopkins then stated that Staff is requesting that the Authority Members approve adoption of the revised resolution which (i) expands the FQHC Direct Loan Program, (ii) authorizes a $7500,000 FQHC Loan to Neighborhood Health Services Corporation, and (iii) authorizes a loan agreement, mortgage and note to be drafted, executed and delivered as provided above.

Mr. Hopkins concluded by asking the Members consideration of the resolution provided in their meeting packets and offered to answer the members' questions.

Mr. Lovell asked if Neighborhood Health Services has to report their cash on hand (COH) to receive the loan.

Mr. Hopkins said that the Authority has a 13-week cash flow projection and they have to provide a 6-month financial projection before receiving the loan.

Mr. Lovell asked what their current COH was.

Mr. Hopkins said that Neighborhood Health Services had $198,874 COH on November 11 and that they are expecting an advance of from the HRSA grant $317,990. They should have $293,307 COH after making payroll.

Mr. Lovell asked what would happen if they do not receive the grant.

Mr. Hopkins replied that, according to the Bankruptcy Trustee, they would not meet their payroll. They should know by the end of today if they have the advance.

Mr. Lovell inquired as to how long the loan funding would last.

Mr. Hopkins replied that, according the projections provided, the funds should last through the first 13 weeks. It cannot be determine at this time if it will last the full 6 months. It is expected, however, that the $750,000 will last 6 months. The Authority will not provide the loan if we are not reasonably certain it will last for 6 months.

Mr. Lovell questioned the financial reporting requirements.

Mr. Hopkins stated that they would be required to provide a weekly update as well as a cash- flow reconciliation every 4 weeks.

Mr. Lovell then asked if the Trustee determines that the funds are not being used properly, can another management company be assigned?

Mr. Hopkins replied that the Trustee is authorized to make such changes.

Mr. Lovell asked if the Authority would have input in the decision.

Mr. Hopkins said that it is the Trustee's decision, but as the lender, the Authority could express its opinion.

Mr. Lovell asked if there has been any interest from potential buyers.

Mr. Hopkins said they there was interest from an FQHC, but it never materialized.

Mr. Lovell asked if any hospitals expressed interest.

Mr. Hopkins replied that he did not think hospitals could own an FQHC, but they could convert it to another similar kind of health care facility.

Ms. Kralik asked if the Authority could call for the auction of Neighborhood Health Services before the 6-month time period is up.

Mr. Hopkins referred the question to David Stein, the bankruptcy partner for Wilenz Goldman and Spitzer who was on speakerphone.

Mr. Stein responded by saying that, because the number of steps in the auction process, it would not be possible to arrange an auction in a shorter timeframe. A process could be started, but the closing would not occur until after the 6 months has expired.

Mr. Hopkins continued by saying that, by the terms of the loan, the Authority is putting the Trustee on notice that a buyer be identified in 4 months or an auction will be held after 2 months. Mr. Hopkins reiterated that, if Neighborhood Health projections show that they cannot make the full 6 months, the Authority will not grant the loan. He added that FQHC's generally have reliable funding sources through Medicaid, HRSA and the uncompensated care fund. Unless the number of patients drops off significantly, they should be fine. The need for their services is there.

Ms. Ford added that there is a need for the facility in that area. The residents have very limited options for health care

Dr. Kazmir asked if they were current I their payroll taxes.

Mr. Hopkins replied that they were not, but that the payroll taxes made up a significant part of Neighborhood Health's debt and that the Trustee will ensure payroll tax are paid going forward.

Dr. Kazmir asked how many patients they see per year.

Mr. Hopkins said that from the data provided, they serve approximately 5,000 patients per month.

Ms. Kralik asked if the Trustee had retained an FQHC consultant.

Mr. Hopkins replied that the Trustee is meeting with one on November 25.

Mr. Lovell asked if Neighborhood Health Services has the money in their budget to pay for a consultant.

Mr. Hopkins replied that it would likely come out of the Authority's loan.

Dr. Kazmir asked for a motion to approve the resolution authorizing a Federally Qualified Health Center Direct Loan Program loan to Neighborhood Health Services Corporation. Ms. Ford made the motion. Ms. Kralik seconded. Dr. Kazmir asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

AB RESOLUTION NO. SS-32

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts the resolution entitled **"RESOLUTION AUTHORIZING EXPANSION OF FQHC DIRECT LOAN PROGRAM AND AUTHORIZING AND APPROVING A LOAN FROM THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY FUND BALANCE TO NEIGHBORHOOD HEALTH SERVICES CORPORATION."**

(attached)

3. ADDITION TO THE QUALIFIED BANKERS LIST
UBS Financial Services

Dr. Kazmir called on Bill McLaughlin to present the request from UBS Financial Services ("UBS") to be added to the Authority's Qualified Baker's List.

