

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on March 22, 2007 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:

Gus Escher, Public Member (chairing as Vice Chairman); Moshe Cohen, Public Member (on the telephone); Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Edward Tetelman, Designee of the Commissioner of Health and Senior Services; and, Eileen Stokley, Designee of the Commissioner of Human Services.

The following **Authority staff members** were in attendance:

Mark Hopkins, Dennis Hancock, Jim Van Wart, Steve Fillebrown, Michael Ittleton, Suzanne Walton, Susan Tonry, Mae Jeffries-Grant, Bill McLaughlin, Marji McAvoy, Lou George, Carole Conover, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:

Kay Fern, Evergreen Financial; John Draikiwicz, Gibbons P.C.; Karen Lumpp, Atlantic Health System; Paul Dabrowski, Gary Horan, Trinitas Hospital; Howard Eichenbaum, GluckWalrath; Walter Greiner, Hak Kim, AtlantiCare Regional Medical Center; Michael Marcus, Goldman Sachs; Maryann Kicenuik, Windels, Marx, Lane & Mittendorf; David Kostinas, David Kostinas & Associates; Jack Swire, Chris McCann, Sakinah Rahman, Wachovia Bank; Danielle Cheung, JPMorgan Chase; Lopa Kolluri, Treasurer's Office (on the telephone); Sharon Price-Cates, Governor's Authorities Unit; and, Clifford T. Rones, Deputy Attorney General.

CALL TO ORDER

Mr. Escher called the meeting to order at 10:03 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 25, 2006 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.

APPROVAL OF MINUTES

February 22, 2007 Authority Meeting

The minutes for the Authority's February 22, 2007 Authority meeting were distributed for review and approval. Dr. Cohen offered a motion to approve the minutes; Mr. Tetelman seconded. Mr. Escher voted yes; Dr. Cohen voted yes; Ms. Kralik abstained; Mr. Tetelman voted yes; and Ms. Stokley voted yes. The motion carried and the minutes were approved.

TEFRA HEARING & CONTINGENT BOND SALE

A. Atlantic Health System

Mr. Escher announced that, as required by the Tax Reform Act of 1986, the following portion of the meeting will be considered a public hearing in connection with the Authority's proposed transactions on behalf of Atlantic Health System and Trinitas Hospital.

Project manager Lou George began the presentation on Atlantic Health System ("AHS") by introducing Karen Lumpp, Corporate Director of Special Projects. He indicated that the Members were being asked to consider a contingent sale of \$101 million of auction rate bonds on behalf of AHS, the proceeds of which would be used to effect a current refunding of the callable portion of AHS' Series 1997A Bonds, provide funds for renovations and capital expenditures at AHS' Morristown, Overlook, and Corporate locations, and pay the related costs of issuance.

The Morristown project involves relocating the neonatal intensive care unit; renovating and expanding the obstetrics, emergency room and nursing units; and renovating the parking garage and plant infrastructure. Renovations at the Overlook division include but are not limited to a roof replacement. Capital expenditures covered include: patient bed replacements at Morristown, the replacement of patient care bays in Morristown's post anesthesia care unit, and the acquisition of furnishings and equipment at AHS' Morristown, Overlook, and Corporate Offices.

Mr. George indicated that the bonds are being issued in a multi-modal form, which provides AHS with flexibility to react to changes in the interest rate market. The modes consist of a daily or weekly variable rate, a term rate, a commercial paper rate and a PARS rate, which is the proprietary name for Goldman Sach's auction rate securities. The PARS rate securities would be issued in \$25,000 denominations and can be issued in a daily, 7-day, 28-day, 35-day, 3-month, 6-month, or a flexible auction period.

Insured by Ambac Assurance Corporation, the bonds carry "AAA" ratings from both Moody's and Standard & Poor's. A liquidity facility is not required while the bonds are in the PARS mode, but if a conversion is requested, all outstanding bonds would be tendered and new bonds issued. Also, when bonds are outstanding in the PARS mode, a broker-dealer is needed to solicit orders and bids on the bonds. Goldman Sachs & Co. and Morgan Stanley & Co will serve as Co-Broker-Dealers for the proposed bond issue.

Mr. George reported that, apart from this transaction but prior to closing, AHS Hospital Corp. would cash defease the remaining portion of the 1997A bonds that are not yet callable. The Bond Resolution presented provides for the approval of "Letters of Instruction" to the bond trustee for both the current refunding and the hospital's cash defeasance. Mr. George pointed out that, in accordance with Authority procedures, AHS provided projections for the years 2008 through 2011.

