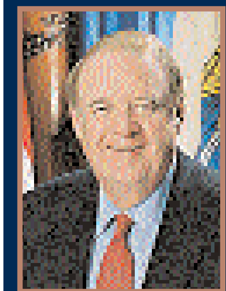
NJHCFFA
NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

AUTHORITY NOTE$

Winter '05/'06

MESSAGE FROM THE GOVERNOR


Richard J. Codey

By the time you read this, Jon S. Corzine will have been sworn in as the new Governor of New Jersey. While I didn't seek out the role of Governor, I tried my best to lead the State as effectively as possible during my tenure. I am proud of the work of my Administration, especially our accomplishments in the health care sector.

Together, we created the nation's first publicly funded stem cell research and patient care facility. We recognized that stem cell research may hold the key to treating numerous incurable diseases. Our investment in this area lays the groundwork for the future medical breakthroughs that will bring recognition to our State and better health for our people.

We also made significant advances against post-partum depression, launching a statewide educational campaign to raise awareness of the condition and offering resources for women, their families, and health care professionals. In other outreach, we provided free information about long-term care options to help give our State's aging population a high quality of life as they approach the winter years.

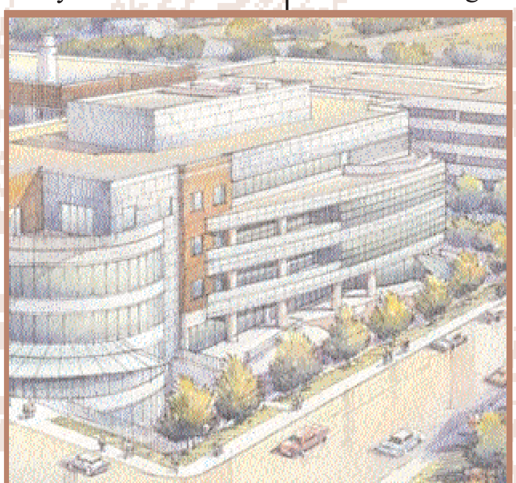
Perhaps my proudest accomplishment, though, is the way in which New Jersey helped to redefine treatment for the mentally ill during my tenure. With the help of the NJHCFFA, the State is replacing the old outdated Greystone Park Psychiatric Hospital with a brand new facility that will improve the lives of up to 510 residents and their families.

I thank the NJHCFFA for joining me on my endeavors to improve health care in New Jersey. With the help and support of our new Governor, may it continue to help make New Jersey healthier in the years to come. §

NJHCFFA ELIMINATES INITIAL FEES AND REDUCES ANNUAL FEES

Well aware that many of the Authority's borrowers are faced with mounting financial pressures, on December 15, 2005, the Authority unanimously voted to approve a new fee structure that reduces the costs of borrowing funds through the Authority.

In 2003, the fees were raised after a significant portion of the Authority's fund balance was contributed to provide additional charity care funds.


Rendering of the Authority-financed Children's Specialized Hospital in New Brunswick (see p. 3)

Having successfully averted its own financial crisis and finding itself with a stable fund balance, the Authority determined it could reduce its fees for future transactions, furthering its mission "to ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State."

Executive Director Mark Hopkins noted, "The Authority's goal is to charge only those fees that are necessary to provide health care organizations with efficient access to capital

(continued on next page)

NEW NJHCFFA PUBLIC MEMBER

On December 15th, 2005, Moshe (Marc) Cohen, Ph.D., was confirmed by the New Jersey State Senate to replace Noreen White as a public member of the NJHCFFA. Mr. Cohen is a Principal State Certified General Real Estate Appraiser for Valuation Solutions, specializing in Real Estate Finance, Tax Appeals, and Condemnation.

He began his professional career as an economist for the Federal Reserve Bank of New York, after which he served as a consultant to large corporations, municipalities, private investors and developers on real estate finance.

He then became a Professor of Finance at Penn State University (Malvern Campus), where he helped found the Graduate Center for Finance, a program designed to provide graduate training to middle managers and corporate executives. Just prior to his current consulting position, Dr. Cohen served as President and Portfolio Manager of Forward Asset Management, Inc.

Dr. Cohen received a Doctorate in Business and Applied Economics, and a Masters in Finance, both from the Wharton School at the University of Pennsylvania. He earned his Bachelor's degree in Economics and Statistics from Tel-Aviv University, and currently resides in Randolph, New Jersey.