Mr. McLaughlin began by explaining that UBS's Public Finance and Municipal Securities team operates under UBS Wealth Management USA, which is located in Weehawken, NJ. The firm employs 3,800 employees at this location. UBS specializes in public finance with particular strengths in municipal underwriting and financial advisory services. They maintain offices in New York City, Chicago, Austin, Houston, Dallas, San Antonio, Orlando, Atlanta, Denver, Baltimore, Boston, San Francisco and Los Angeles. The firm provides investment banking services to qualified borrowers nationwide.

According to Mr. McLaughlin, UBS has $4.3 billion in capital and the entire amount is available for underwriting. Lisa Rodgers, Managing Director and Co-Head of Healthcare will be the primary contact.

Mr. McLaughlin informed the Members that UBS has completed the Authority's Request for Qualifications and has served as an underwriter on numerous occasions. Since re-entering the negotiated municipal marketplace, UBS has not provided services to the Authority. However, members of its staff, including the primary contact for this Authority, have provided underwriting services to this Authority during their professional careers.

Mr. McLaughlin stated that UBS is qualified to serve as Senior Manager, Co-manager and Placement Agent. UBS has experience with financing similar to that of the Authority and has the capital, analytic capabilities and ability to distribute New Jersey securities.

Mr. McLaughlin told the Members that the Authority staff recommends the addition of UBS Financial Services to the Authority's Qualified Bankers List as a Senior Manager, Co-manager and Placement Agent.

Mr. McLaughlin offered to answer the Members' questions.

Dr. Kazmir asked for a motion to approve the resolution adding UBS Financial Services to the Authority's Qualified Baker's List as a Senior Manager, Co-manager and Placement Agent. Mr. Lovell made the motion. Ms. Rodriguez seconded. Dr. Kazmir asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

AB RESOLUTION NO. SS-33

> **NOW, THERFORE, BE IT RESOLVED,** that the Authority hereby approves the appointment of UBS Financial Services to the Authority's Qualified Bankers List as a Senior Manager, Co-Manager and Placement Agent.

4. AUDIT COMMITTEE REPORT
Extension of Auditor's contract

Dr. Kazmir asked Robin Ford to give the Audit Committee's Report and recommendation.

Ms. Ford reported that the Audit Committee, comprised of Ms. Kralik, Mr. Feeney, and herself (Chair), met on October 29, 2018 at 10:15 a.m. via conference call to consider granting Mercadien the first of two (2) one-year extensions allowed under the existing contract.

According to Ms. Ford, the Committee is recommending to Members that Mercadien be awarded the first of two one-year extensions on their existing contract. All the original terms will remain in effect for this first extension and the fee for the financial statement audit will be $28,000, an increase of $1,000 per the original contract.

Ms. Ford then made the motion that Mercadien be awarded the first of the two (2) on-year extensions on their contract.

Dr. Kazmir stated that Ms. Ford made the motion to approve the first of two (2) one-year extensions of the Authority's auditing contract with Mercadien. Ms. Rodriguez seconded. Dr. Kazmir asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

AB RESOLUTION NO. SS-34

NOW, THERFORE, BE IT RESOLVED, that the Authority hereby approves awarding the first of two (2) one-year extensions for the Authority's auditing contract with Mercadien.

5. **FINANCE COMMITTEE REPORT**
   2019 Authority Budget

Dr. Kazmir asked Suzette Rodriguez to present the Finance Committee Report and recommendation.
Ms. Rodriguez reported that the Finance Committee met on November 7, 2018 to discuss the Authority's proposed 2019 budget. Ms. Rodriguez further stated that she recommend that the Members approve this budget.

Ms. Rodriquez provided a brief overview by informing the Members the following: the proposed 2019 cash budget includes an estimated operating income of $4.175 million, which is a decrease of 1.34% over 2018; the Estimated Expenses are budgeted at $3.78 million, which is a decrease of 16.41% over 2018; and Net Income is expected to be $443,927, that includes carry overs from 2018.

Ms. Rodriguez then turned the meeting over to Executive Director Mark Hopkins for a detailed presentation of the 2019 Budget.

Mr. Hopkins presented an overview of the proposed 2019 Authority Budget, underscoring the significant variations from last year.