Mr. Tetelman asked about the status of AHS' Mountainside facility, to which Ms. Lumpp replied that AHS is proceeding with the regulatory approvals and though no final approval has been granted as of yet, AHS is expecting an April 30th closing on the facility.

Dr. Cohen asked about the savings incurred from an auction rate structure, to which Mr. Hancock replied that currently, long-term interest rates for comparable transactions are in the 4-4.5% range while auction rates in the current market are showing a 3.0-3.5% range, therefore, it is expected that there is an approximate 1% interest rate savings possible from the use of an auction rate structure over a fixed rate structure. Also, the flat yield curve seen in the current

market shows that there is little difference between the respective rates for short-term and long-term debt. If the yield curve returns to more traditional levels, the spread between variable and fixed rates will widen.

Mr. Hancock added further that AHS will likely consider entering into a derivative contract which will synthetically provide them with a fixed interest rate at a lower overall cost than issuing the bonds at a fixed rate.

BOND RESOLUTION

The following information had been distributed to the Members in their meeting materials. Maryann Kicenuik, Esq. of Windels Marx Lane & Mittendorf, LLP attended the meeting in the event that the Members had any questions on the following specifics. The Bond Resolution authorizes the issuance of the Series 2007 bonds in a principal amount to yield proceeds, exclusive of any original discount, not to exceed \$101,000,000 and at an initial interest rate not to exceed 6%. The Series 2006 bonds will be issued in two lots of \$50.5 million each for a 7-day period and will mature no later than July 1, 2036. The bonds will be secured by a promissory note of AHS Hospital Corporation issued pursuant to a Master Trust Indenture through a First Supplemental Indenture. The Note issued under the Master Trust Indenture will be secured by a pledge of the gross receipts of AHS Hospital Corporation, which is the sole member of the Obligated Group. The Bond Resolution also approves the form of the Bonds, the Official Statement, Loan Agreement, Trust Agreement, Bond Purchase Contract, the Letters of Instruction, and Broker-Dealer Agreements. Further, the Resolution appoints The Bank of New York as Trustee, Bond Registrar, and Tender Agent for the Bonds; and Goldman Sachs & Co. and Morgan Stanley Co. as co-Broker-Dealers. The Resolution also authorizes any authorized officers of the Authority to execute and deliver such other documents as may be necessary to effectuate and deliver the Trust Agreement, Loan Agreement, and the issuance and sale of the bonds.

There were no further questions. Mr. Escher asked the Members' pleasure with respect to the adoption of the AHS Bond Resolution. Mr. Tetelman moved that the document be approved. Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-93

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Bond Resolution entitled, "A RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, AHS HOSPITAL CORP. ISSUE, SERIES 2007"

Ms. Lumppp thanked the Authority.

B. Trinitas Hospital

Lou George then introduced two representatives from Trinitas Hospital ("Trinitas"): Gary Horan, President and Chief Executive Officer; and Paul Dabrowski, Chief Financial Officer. He described Trinitas as an organization that operates an acute care hospital and a nursing home in Elizabeth, and noted that the Members are being requested for their consideration of a contingent sale of bonds on behalf of Trinitas in an amount not to exceed \$155 million.

The proposed transaction, which is purely a refinancing and does not include any new money projects, will be structured to consist of two series of fixed rate bonds. The first (Series

2007A) will be tax-exempt and the second (Series 2007B) will be a taxable convertible to tax-exempt issue.

The proceeds of the Series 2007A tax-exempt bonds will be used to effect a current refunding of the former St. Elizabeth Hospital's Series 1997 Bonds together with any Trinitas Series 2000 bonds that are presented for tender. The proceeds of the Series 2007B taxable convertible bonds will be used to defease all or a portion of the remaining un-tendered Trinitas Series 2000 bonds. So long as Trinitas remains a tax-exempt entity and so long as there are no significant changes to the tax laws that disallow the proposed conversion, the taxable Series 2007B bonds will convert to tax-exempt bonds in 2010. If for some reason the Series 2007B bonds cannot be converted, the bondholders will be entitled to a gross up provision in the interest rate of the taxable Series 2007B Bonds.

Mr. George noted that the tender offer for the Trinitas Series 2000 bonds is being conducted by Trinitas; the Authority is not a party to the tender offer.