January 26, 2006 will be Dr. Cohen's first Authority meeting; his term as Public Member will expire on April 30, 2009. §

MESSAGE FROM THE EXECUTIVE DIRECTOR

With 2005 fading, I look back with pride at our accomplishments over the year. The Authority issued over $440,000,000 in bonds on behalf of nine different borrowers to aid in the construction, renovation, equipping or refinancing of health care facilities across the state.

In addition, staff revamped the Equipment Revenue Note program to further streamline the process, lower its costs and add to its efficiency. We also eliminated virtually all of our initial fees and reduced our annual fees for all Authority products so that we can provide even more cost-effective financing for the State's health care providers. All the while, staff continued to develop new ideas for financing programs, monitored the financial condition of the State's healthcare system, and presentated at numerous conferences.

In 2005, we reluctantly bid adieu to a talented staff member and a loyal public member of the Authority, but we welcomed two new staff members and one new public member with excitement. Two employees celebrated their twentieth year of service with the Authority, which is a credit to the camaraderie among Authority co-workers. It was strong and welcoming when I joined the staff a year and a half ago, and it continues to flourish with each new employee.

Personally, I made a goal for 2006 to visit New Jersey's hospitals and health care organizations, meeting the executives and touring the facilities. Having settled in my role as Executive Director, I would like to take time this year to get to know our borrowers, their facilities, and their financing needs first hand. I look forward to these meetings and am enthusiastic about working with our borrowers to explore new ways in which the Authority can improve its financing options to better suit our borrowers' needs.

On behalf of the staff, I'd like to say that we enjoyed working with the Codey Administration and its aim to better New Jersey's health care delivery, especially in the area of mental illness. We also look forward to breaking new healthcare ground under the leadership of newly inaugurated Governor Jon S. Corzine.

I welcome 2006 and all of its opportunities for our staff, our borrowers, and the State of New Jersey as a whole. §

NEW FEE STRUCTURE

(continued from page 1)

markets through the work of our highly qualified staff."

The structure also enables a new Authority concept to assist hospitals in financing "Terrorist Preparedness Projects." These are projects that are mandated by the NJ Domestic Security Task Force but are not reimbursed with State or Federal funds. Projects financed through this program will have no initial fees and an annual fee of only 5 basis points

The new fee structure requires that 50% of the first year's estimated annual fee be paid by the potential borrower at the signing of a memorandum of understanding with the Authority. This non-refundable deposit will not be returned to the borrower if the financing does not close. However, if the financing does close, the deposit will be credited to the payment of the first year's annual fee.

If you would like to pursue an Authority financing under the new fee structure, contact the Authority's project management team at (609) 292-8585. Dennis Hancock, the Director of Project Management, can inform you on how the Authority can help your organization obtain low-cost capital.

The New Fee Structure

1) For **all financings**, the new fee structure:

· no longer requires borrowers to reimburse the Authority for fees charged by the Attorney General's Office for work performed on the financing

· currently caps the amount on which annual fees are charged at $80,000,000

2) For **traditional** and **Variable Rate Composite Program** financings, the new fee structure:

· eliminates initial fees (10.31 basis points in 2004 and 2005, based on the original principal amount of the bonds)

· returns annual fees to 10 basis points based on the original principal amount of the bonds and eliminates the annual adjustment for inflation

3) For the **Equipment Revenue Note Program,** the new fee structure:

· eliminates initial fees

· reduces annual fees to 7.5 basis points

4) For the **Capital Asset Loan Program**, the new fee structure:

· reduces the initial fee from $5000 to $500

5) For **Terrorist Preparedness Projects**, the new fee structure:

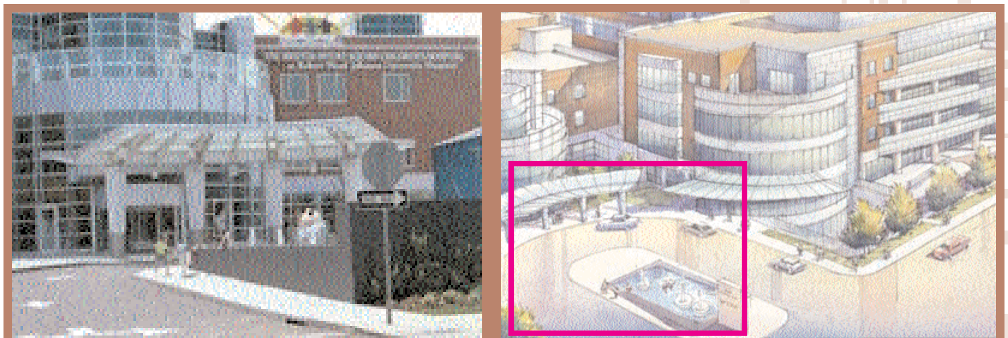
· sets an annual fee of only 5 basis points §