According to Mr. Hopkins, the projected 2019 Authority Budget will be based on the following:

- Total Revenue is projected to decrease 1.25% to $4,222,002
- Expenses are expected to decrease by 16.41% to $3,778,075
- Net Income is expected to be $443,927, including carryovers from 2018

Among the revenue projections highlighted were:

- Annual Fees to decrease by 2.54% or $101,000
- Initial Fees and Per Series Fees to increase by 9.63% or $15,400
- Interest Income to increase by $3,426 or 7.82%
- Other Operating income to increase by $28,756 or 36.46%

Among the expenditures highlighted were:

- Salaries increase by $31,414 or 2.00% over annualized salaries, from $1,570,705 to $1,602,119
- Fringe benefits increase $50,075 or 5.66% from $884,416 to $934,491
- Temporary Help to decrease by 62.47% or $16,310
- Post-Retirement Health Benefit Trust payment to decrease by 100% to $0, but $200,000 will be carried over into 2019
- Rent and Electric to increase $4,425 or 1.18%
- Insurance cost are expected to increase by 5.00 % to $5,545
- Office Equipment Rental/Office Equipment Maintenance Hardware/Hardware Maintenance to increase by $30,570 or 65.73%
- Electronic Data Processing/Software/ Software Maintenance & Contract Services to decrease $222,239 or 79.34%, but $200,000 will be carried over to 2019 for accounting software
- Actuarial Services to decrease by $30,000 or 100%
- Meetings, Seminars & Educational Courses to increase $7,000 or 31.42%
- Special Projects to decrease by $851,575 or 97.15%, noting that there was a one-time expense in 2018 for the report on the State's psychiatric hospitals
- Special Tax Counsel to increase by $15,000 or 100%
- Services of Attorney General's Office to increase $10,000 or 13.33%
- Vehicle expenses decrease $26,500 or 70.67%, but $27,000 will be carried over for a replacement pool car
- Office Equipment/Furniture to decrease by $2,000 or 40%
- Archival Expenses to decrease by $3,000 or 25%
- Auditor Services to increase by $1,000 or 3.70%
- Investment Services decreases by $1,000 or 25%

Mr. Hopkins concluded by stating that other line items contain minimal changes from 2018.

Ms. Rodriguez thanked Mr. Hopkins and asked if the Members had any questions on the proposed budget.

Ms. Rodriguez applauded staff's due diligence to keep costs to a minimum as well as staff's ability to produce accurate budgets year after year. She thanked Controller Alpa Patel and all of the Authority staff.

Ms. Rodriguez then made the motion to approve the proposed 2019 Authority Budget.

Dr. Kazmir stated that Ms. Rodriguez made the motion to approve the 2019 Authority Budget. Ms. Ford seconded. Dr. Kazmir asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

AB RESOLUTION NO. SS-35

NOW, THERFORE, BE IT RESOLVED, that the Authority hereby adopts the proposed 2019 Authority Budget as recommended by the Finance Committee.

6. DIRECTORS AND OFFICERS LIABILITY INSURANCE/EMPLOYMENT PRACTICES LIABILITY POLICY RENEWAL

Dr. Kazmir called on Controller Alpa Patel to provide details of the Directors and Officers Liability Insurance policy renewal.

Ms. Patel began by introducing Patty Esposito and Mary Chalmers from Marsh USA, the Authority's insurance broker, who was on the telephone.

Ms. Patel informed the Members that the Directors and Officers Liability/Employment Practices Liability policy provides protection to past, present and future members of the Authority board, committee members, officers and staff. It is a claims made policy and provides coverage for a claim that is first made against the policy period and reported in writing to the insurer.

According to Ms. Patel, over the past few years, AIG was one of the very few carriers that would offer a full $20 million policy, however, in 2017, due to a change in their business position; AIG declined to quote on the $20 million primary D&O and has limited their quote to a $10 million policy. As a result, Marsh again marketed the account to two other carriers, The Hartford and Zurich American Insurance Company to obtain a quote for an additional $10 million policy. The Hartford declined to quote, as the Authority is a public entity. Favorable results were received from Zurich American Insurance Company for the supplementary $10 million policy.

Ms. Patel reported that AIG quoted a premium of $47,500 plus a $285 NJ surcharge on a $10 primary million policy and Zurich has quoted a premium of $23,000 plus a $138 NJ surcharge on a $10 million excess policy. The total premium and deductible on the two (2) policies, totaling $20 million, is $70,923. The premiums and deductible remain the same as last year.

Ms. Patel concluded by recommending that the Members approve the renewal and offered to answer any of their questions.

Dr. Kazmir asked for a clarification on the amount of the premium.

Ms. Chalmers replied that it was $70,923.

Dr. Kazmir asked if there were any claims last year.

Ms. Chalmers replied that there were not any claims and that to her knowledge there have never been any claims.

Dr. Kazmir then inquired as to why the premium was so high.

Ms. Chalmers responded by saying that part of the problem is that the State of New Jersey has higher requirements than other states and that limits the Authority's options.

Dr. Kazmir then asked if this was a new contract.

Mr. Hopkins replied that this is a renewal of the insurance policy that the Authority had last year.

Mr. Lovell asked if the $175,000 deductible was in the budget.

Mr. Marmelstein said that it used to be a line item in the budget when it was a $250,000 deductible, but there have been no claims, so the Authority discontinued it.