With respect to savings from the refinancing, assumptions based upon current market conditions indicated a present value savings to Trinitas of approximately \$9.8 million or 7.7% of the refunded bonds. Further, he noted that Trinitas will provide a mortgage on their facilities together with a gross receipts pledge to the Master Trustee as security for any notes issued under the Master Indenture. In addition, amounts on deposit in certain funds held by the Trustee pursuant to the Trust Agreement will provide additional security for the Bondholders.

The bonds will be issued in \$5,000 denominations and integral multiples of \$5,000 in excess thereof. He added that the maturity date contingency that was noted in the Bond Resolution mailed prior to the meeting has been changed to July 1, 2036 as a result of the useful life calculation. Trinitas has a current rating of "BBB-" from S&P and "Baa3" from Moody's. They are awaiting confirmation of these ratings

In accordance with Authority procedures, Trinitas provided projections for 2007 and 2008 for the Members' review.

Mr. Tetelman asked about the status of the Elizabeth General Hospital facility, to which Mr. Horan stated that Trinitas is optimistic that the facility will sell. It is currently under contract with a developer, however, its sale is contingent upon the ongoing efforts of the developer to obtain certain necessary approvals. Mr. Tetelman asked about the status of the management of Trinitas' Emergency Department, to which Mr. Horan stated that Trinitas issued a request for proposal seeking outside management and has narrowed the responding candidates to three firms, though it has yet to make a final selection. Mr. Tetelman noted that he has recently become concerned with a trend of out-of-state firms managing New Jersey's emergency departments and their respective allegiances. Mr. Tetelman then asked if Trinitas has been involved with the sale of Union Hospital, to which Mr. Horan stated that Trinitas has entered into a confidentiality agreement with St. Barnabas Health Care System, which is looking to sell Union Hospital. If Trinitas does decide to get involved in a transaction with St. Barnabas for the Union facility, the Trinitas Board of Trustees will require that the transaction have no materially adverse affect on Trinitas' financials.

BOND RESOLUTION

The following information had been distributed to the Members in their meeting materials. Bond Counsel John Draikiwicz, Esq. of Gibbons P.C. attended the meeting in the event that the Members had any questions on the following specifics. The Bond Resolution authorizes the issuance of two series of fixed rate bonds in a principal aggregate amount that will yield proceeds exclusive of any original issue discount of an amount not to exceed \$155,000,000 for the purpose of making a loan to Trinitas. The Series 2007A tax exempt bonds will be issued

at a true interest cost not to exceed 8% and the Series 2007B taxable convertible bonds will be issued at a true interest cost not to exceed 10%. Both series of bonds will have a final maturity date of no later than July 1, 2036. The Bond Resolution provides for an Optional Redemption, a Special Optional Redemption, a Sinking Fund Redemption and an Extraordinary Redemption with a redemption price not to exceed 105%. The Bond Resolution approves the form of and authorizes the execution of a Bond Purchase Contract prior to close of business on June 28, 2007. In addition, the Bond Resolution approves the form of the Bonds, the Loan Agreement, the Trust Agreement, the Escrow Deposit Agreement, and the Official Statement. Further, the Bond Resolution appoints The Bank of New York as Trustee and Bond Registrar. It also authorizes and directs the Authorized Officers to execute and deliver such other documents and to take such other action as may be necessary to effectuate the execution and delivery of the Trust Agreement, the Loan Agreement and the issuance and sale of the Bonds.

There were no further questions. Mr. Escher asked the Members' pleasure with respect to the adoption of the Trinitas Bond Resolution. Mr. Tetelman moved that the document be approved. Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-94

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves the Bond Resolution entitled, "A RESOLUTION AUTHORIZING THE ISSUANCE OF NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY REVENUE BONDS, TRINITAS HOSPITAL OBLIGATED GROUP ISSUE, SERIES 2007A AND REVENUE BONDS, TRINITAS HOSPITAL OBLIGATED GROUP ISSUE, SERIES 2007B (TAXABLE CONVERTIBLE TO TAX- EXEMPT)."

Mr. Hopkins then reminded the Members that the Authority reserves the right to select firms from its qualified list to serve as co-managing underwriters for its financings, selecting the firms based on demonstrated ability to distribute comparable New Jersey securities, sufficient capital to participate in the underwriting, and borrower preferences.