NJHCFFA 2005 ISSUES

Recovery Management Systems	Variable rate: reset weekly	$13,860,000
AtlanticCare Regional Medical Center	Capital Asset Loan Program	$25,000,000
Avalon at Hillsborough, Series A	Fixed rate	$10,880,000
Avalon at Hillsborough, Series B	Fixed rate; Federally taxable	$1,175,000
RWJ at Hamilton, Series A	Multi-modal; Initially 7-day auction rate mode	$30,300,000
RWJ at Hamilton, Series B	Fixed rate	$65,375,000
NJ Dept. of Human Services	Fixed rate	$186,565,000
Children's Specialized Hospital, Series A	Fixed rate	$32,895,000
Children's Specialized Hospital, Series B	Variable rate: reset weekly	$24,000,000
COMP VI: AtlantiCare Regional Medical Center	Variable rate: reset weekly	$25,000,000
COMP VI: Christian Health Care Center	Variable rate: reset weekly	$6,600,000
COMP VI: · JFK Medical Center	Variable rate: reset weekly	$18,000,000
	Debt Issued in 2005:	$441,150,000

FINANCING NOTE$

On November 1, 2005, the Authority closed on two series of bonds totaling $56,895,000 on behalf of **The Children's Specialized Hospital ("Children's Specialized")**, an affiliate member of the Robert Wood Johnson Health System and the largest pediatric rehabilitation hospital in the United States. The issuance was split into two series so that a portion of the borrower's bonds could carry a variable rate while the other series would have a fixed interest rate.



The photo on the left is the fountain and entrance to the current Bristol Meyers Squibb Children's Hospital in New Bruswick. This is the same fountain and entrance seen in the rendering on the right of the new Children's Specialized Hospital. Both facilities were financed by Authority bonds.

The proceeds of the bonds will be used to fund construction of a 130,000 square foot, five-level building to house the relocation of 60 comprehensive pediatric rehab beds from the existing campus in Mountainside. The new facility will be located in New Brunswick next to the Bristol-Myers Squibb Children's Hospital and the soon to be completed Child Health Institute of New Jersey Research Center. The three facilities will form the State's first comprehensive pediatric center of excellence.

Both the Series A and Series B bonds are secured by a mortgage on the Children's Specialized Mountainside facility, a leasehold mortgage on the New Brunswick facilities (to be constructed on land leased from Robert Wood Johnson University Hospital), and a security interest in the gross revenues. The Children's Specialized Hospital Foundation provides further security through a guaranty of the hospital's payment obligations under the Loan and Trust Agreement.

While the fixed rate Series A bonds carry a rating of "BBB-" from Fitch and "Baa3" from Moody's, the underwriter and the working group felt confident in the project and wanted to tell the hospital's story to generate interest in the project and its bonds. The underwriter and hospital representatives spent considerable time speaking with institutional investors leading up to the pricing to explain the history of Children's Specialized, the services to be provided in the new facility, and the relationship with RWJ University Hospital.

At the same time, the Authority and Children's Specialized hoped that since this is a children's hospital with significant foundation support, it would attract a broad range of institutional support.

Those hopes were realized when numerous institutions placed bond orders, many placing orders for the entire amount of single maturities. As a result, the underwriters offered to purchase the bonds with final yields ranging from 3.88% in 2008 to 5.32% (5.15% based on the call date) in 2036. The Net Interest Cost for this fixed rate portion of the issue was 5.33%. When compared to the Municipal Market Data spreads, this final offer more closely resembled a "BBB" rating than the "BBB-".

The variable rate Series B bonds are secured by a Wachovia Bank direct-pay letter of credit. Rated "Aaa/VMIG1", these bonds enjoyed an initial interest rate of 2.55%, to be reset weekly.