Ms. Ford asked if it were possible to join with another authority on their policy.

Ms. Chalmers replied that the policy insures the directors and officers of the entity and therefore it cannot be combined with another authority.

Dr. Kazmir asked for a motion to approve the renewal of the Directors and Officers Liability Insurance policy with National Union Fire Insurance Company of Pittsburgh (AIG) and Zurich American Insurance Company. Mr. Lovell made the motion. Ms. Rodriguez seconded. Dr. Kazmir asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved.

AB RESOLUTION NO. SS-36

> **NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the renewal of the Directors and Officers Liability Insurance policy with National Union Fire Insurance Company of Pittsburgh (AIG) and Zurich American Insurance Company.

7. APPROVAL OF EXPENSES

Dr. Kazmir referenced a summary of Authority expenses and invoices provided to the Members. Ms. Ford made the motion to approve the expenses. Ms. Kralik seconded. Dr. Kazmir asked if there were any questions on the motion. There were no questions. He then called for a vote. All Members voted in the affirmative and the resolution was approved to approve the bills and to authorize their payment.

AB RESOLUTION NO. SS-37

> **WHEREAS,** the Members of the Authority have reviewed the memoranda dated November 7, 2018 summarizing expenses incurred by the Authority in connection with Trustee/Escrow Agent/Paying Agent fees and general operating expenses in the amounts of $2,500.00 and $5,022.50 respectively, and have found such expenses to be appropriate;
>
> **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.

8. STAFF REPORTS

Dr. Kazmir thanked Staff for the Project Development Summary, Cash Reconciliation Report, Third Quarter Budget Report and Legislative Advisory.

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

Mr. Hopkins reported the following:

1. All Authority Members are reminded that in accordance with Executive Order #41 (Codey 2005) they must complete online ethics training from the State Ethics Commission by November 19. The training is offered at www.nj.gov/ethics/training. Go to the link "Online Training Modules" and choose "Special State Officer Training Module." Once complete, you will need to enter your name and select NJHCFFA from the pull down menu of agencies. You will receive an e-mail confirming your completion of the training. Please forward that to me so that I may report it to the Authorities Unit.

2. There will be an Audit Committee meeting on Tuesday, December 4th at 2:00 p.m. with the auditors to discuss the 2018 audit prior to the commencement of the audit, as required by Executive Order #122 (McGreevey). Audit Committee Members include Ms. Ford, Ms. Kralik and Mr. Feeney.

3. Mr. Hopkins asked Edwin Fuentes to summarize the highlights of The Bond Buyer's Mid-Atlantic Conference that he and Bill McLaughlin attended on October 24.

a. Mr. Fuentes began by saying that on October 24, he and Bill McLaughlin and attended the Bond Buyer's Mid-Atlantic Municipal Market Conference, held at the Union League of Philadelphia, Pennsylvania. The annual conference consists of speakers, exhibitors, and sponsors from across the municipal bond industry, including underwriters, investors, financial advisors, bond lawyers, credit analysts, and issuers. Some of the panels held discussed topics directly pertaining to NJHCFFA's core business of issuing hospital bonds. These topics included recent tax reform, renewed interest in certain products and structures, current regulatory developments, credit analysis, and primary/secondary market activity.

The Tax Cuts and Jobs Act of 2017 disallows advance refundings for tax-exempt transactions. This has led to several types of work-arounds for clients including tax-exempt forwards, Cinderella bonds, and creative swaps. Although higher education and healthcare are the industries utilizing taxable bonds more frequently, experts have seen a 16% decrease overall in volume for taxable refundings. Forward deliveries seemed to be the more popular product among the panel, considered to be better and cheaper than taxable refundings. Forward premiums are doing well due to a lack of major supply in the market. Investors are even willing to go out longer than the average forward of about 9 to 12 months. PNC recently sold forward delivery bonds on behalf of the Pennsylvania Turnpike Commission for the purposes of refunding bonds, resulting in one of the largest forwards done in the market in recent memory. Direct bank loans are requiring more disclosure these days, which becomes less appealing to borrowers due to costs. Swaps can also be a tool for lack of advance refundings, especially for small issuers. However, disclosure becomes an even more important factor. Despite a remaining fear of the removal of tax exemption on bonds, the panelist from the Government Finance Officers Association stated they have been pushing politicians on bringing back advance refundings. This was prior to the recent midterm election, which saw the Democratic Party take the majority of the House of Representatives. Experts believe them to be "muni-friendly".