As reported, Goldman, Sachs & Co. is the senior managing underwriter for the two proposed Trinitas series. Trinitas requested that Wachovia Securities serve as co-manager for both series. Because of the unique nature of the taxable series being convertible to tax-exempt, staff recommends that Wachovia Securities be the only co-manager appointed for those bonds. For a financing of the size of the tax-exempt bonds, staff recommends five co-managers to complement the senior managing underwriter. The recommended firms to join Wachovia as co-manager are: JB Hanauer & Co., Ramirez & Co., Sovereign Securities Corporation and Sturdivant & Co. These five recommended firms (i) are on the Authority's qualified list, (ii) have demonstrated the ability to distribute New Jersey securities of comparable credit quality, (iii) have sufficient capital to underwrite the issue, and (iv) incorporate the borrower's preference. Mr. Tetelman made a motion to approve the co-manager appointments as recommended by staff, Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-95

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby appoints JB Hanauer & Co., Ramirez & Co., Sovereign Securities Corporation,

Sturdivant & Co. and Wachovia Securities to serve as co-managers for the tax-exempt bond series to be issued on behalf of Trinitas Hospital; and

BE IT FURTHER RESOLVED, that Wachovia Securities be appointed to serve as the sole co-manager for the Trinitas series of bonds that are taxable-convertible to tax-exempt bonds.

Mr. Horan thanked the Authority, especially noting Mark Hopkins, Dennis Hancock, Lou George, Jim Van Wart and Steve Fillebrown for their assistance during the financing process. Mr. Escher then closed the public hearing required by the Tax Reform Act of 1986 on behalf of AHS and Trinitas.

INFORMATIONAL PRESENTATIONS

AtlantiCare Regional Medical Center

Suzanne Walton began by introducing Walter Greiner, Vice President and Chief Financial Officer of AtlantiCare Regional Medical Center, and Hak Kim, Corporate Director of Business and Planning. She then described AtlantiCare Regional Medical Center (“ARMC”) as an acute care, multi-hospital system offering health care services to the residents of Atlantic, Cape May, Cumberland and southern Ocean counties in southeastern New Jersey. The Medical Center operates hospital divisions in Atlantic City and Pomona, New Jersey and has a licensed bed complement of 267 beds at the City Campus and 334 beds at the Mainland campus (including neonatal beds).

ARMC requested that the Authority consider the issuance of bonds on its behalf, the proceeds of which would be used to: (1) finance and reimburse ARMC for a portion of the costs of an ongoing expansion and renovation project at its City Division including the construction of a new 7-story addition and renovations to existing hospital space, (2) advance refund a portion of their Series 2002 Bonds approximating \$35 million, (3) refinance all or a portion of their variable rate debt, (4) fund a debt service reserve, and (5) pay the related costs of issuance.

Currently, the ARMC Series 2002 bonds are rated in the “A” category, though ARMC may be a candidate for an upgrade even with the issuance of new debt. Meetings are scheduled with all three rating agencies within the next month. Several bond insurers have expressed an interest in providing insurance and ARMC will be exploring that option.

At this point, Ms. Walton turned the presentation over to Dennis Hancock who reported that calculations using interest rates for an “A” rated credit indicate that the refunding component will generate approximately \$1.5 million of present value savings or 5.9% of the refunded bonds. ARMC is still reviewing the advantages/disadvantages of refinancing all of a portion of their variable rate debt with its banker, Wachovia Securities. Currently, it is anticipated that the entire transaction will be structured as a fixed rate financing.

From a financial perspective, ARMC demonstrated the ability to adjust operations, programs and cost structures to meet the many challenges experienced by the hospital industry. Net patient service revenues have grown due primarily to growth in programs and services, an increasing case mix index, increases in contracted rates and the continuing management of payer denial rates. Operating expenses have been impacted by the addition of staff and costs related to growing volumes in more complex, resource intensive services, related facility costs and compensation adjustments; however, ARMC consistently reports positive results from operations

and a positive bottom line. Mr. Hancock reminded the Members that ARMC was once a FHA-financed hospital, making their current financial success even more impressive.

ARMC is well utilized, with inpatient admissions increasing annually. The occupancy rate has grown from 56% in 2003 to 63.8% in 2006, even with an increase in licensed beds. Outpatient admissions have also continued to grow during this time period.