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On January 5, 2006, the Authority closed a $22,500,000 bond transaction on behalf of **Hunterdon Medical Center ("Hunterdon")**. The hospital had originally requested an issuance of approximately $35 million worth of bonds for expected construction projects, however, a portion of those funds were designated for a project that was contingent upon a State permit. The estimated timeline for this permit approval could not be determined.

Therefore, instead of potentially delaying the entire $35 million needed for the hospital project, it was decided that the issuance could be broken up into two series to accommodate for the difference in contingencies. In this format, if the hospital experienced a delay in obtaining the local permit, the other series could still go forward allowing Hunterdon access to the proceeds from the completed series to begin its project.

The two-series structure turned out to be effective and necessary as the project financed by the Series B bonds did meet with a delay. Due to the bifurcation of the financing, the Series A bonds were able to go to market, raising $22.5 million in proceeds for Hunterdon's use.

The proceeds from the Series A bonds will be used to: construct a parking garage on Hunterdon's main campus; improve Hunterdon's core buildings; acquire capital equipment; refinance a taxable bank loan; and reimburse Hunterdon for certain pre-construction costs related to the construction of a health and wellness center.

Hunterdon Medical Center facility

At the time of the bond sale's approval by the Authority, Hunterdon had received planning board approval for the parking garage, though the appeal period was not over. This was overcome by language in the Series A Series Resolution, which required that the appeal period lapse without an appeal prior to the mailing of a preliminary official statement.

Proceeds from the Series B bonds will fund the construction of a health and wellness center in the town of Clinton. Hunterdon and the town entered into a

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NJHCFFA STAFF NOTES

Our staff would like to wish all of the Authority's clients and colleagues a very happy new year!
(not pictured above: Suzanne Walton)

William McLaughlin

The Authority would like to congratulate **William MacLaughlin** who completed his fifth year of service with the Authority. His five-year milestone was recognized by staff and the Authority's Membership in November, at which time it was reported that the average level of seniority among the Authority's 26 staff members is eleven years and ten months.

The high length of stay for Authority employees is a credit to each staff member of the Authority, all of whom help to foster a pleasant work environment.

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Authority staff members are once again showing enormous heart through generous charitable contributions. As a regular participant in the Employee Charitable Campaign program ("ECC") managed by United Way of Greater Mercer County, each employee of the Authority is able to designate a portion of his/her paycheck to be given to various charities of his/her choice.

Lorraine Donohue

For the calendar year 2005, the Authority received a "Gold Award" for its high level of contribution, exceeding 50% participation and an average annual donation of at least $100.00 by each participating staff member.

Lorraine Donohue, the ECC coordinator for the Authority, stated, "The charitable campaign has become a tradition with the NJHCFFA. It is an expression of who we are, what we stand for, and where we're going as we rise to address the needs of others." Ms. Donohue noted that, as staff members turn in their charity selections and donation amounts for the 2006 calendar year, it is clear that the Authority will once again receive recognition as a generous contributor to the program's charities.

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The Authority's 2004 Annual Report was awarded a Gold MarComm Creative Award, recognizing it in the Government Annual Report category. *MarComm Creative Awards* is an international competition judged by marketing and communications industry professionals seeking "companies and individuals whose talent exceeds a high standard of excellence and whose work serves as a benchmark for the industry."

Entries are judged on the look and feel of the printed materials, as well as the effective delivery of information within the documents.

Congratulations to **Stephanie Bilovsky** who designed and wrote the report, Hermitage Press Inc. who printed the piece, and Bill Lohman and Peter Borg who provided the Authority with photography services for the report.

Stephanie Bilovsky

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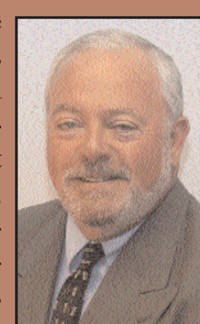
Authority staff members are often asked to share their insight through presentations at various conferences and seminars.

On November 10, 2005, **Jim Van Wart**, the Authority's Director of Operations and Finance, spoke at the *21st Annual Construction Forecast Seminar* in Trenton sponsored by the New Jersey Alliance for Action. He forecasted the 2006 and 2007 construction projects to be financed by the Authority.

If you would like information about his presentation, or would like an Authority representative to present at an event of your own, please contact Stephanie Bilovsky, NJHCFFA Communications Specialist, via email szschunke@njhcffa.com.§



Jim Van Wart

FINANCING NOTE$

(continued from page 3)

water agreement that is conditioned upon the New Jersey Department of Environmental Protection's issuance of an allocation permit and a safe drinking water permit for a specific well.