In regulatory developments, the panel included Senior Counsel to the SEC and Associate General Counsel to the MSRB. They spoke on the amendments to the existing fourteen events under Rule 15c2-12, which requires certain notice filings with the MSRB EMMA system within ten business days of occurrence. The two new events being added will go into effect on February 27, 2019. The idea is that a certificate from an officer stating there are no delinquencies is becoming insufficient in determining any financial difficulties or any other event that could material affect security holders. One of the potential additions by the

MSRB includes a voluntary bank loan portal, due to the increased use of data rooms on private placements, as opposed to traditional official statements. Overall, the general consensus among the panel was the importance of proper compliance lying with an entity's three "Ps"...policy, process, and people. All must be qualified enough to understand and process all the information received. The SEC plans on holding panels in Washington DC in December in order to get feedback from all users of the EMMA community.

Although continuing disclosure is increasingly more prominent, the idea of "covenant light" is becoming more prevalent due to a lesser supply of bonds in the market. Analysts believe, especially concerning below investment grade bonds, that investors understand looser covenants come with the territory of purchasing riskier bonds. The comfortability of purchasing these types of bonds will become a big factor come the next recession. Municipal bonds, despite costing more, are still outperforming corporate bonds overall. Experts have seen hospitals' willingness to issue taxable bonds instead of tax-exempt bonds due to the speed in which they can enter the market, and the fungible nature of taxable proceeds. This becomes more significant with the increase in healthcare joint ventures, and the clients' expectation to eventually redeploy assets. This will become less a factor when the margin between tax exempt and taxable rates increases. Financial advisors have been counseling their large hospital system clients with good credit to 1) determine the amount of debt they are comfortable with, 2) track capital expenditures, especially large ones, 3) adopt reimbursement resolutions, and 4) use the decided debt amount to borrow. Overall, the credit analyst panel stated their overall satisfaction with the healthcare sector in municipal bonds.

Mr. Fuentes concluded by saying that the conference was a great source of information and networking that will no doubt help improve the Authority's practices going forward.

4. Hospital & Other News

    a. Governor Murphy has named Tanya Freeman as Chair of University Hospital. Ms. Freeman is a partner at Weiner Law Group and previously spent 15 years in the banking and insurance industry. The Governor has a monitor at the hospital who was appointed last summer to review operations after it received an "F" grade from The Leapfrog Group for safety last spring and a three-notch downgrade from Fitch Ratings over the summer. The Leapfrog Group recently released its fall grades and University Hospital improved to a "D" grade. Last month, an inspection by the Department of Health found "major infection control deficiencies" following the death of a premature baby. A

Directed Plan of Correction has been implemented to correct issues with "hand hygiene, personal protective equipment and cleanliness."

b. Gary Horan, CEO of Trinitas Regional Medical Center, recently indicated that Trinitas is seeking to strengthen and possibly expand strategic alliances with other health care systems. Trinitas is one of only 14 stand-alone hospitals in New Jersey.

c. On November 8, a public hearing was held at Salem High School to provide the State Health Planning Board with input from the public on the proposed sale of the Memorial Hospital of Salem County from the for-profit Community Health Systems to a non-profit affiliate of Community Health Associates. The sale price is $3 million plus a promise to invest at least $30 million in capital improvements. The proposal includes maintaining 12 intensive care unit beds, reducing the number of acute care medical/surgical beds from 126 to 65 and adding 26 adult psychiatric care beds and 30 long-term care beds. The new entity has agreed to hire substantially all existing employees and keep the hospital open for at least five years. Nevertheless, the hospital was required to issue WARN notices of a possible lay-off of the 400 employees just in case the sale did not go through. The State Health Planning Board will issue a recommendation on the sale at or after its scheduled December 6 meeting. After which the Commissioner will have 120 days to act on the Board's recommendation.

d. In Ratings News:

   i. Fitch Ratings affirmed its "A+" rating on the Authority's bonds issued on behalf of Hunterdon Medical Center in 2014. It also assigned an "A+" Issuer Default Rating directly to Hunterdon Medical Center. The rating outlook is Stable.

   ii. Fitch also released its October 2018 "Sector Briefing: Nonprofit Hospitals and Health Systems" indicating a stable rating outlook but a negative sector outlook with continued pressure on margins, uncertain legislative landscape, continued consolidation and widening credit gap.

In New Jersey Health Care News:

e. New Jersey led the nation with the highest percentage of hospitals earning an "A" rating for safety from The Leapfrog Group. This is a significant improvement from the spring ratings, which ranked New Jersey as 17th. In all, 38 New Jersey hospitals, or 56.7%, earned an "A" rating, 16 or 23.9%, earned a "B" rating, 11 or 16.4% earned a "C" rating. University Hospital was the only New Jersey hospital receiving a "D" rating and East Orange General Hospital was the only New Jersey hospital receiving an "F" rating.