Mr. Hancock stated that financial ratios designed to measure ARMC's liquidity show that its operating performance and capital structure consistently outperformed statewide medians. Based on year-end unaudited numbers, ARMC will be reporting 278 Days Operating Cash and 5 times debt service coverage.

At this point, Steve Fillebrown provided a summary of ARMC's Management Projections for the years 2007 through 2011. The projections demonstrate:

- Cash on hand ranging from 243 days to 299 days, which may sound high but ARMC has historically been around 270
- Payables ranging from 61 to 51 days
- Receivables constant at 44 days
- A Debt Service Coverage Ratio rising from 4.05 to 5.77, which is below historical levels due to new debt
- operating margins ranging from 5.0% to 5.8%
- profit margins ranging from 7.3% to 8.6%

Mr. Fillebrown noted that the ranges for the last two bullet points may sound high, given the overall state of New Jersey's hospital finances, but they are actually consistent with recent ARMC performance. In summary, the projections predict solid financial performance supporting ARMC's strong "A2/A" ratings. There is a slight drop in liquidity predicted for the time period in which the projects come on line, though cash trends return upward in 2010 through 2011.

Mr. Fillebrown then described the key assumptions made by the projections. In terms of volume, inpatient admissions assume 3% growth, which is not as conservative as seen in other recent projections, though it is lower than ARMC's average annual growth of 4.7% since 2000. Length of stay was calculated flat at 4.8 days. In terms of expenses, the average salary assumes an increase of 4.8% to 5.0% per year, which is slightly conservative, and the total salary expense assumes a rise by 8% per year reflecting the addition of 355 full time employees over forecast period. Supplies and other expenses conservatively assumed an increase by 8% per year, and fringe benefits are calculated to rise from 31% to 34% of ARMC's salaries. In terms of revenues, Net Patient Care Service is assumed to rise by 7% in most years, though 9.4% in 2008. While this is on the high side, it reflects the volume growth and ARMC's revenue enhancement project with Accenture. No change is expected in ARMC's payer mix.

Mr. Fillebrown described these assumptions as generally conservative. Volume and revenue growth assumptions are higher than typical but they are lower than historical rates at the hospital and are matched with higher than typical assumptions about salary, supplies and other expenses. Dr. Cohen noted a substantial non-operating income, which Mr. Fillebrown and ARMC representatives attributed to the inclusion of interest income from investments, which hospitals sometime report in the "Other Operating Revenue" category. Mr. Fillebrown noted that, without the inclusion of interest income, ARMC's operations still show a 5% to 8% return which places it in the top tier of New Jersey's hospitals, even competing with hospitals that include positive interest income in their overall operations revenues.

Mr. Escher asked if there are any reasons why ARMC is so financially strong when most hospitals in New Jersey are struggling. In addition to a strong marketplace, Mr. Greiner cited the strong and effective leadership and the forward thinking of President and Chief Executive Officer, George Lynn. Mr. Tetelman asked if ARMC had given any consideration to purchasing Kessler Memorial Hospital in Hammonton, since the facility is for sale and ARMC has found such success in Atlantic County's shore facilities. Mr. Greiner noted that while there have been talks between some of the ARMC executives and Kessler's management, ARMC does seek to purchase the facility. The talks are simply to ensure that ARMC's Pomona facility could handle any migration of Kessler's market if need be. Mr. Escher noted that the ARMC presentation was given for informational purposes only; therefore, no Authority action was required.

AUDIT COMMITTEE REPORT ***Authority's Proposed 2006 Audit***

Mr. Tetelman, Chairman of the Authority's Audit Committee, reported that though he was unable to attend the Committee's meeting, he will present the Committee's findings based on meeting minutes, the audit report and an update from staff. He asked that any questions specific to events of the meeting be directed towards senior staff or Randy Nelson, Executive Director with Ernst & Young, the Authority's auditor.

Mr. Tetelman then reported that, on March 6th, Mr. Nelson complimented the Authority for another successful audit, which he then reviewed with the Committee. Ernst & Young's audit of the Authority's 2006 financials found:

- No unusual Authority transactions,
- No unrecorded audit differences,
- No fraudulent or illegal acts,
- No material weaknesses, and
- No internal controls concern.

During the audit, one adjustment was made, simply correcting a manual posting error to the supplemental financial information. Though this adjustment is immaterial and was subsequently booked properly, a recent change in auditing practices relating to the Statement on Auditing Standards No. 112 requires Ernst & Young to disclose the adjustment as a control deficiency. As such, the adjustment is presented in an Internal Controls letter issued with the audit. It should be noted that, since the Authority has a strong track record of high quality internal controls and the incorrect information was simply a manual posting error, it does not qualify as a significant deficiency.

Mr. Tetelman reported that the one major change in this audit, as compared to audits past, reflects the Governmental Accounting Standards Board Statement No. 45 ("GASB 45"), titled *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement calls for increased disclosure of the Authority's Other Post-Employment Benefits ("OPEB"). As a result, the financials now include the Authority's required OPEB contribution consisting of normal costs, interest in unfunded liability and the amortization of accrued liability, then offset by the expenses that are actually paid out for retired employees. According to Mr. Tetelman, the OPEB data for the start of 2006 shows a total accrued liability of \$2.7 million, up from \$2.5 million in 2005.

Because OPEB liabilities are generally large, many organizations are establishing trusts to remove the information from financial statements. The Authority is also exploring this option. While the Attorney General's Office has reviewed an Authority request for such a trust, staff has been informed that the Attorney General seeks to standardize all similar requests from State agencies into one consistent trust format. Until then, the OPEB data remains on the Authority's financials in compliance with GASB 45.

After thanking both Ernst & Young and the Authority's Operations staff for another job well done, Mr. Tetelman recommended the audit's approval on behalf of the Committee. He then moved to approve the Authority's Proposed 2006 Audit and Letter to Management and moved to authorize submission of the 2006 Audit to the Governor, members of the Legislature, the Secretary of State, and the Comptroller of the Treasury by March 31, as required by the Authority's enabling legislation; Ms. Stokley seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-96

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby accepts the 2006 Audit and Letter to Management as prepared and submitted by Ernst & Young; and,

BE IT FURTHER RESOLVED, that the Authority authorizes submission of the 2006 Audit to the Governor, members of the Legislature, the Secretary of State, and the Comptroller of the Treasury by March 31, as required by the Authority's enabling legislation.

Randy Nelson stated that the report was succinct and accurate and confirmed that the Authority is in excellent financial condition and received a clean opinion. He added that the auditors received full cooperation from staff and stated that the Members should be proud of this staff, which cares about the organization and presents information in a timely and correct manner consistent with the State's standards. Mr. Escher thanked Mr. Nelson for attending the meeting.

2007 SMALL BUSINESS SET-ASIDE PLAN

Michael Ittleson reminded the Members that the New Jersey Set-Aside act requires state departments, colleges, authorities and commissions to file a set-aside plan with the New Jersey Commerce Economic Growth and Tourism Commission. He then introduced staff's proposed set-aside plan for calendar year 2007, based on the Authority's approved 2007 budget.

The Set-Aside act establishes that: at least 8.3% of the dollar value of the Authority's contracts be set-aside to small businesses whose gross revenues do not exceed \$500,000; at least 8.3% of the dollar value of contracts be set-aside to small businesses whose gross revenues do not exceed \$5 million; and, at least 8.4% of the dollar value of contracts be set-aside to small businesses whose gross revenues do not exceed \$12 million. This equals an overall total of 25% of the Authority's contracts being set-aside to small businesses.

The Authority's 2007 set-aside plan as presented complies with the mandated percentage goals. Specifically, 8.7% of the contracting dollars will go to small businesses whose gross revenues do not exceed \$500,000, 8.5% of the contract dollars will go to small businesses whose gross revenues do not exceed \$5 million, and 8.4% will go to small businesses whose gross

revenues do not exceed \$12 million. Mr. Ittleson asked the Members to consider adopting the plan as presented.

Mr. Escher noted that the Set-Aside plans establish goals; he asked how successful the Authority has been in meeting those goals. Mr. Ittleson stated that the Authority consistently meets or exceeds the first two goals, but does have a bit more difficulty with the third goal, falling slightly short on occasion. Mr. Escher asked how staff determines the size of its companies, to which Mr. Ittleson stated that the State maintains a database of firms listed in each of the three categories. He noted that it has been a little more burdensome this year with new contract stipulations being established regarding women- and minority- owned firms, though some firms will overlap between the two programs.