f. Last week, Governor Murphy signed legislation allowing a pilot program in New Jersey's seven most populous counties to charge an optional fee for certain procedures that would be used to provide additional State funds and federal Medicaid matching funds for hospitals that provide a high amount of charity care and Medicaid services. At least 90% of the fees collected by counties joining the pilot program will go toward providing healthcare reimbursement to providers, up to 9% may go to the county government and 1% will be slated to pay for the State to administer the program. The program is slated to start in six months and all the hospitals in the respective county must opt to participate.

g. Legislation proposed by Senators Lagana and Gopal is expected to be introduced to clarify and redefine parts of the Out-of-Network legislation signed by the Governor on June 1. One of the clarifications is that the starting point for reimbursement for medical services will be based on guidelines from FAIR Health, a national independent not-for-profit that was established to review out-of-network reimbursement methodologies. The guidelines would essentially set a floor for reimbursement. The legislation also proposed to remove the requirement that, to go to arbitration, the services charged must be at least $1,000 and to clarify what is "inadvertent" out-of-network care.

h. Governor Murphy announced a State public awareness campaign to promote enrollment in the Affordable Care Act during the open enrollment period from November 1 through December 15. After using the federal government's marketplace, the State has created its own ACA marketplace at GetCovered.NJ.gov. The federal government has severely reduced the budget for informing the public of the availability of individual insurance under the ACA.

i. New Jersey, under the leadership of Health Commissioner Elnahal, has taken significant steps to improve maternal and infant health and reduce racial disparities to address a critical report on the maternal mortality and infant deaths, particularly in communities of color.

j. Last week, Commissioner Elnahal said at a conference that the State was in the process of connecting all hospitals in the State to a statewide intranet to make it easier to share information.

k. According to findings of a survey conducted by the New Jersey Business & Industry Association, employers providing health benefits in

New Jersey has fallen from 85% in 2016 to 78% this year. Cost is the main reason for the decline.

In National Health Care News:

l. Cain Brothers, a division of KeyBanc Capital Markets, released a summary of the information shared at its "Dynamic 2018 Healthcare Conference." A copy has been provided.

In Tax and Securities Legal and Regulatory News:

m. According to The Bond Buyer, with the majority in the House of Representatives, Democrats are expected to protect the tax-exemption of private activity bonds, like the ones issued by our Authority.

n. The Bond Buyer is also reporting that the IRS has set its strategy for auditing tax-exempt bonds for 2019. Some things the IRS will be paying particular attention to are: (i) excessive cost of issuance for private activity bonds; (ii) defeasance of bonds; and (iii) public safety or jail bonds. The Authority has been very conservative with regards to costs of issuance and defeasance of bonds and does not issue public safety or jail bonds.

o. The Bond Dealers of America recently criticized a study by the Municipal Securities Rulemaking Board on the cause of dramatic reduction of spreads in the secondary markets. The MSRB study concluded that electronic trading platforms and increased transparency resulting from regulations have been the driving forces behind the shrinking secondary market spreads. The Bond Dealers Association argued that the historically low interest rate environment is more likely one of the dominant reasons for the shrinking spreads.

5. Authority News

   a. Edwin Fuentes celebrated his 10th anniversary at the Authority in September. Mr. Hopkins apologized for not recognizing Edwin on that milestone.

   b. Mark Hopkins recognized the efforts of Controller Alpa Patel. Alpa has had less than 6 months on the job and was able to put the budget together without the help of Ellen Lieber who has been on an extended leave. Mr. Hopkins also acknowledged Ron Marmelstein for his assistance on the budget.

   c. Mr. Hopkins concluded by thanking the Members and staff for the flexibility and effort during the past year.

As there was no further business, following a motion by Mr. Lovell and a second by Ms. Kralik, the Members voted unanimously to adjourn the meeting at 11:16 am.

I HEREBY CERTIFY THAT THE FOREGOING IS A TRUE COPY OF MINUTES OF THE NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY MEETING HELD ON NOVEMBER 15, 2018.

Carole Conover

Carole A. Conover, Assistant Secretary

AB RESOLUITION SS-32

RESOLUTION AUTHORIZING EXPANSION OF FQHC DIRECT LOAN PROGRAM AND AUTHORIZING AND APPROVING A LOAN FROM THE NEW JERSEY HEALTH CARE FACILITIES FUND BALANCE TO NEIGHBORHOOD HEALTH SERVICES CORPORATION

November 15, 2018

WHEREAS, the New Jersey Health Care Facilities Financing Authority (the "**Authority**") is authorized pursuant to its enabling legislation, N.J.S.A. 26:2I-1 *et seq.* (the "**Act**"), to make loans to health care organizations, as defined at N.J.S.A. 26:2I-3; and

WHEREAS, on July 23, 2009, the Authority adopted AB Resolution No. JJ-16 approving the creation of the Federally Qualified Health Center Direct Loan Program ("**FQHC Direct Loan Program**") for start-up Federally Qualified Health Centers in New Jersey; and