Mr. Hopkins noted that the regulations relating to women and minority-owned firms are addressed in Governor Corzine's recent Executive Order No. 34. Currently these contract stipulations, and those noted in the set-aside mandates, only address goods and services, however, Executive Order No. 37, which implements fair and open procurement procedures by State authorities, may affect other businesses such as banking, underwriting, and bond counsel. The latter Executive Order consists of more sensitive areas for this Authority. Mr. Hopkins stated that, with respect to Executive Orders No. 34 and 37, staff has submitted a draft procurement policy to the Governor's Authorities Unit for consideration, comment and discussion.

Mr. Tetelman then moved to approve the Authority's proposed 2007 Set-Aside Plan; Ms. Kralik seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-97

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts a Set-Aside Plan for 2007 that meets the State's Set-Aside emergency rule requirements, in at least their minimum value, and authorizes its submission to the New Jersey Commerce & Economic Growth Commission.

AUTHORITY EXPENSES

Mr. Escher referenced a summary of Authority expenses and invoices. Mr. Tetelman offered a motion to approve the bills and to authorize their payment; Ms. Stokley seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-98

WHEREAS, the Authority has reviewed memoranda dated March 15, 2007, summarizing all expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of \$679,325.95, \$40,969.73 and \$113,795.52 respectively, and has found such expenses to be appropriate;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

STAFF REPORTS

Mr. Escher thanked staff for their preparation of reports that were distributed for review, including the Project Development Summary, Cash Flow Statement, and a Legislative Advisory. Mr. Hopkins then announced the following items in his Executive Director's Report:

1. A Bill recently passed the Senate and the Assembly with large margins that requires hospital board members to have certain training. Mr. Hopkins commended the Bill noting that staff has seen a wide divergence in the sophistication of hospital boards, and, further, there is a correlation between better-prepared boards and financially strong hospitals. Mr. Cohen asked if the Authority would participate in the training, to which Mr. Hopkins stated that there may or may not be an opportunity or requirement for the Authority's involvement in such training.
2. On February 27th, the Authority issued \$45,150,000 of short-term bonds for the St. Mary's Hospital ("St. Mary's") acquisition of the PBI Regional Medical Center ("PBI") facility and the refunding of the outstanding St. Mary's bonds. As an additional result, the Authority received full repayment of PBI's November \$1.5 million debtor-in-possession loan. The acquisition was completed on February 28th and nearly all hospital operations were transferred to the former PBI facility at 350 Boulevard, Passaic. Remaining at St. Mary's former campus are its psychiatric services, which are expected to be moved within the next year to the Boulevard campus, once the required renovations to house psychiatric services are complete.

The short-term bonds consisted of \$35,460,000 tax-exempt bonds and \$9,690,000 million taxable bonds and initially bear interest at the rates of the BMA Index plus 2% and 30-day LIBOR plus 2%, respectively. The bonds were purchased by Merrill Lynch and will bear interest at those rates for 60 days or until the bonds are refunded, which is expected to occur on April 11, 2007. If the short-term bonds are not refunded within 60 days, an additional one percent is added to the indexed interest rates above. If the bonds are not refunded within 90 days, an additional four percent is added to the index interest rate.

The Authority expects to issue long-term State Contract bonds on behalf of St. Mary's on April 11th to refund the short-term bonds. The State Contract bonds are being issued pursuant to the Hospital Asset Transformation Program and, as such, will be backed by a contract between the State Treasurer and the Authority, pursuant to which the Treasurer agrees to pay the interest and principal on the bonds when due, subject to legislative appropriation. St. Mary's entered into an agreement to pay an amount equal to the principal and interest on the bonds, therefore, the State Contract bonds are expected to be revenue neutral to the State.

The State Contract bonds will be issued in two series, approximately \$27.2 million in tax-exempt bonds and approximately \$17.5 million in taxable bonds. The tax-exempt bonds are expected to mature in 20 years and the taxable bonds are expected to mature in 11 years. The Preliminary Official Statement was mailed yesterday and the bonds have received a rating of A+ from Fitch, A1 from Moody's and AA- from Standard & Poor's. Merrill Lynch is the senior managing

underwriter for the bonds. The State has selected Loop Capital Markets and Powell Capital Markets as co-managers.

Merrill Lynch, and bond counsel Cozen O'Connor, did an exceptional job on this incredibly complicated, time-consuming and fast-paced transaction. The work of the Governor's office, the Department of Health and Senior Services and the Treasurer's office and the Attorney General's office has been invaluable. Indeed, the entire working group should be commended for working tirelessly to bring this transaction so far in such a short amount of time. Mr. Hopkins especially acknowledged the extraordinary work of Authority staff on the varied aspects of this complicated transaction, especially Dennis Hancock, Steve Fillebrown, Bill McLaughlin, Ron Marmelstein, Neetu Thukral, Carole Conover, Stephanie Bilovsky and Mae Jeffries-Grant. He stated that he is extremely proud of the staff's work on this transaction.

As an encouraging aside, the St. Mary's transition into its new facility on March 1st went relatively smoothly and it has been operating at or near capacity since, now averaging approximately 220 filled beds. Prior to the transition, PBI only filled on average 120 beds and St. Mary's averaged approximately 80.

2. The Authority's Board Retreat is scheduled for Monday, June 4th from noon until 5:00 p.m. and Tuesday, June 5th from 8:30 a.m. to 5:00 p.m. The retreat will generally be open to the public, pursuant to New Jersey's Open Public Meetings law. Staff believed that, because Authority Members and others expected to attend the retreat are coming from various locations in the State, the retreat should be held in central New Jersey. After researching several potential locations in central New Jersey, Carole Conover and Stephanie Bilovsky recommend the Sheraton on Route 1 in Woodbridge. If no Members object to this location, staff will proceed to reserve the Sheraton for the retreat.

Staff also recommends inviting three advisors to the retreat: a representative of an underwriting firm with significant experience in underwriting New Jersey health care bonds, and two attorneys who have who have served as bond counsel, issuer's counsel, underwriter's counsel and borrower's counsel for health care financings in New Jersey, but are not currently on the Authority's approved bond counsel list. These advisors can provide the Authority Members with a well-rounded resource base and varying perspectives, while keeping in mind the interests of the Authority.

Members considered the option to invite a representative of FHA and/or HUD to the retreat, as well as a representative from a comparable financing authority in another state. Members also weighed the option of doing committee type break-offs for various issues, however, it was determined that this structure would not be most beneficial for the goals of the retreat. Members also agreed that the agenda should be prioritized to ensure that the most pressing issues are addressed first since issues of less conflict or importance could be delayed for discussion at future board meetings if more time is needed.

3. Mr. Hopkins noted that, as stated earlier in the meeting, staff has drafted policies regarding Executive Orders No. 34 and No. 37 and submitted those policies to the Governor's Authorities Unit for consideration, comment and

discussion. The policies were also provided to each of the Authority Members by e-mail on March 13th.

4. The *Commission on Rationalizing New Jersey's Health Care Resources* held its second meeting at the Authority offices on February 23rd and is scheduled to hold its next two meetings here on March 30th and April 24th. Steve Fillebrown has been asked to chair the Reimbursement/Payer subcommittee of the Commission and has also been instrumental in working with the Commission's consultant in reviewing, standardizing and cleaning data. An amendment to the Authority's budget is expected to reflect additional costs associated with the Authority's support of the Commission.
5. Members need to report on their availability for a State-mandated ethics training session. Members are required to attend one of the two sessions offered, (Wednesday, April 11 at 10:00 a.m. and Tuesday, April 17th at 2:00 p.m.), which are scheduled to take approximately two hours and will be held in Trenton at a location to be announced.

EXECUTIVE SESSION

At this point, as permitted by the Open Public Meetings Act and the Authority's By-Laws, Mr. Escher asked the Members to meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General. Mr. Tetelman offered a motion to enter the session; Ms. Stokley seconded it. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-99

NOW, THEREFORE, BE IT RESOLVED, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General.

BE IT FURTHER RESOLVED, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. Mr. Tetelman reported briefly that some hot issues at the Department of Health and Senior Services are: the validity of recent news stories on delayed cardiac care and how to address any concerns; and, the lack of a centralized Emergency Medical Services system in New Jersey, which is the only state without such centralization. Mr. Tetelman noted that the Commissioner's Committee would be meeting in the future to discuss these and other issues. As there was no further business to be addressed, Mr. Tetelman moved to adjourn the meeting, Ms. Kralik seconded. The vote was unanimous, and the motion carried at 12:30 p.m.

I HEREBY CERTIFY THAT THE
FOREGOING IS A TRUE COPY OF
MINUTES OF THE NEW JERSEY
HEALTH CARE FACILITIES
FINANCING AUTHORITY MEETING
HELD ON MARCH 22, 2007.

Dennis Hancock
Assistant Secretary