WHEREAS, on December 18, 2014, the Authority adopted AB Resolution No. 00-38 extending its FQHC Direct Loan Program to include all Federally Qualified Health Centers and resolved that it may use up to $3,500,000 of its fund balance to make direct loans to Federally Qualified Health Centers pursuant to the FQHC Direct Loan Program; and

WHEREAS, the Authority desires to further extend its FQHC Direct Loan Program to permit direct loans to Federally Qualified Health Centers for any of their corporate purposes provided that such purposes are permitted pursuant to federal and State law and regulations applicable to Federally Qualified Health Centers, including, but not limited to, borrowing for working capital purposes; and

WHEREAS, at least $750,000 is available of the previously authorized $3,500,000 for the FQHC Direct Loan Program; and

WHEREAS, Neighborhood Health Services Corporation ("**Neighborhood Health**"), a not-for-profit Federally Qualified Health Center headquartered in Plainfield, Union County, New Jersey, filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of New Jersey (the "**Bankruptcy Court**") in January 2015 and is currently operating under Chapter 11 of the United States Federal Bankruptcy Code (the "**Bankruptcy Code**"), and

WHEREAS, in October of 2018, the Bankruptcy Court appointed Stephen V. Falanga, Esq. as the Chapter 11 Trustee (the "**Trustee**") to oversee the operations of Neighborhood Health; and

WHEREAS, the Trustee, on behalf of Neighborhood Health, paid a $250 application fee and filed an application with the Authority for a loan of up to $750,000 (the "**Loan**") from the FQHC Direct Loan Program to assist Neighborhood Health to continue its operations until it can successfully reorganize under Chapter 11 of the Bankruptcy Code; and

WHEREAS, the Authority has determined to make the Loan to Neighborhood Health, subject to satisfaction of, and compliance with, the terms and conditions for the Loan hereinafter set forth; and

WHEREAS, in connection with the Loan, Neighborhood Health will enter into a Loan and Security Agreement, dated the date of execution and delivery thereof (or such other date as shall be acceptable to the Authority and Neighborhood Health), between the Authority and Neighborhood Health (the "**Loan Agreement**"), pursuant to which Neighborhood Health will be obligated, among other things, to make payments to the Authority sufficient to pay the principal of and interest on the Loan, when due; and

WHEREAS, in order to evidence and secure all of its obligations under the Loan Agreement, including its obligation to pay the principal of and interest on the Loan, when due, Neighborhood Health will (i) execute and deliver to the Authority its promissory note, dated the date of execution and delivery of the Loan Agreement (the "**Note**"), substantially in the form required by the Loan Agreement, and (ii) enter into a Mortgage and Security Agreement, dated the date of execution and delivery of the Loan Agreement, between Neighborhood Health, as mortgagor, and the Authority, as mortgagee (the "**Mortgage**"), pursuant to which Neighborhood Health will grant to the Authority a mortgage lien on and security interest in Neighborhood Health's fee interest in and to the land located at 1770-58 Myrtle Avenue, Plainfield, Union County, New Jersey (the "**Premises**"), and all buildings, fixtures and other facilities now or hereafter located thereon.

NOW THEREFORE BE IT RESOLVED, by the Authority, as follows:

Section 1. Expansion of Loan Program for Existing Federally Qualified Health Centers. The Authority's FHQC Direct Loan Program is hereby amended to permit direct loans to Federally Qualified Health Centers for any of their corporate purposes provided that such purposes are permitted pursuant to federal and State law and regulations applicable to Federally Qualified Health Centers, including, but not limited to, borrowing for working capital purposes.

Section 2. Approval of the Loan and the Terms Thereof. Subject to the satisfaction of, and compliance with, the terms and conditions set forth in this Section 2 and Section 3 hereof, the Loan to Neighborhood Health from the Authority's available fund balance for the FQHC Direct Loan Program is hereby authorized and approved. The Loan shall be made to Neighborhood Health in an amount up to, but not exceeding, $750,000, and the proceeds of the Loan shall be disbursed to the Trustee from time to time upon the written request of the Trustee and shall be used only to pay operating expenses (as determined in accordance with generally accepted accounting principles) of Neighborhood Health incurred on or after the date of execution and delivery of the Loan Agreement, or such other costs as shall be approved by the Chairman, Vice Chairman, Secretary, Assistant Secretary, Treasurer, Assistant Treasurer or Executive Director of the Authority (each an "**Authorized Officer**"), all as more fully set forth in the Loan Agreement. The principal of the Loan shall be paid by Neighborhood Health in not exceeding sixty (60) consecutive monthly installments in an amount not less than one sixtieth ($1/60^{th}$) of the outstanding principal balance, commencing the first of the calendar month after the calendar month in which the execution and delivery of the Loan Agreement takes place. The principal amount of the Loan outstanding from time to time shall bear interest at a rate, adjusted monthly, which shall be equal to the New Jersey Cash Management Fund interest rate as of the first day of the month preceding the date of calculation, plus 2.0%. Additionally, in connection with the Loan, the Authority shall receive a closing fee of $250.00 and an annual administrative fee equal to 0.75% of the outstanding balance of the Loan.

Section 3. Additional Conditions Relating to the Loan. In addition to the requirements of the Loan set forth in Section 2 hereof, the Loan by the Authority to Neighborhood Health may only be made after satisfaction of each of the following conditions precedent:

(a) The Bankruptcy Court shall have issued an order (i) approving the Loan by the Authority to Neighborhood Health, (ii) establishing the Loan as a debtor-in-possession financing for purposes of the Bankruptcy Code, (iii) determining that the Mortgage shall constitute a first priority senior lien on the Premises, thereby "priming" and taking priority over all other creditors, secured or otherwise, in the Premises pursuant to 11 U.S.C. §364(d)(1), (iv) requiring the Trustee to deliver to the Authority a cash flow projection covering at least a period of six (6) months from the date of execution and delivery of the Loan Agreement supplemented by weekly financial status reports relating to Neighborhood Health's operations, including cash flow statements, reconciliations to budget and, at least every four (4) weeks, updated cash flow projections, for so long as any amounts are outstanding under the Loan, and (v) providing that, if the Trustee has not been successful in identifying a purchaser for the Premises and/or all or substantially all of the assets and business of Neighborhood Health by no later than the date that is four (4) months after the date of execution and delivery of the Loan Agreement, the Bankruptcy Court shall conduct an auction process to identify a potential purchaser and consummate a transaction pursuant to 11 U.S.C. §363 within six (6) months of the date of execution and delivery of the Loan Agreement, which purchaser (a) shall immediately upon purchase fully satisfy the Loan, or (b) satisfy all of the following conditions: (I) the purchaser shall be acceptable to the Authority, taking into consideration the purchaser's demonstrated ability to fund the acquisition of Neighborhood Health and its demonstrated experience in operating a health care facility, (II) the purchaser shall assume the Loan under the same terms and conditions as are contained in the Loan Agreement, the Note and the Mortgage, and (III) the purchaser shall be a "health care organization" within the meaning of the Act and shall agree to operate at least a substantial portion of the Neighborhood Health's facility as a health care facility; and

(b) The Loan Agreement shall (i) provide that, in addition to the Mortgage on the Premises, all of Neighborhood Health's obligations under the Loan Agreement shall also be secured by a security interest granted by Neighborhood Health to the Authority in all of its other assets (which security interest may be subordinate to pre-existing liens), all as more fully set forth in the Loan Agreement pursuant to 11 U.S.C. § 364 (c) (2) and (c) (3), (ii) obligate Neighborhood Health to deliver to the Authority a cash flow projection covering at least a period of six (6) months from the date of execution and delivery of the Loan Agreement supplemented by weekly financial status reports relating to Neighborhood Health's operations, including cash flow statements, reconciliations to budget and, at least every four weeks, updated cash flow projections, for so long as any amounts are outstanding under the Loan, and (iii) contain such other terms and conditions as an Authorized Officer, in consultation with counsel to the Authority and the State Attorney General, may determine are necessary or advisable in connection with the Loan (which determination shall be evidenced by such Authorized Officer's execution and delivery of the Loan Agreement).

Section 4. Authorization and Approval of the Loan Agreement and the Mortgage. The Authorized Officers of the Authority are each hereby authorized to execute, acknowledge and deliver, and to the extent necessary, the Secretary or Assistant Secretary are each hereby authorized to attest and affix the seal of the Authority to, the Loan Agreement and the Mortgage, which shall be in customary form and shall contain and comply with the terms and conditions for the Loan set forth in Sections 2 and 3 hereof, with, such changes and modifications as the Authorized Officers executing the same, in consultation with counsel to the Authority and the State Attorney General, may determine are necessary or advisable in connection with the Loan (which determination shall be evidenced by such Authorized Officer's execution and delivery of the Loan Agreement and the Mortgage).

Section 5. Incidental Action. The Authorized Officers of the Authority are hereby authorized to execute and deliver such other documents and to take such other action as may be necessary or appropriate in order to effectuate the making of the Loan to Neighborhood Health, the execution and delivery of the Loan Agreement and the Mortgage and the consummation of the transactions contemplated hereby, all in accordance with the foregoing sections hereof.

Section 6. Effective Date. This Resolution shall take effect ten (10) days, exclusive of Saturdays, Sundays and public holidays, after delivery (and not including the day of delivery) to the Governor of the minutes of the meeting of the Authority at which this Resolution is adopted or such earlier time as the Governor signs a statement of approval, all in accordance with the subsection (i) of Section 4 of the Act.