While the town of Clinton fully expects the permits to be issued, neither Hunterdon nor Clinton is in control of the timing of the permit process. Because the Authority policy requires that the permits be in hand prior to the marketing of the bonds, the Series B Series Resolution contains a provision stating that the permits must be received, or some other agreement for suitable water must be reached with the town, prior to the issuance of a preliminary official statement for the Series B bonds.

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On December 20, 2005, the Authority closed a $49,600,000 bond transaction on behalf of three borrowers through the sixth tranche of its **Variable Rate Composite Program (the "COMP" progam)**.

Under this program, the Authority enables several qualified health care borrowers to simultaneously access the tax-exempt and/or taxable capital markets at variable interest rates, thereby allowing the borrowers to share issuance costs. With standardized documents and collectively-marketed bonds, the individual borrower's printing, legal, and general costs of issuance are reduced. In this latest COMP financing:

The three COMP VI borrowers from left to right: AtlantiCare Regional Medical Center's City Division (Atlantic City, NJ); Christian Health Care Center's campus (Wyckoff, NJ); and, JFK Medical Center's facility (Edison, NJ)

-**AtlantiCare Regional Medical Center** received $25 million in bond proceeds to finance an expansion and renovation project at the Medical Center's City Division, including the construction of a new 7-story addition and renovations to the existing hospital space. Rated "Aa2/VMIG-1" by Moody's and backed by a Wachovia Bank Letter of Credit, the bonds received an initial interest rate of 3.25%, to be reset weekly.

- **Christian Health Care Center** received $6.6 million in bond proceeds to finance a portion of the construction of a two-story addition to its psychiatric facility. Proceeds will also be used to finance renovation and construction projects at the long term care facility and to acquire neighboring property to reconfigure the facility's entrance. Rated "A2/VMIG-1" by Moody's and backed by a Valley National Bank Letter of Credit, the bonds received an initial interest rate of 3.29%, to be reset weekly.

- **JFK Medical Center** received $18 million in bond proceeds to finance and/or reimburse the Center for the costs of building improvements and various items of equipment, including renovations to the Access Center, the dietary department, the radiology department, and a nursing unit. Proceeds will also finance major purchases such as furniture and information technology equipment. Rated "Aa2/VMIG-1" by Moody's and backed by a Wachovia Bank Letter of Credit, the bonds received an initial interest rate of 3.25%, to be reset weekly. §

APOLLO REPORT: 2nd QUARTER 2005

By Steve Fillebrown, Director Research and Investor Relations

Below are some observations on the financial condition of New Jersey's hospitals based on the Authority's APOLLO database analysis for the second quarter of 2005.

After noticeable improvement in the fourth quarter of 2004, profitability indicators dipped in 2005's first two quarters. In that time, the median operating margin decreased from .97% to .51%, and the median profit margin decreased from 1.46% to .96%.

Liquidity measures also slightly decreased in that time, with days cash on hand dropping from 80 to 76 days. Receivables declined by one day to 51, while payables were stable at 62 days. Leverage ratios improved, with debt to capitalization and debt to fixed assets both lower than at year-end.

The boost provided by increased charity care and Medicare reimbursement starting in 2004 has been overtaken by other factors. No one problem stands out as the cause for the downward drift. While wage pressures and medical denials are known to concern hospitals, there does not seem to be a major industry trend to explain the decline. Fortunately, charity care for State fiscal year 2006, which was slated for a $50 million decrease, was funded at 2005 levels so hospitals are not facing decreases in that funding source for the time being.

The last APOLLO report noted that, despite improvements in profitability, days cash on hand continued to decline in 2004. The audited financial statements for 2004 suggest that one reason for that decline is a continued high level of capital spending. New Jersey hospitals are estimated to have spent over $1 billion on property, plant and equipment in 2004, an increase of about $100 million over 2003.

In the last six months, differences in financial performance between various peer groupings became more pronounced. Several categories of hospitals are currently outperforming their counterparts, namely: hospitals with over 400 beds, hospitals in the southern half of the state, and hospitals serving higher income populations.

Within these correlations, the gaps of financial stability have never been stronger than they are now. Also, while differences in liquidity and leverage may be slight, medians for profitability ratios for non-teaching hospitals are substantially below minor and major teaching facilities. The Authority will monitor these differences to see if they are sustained over time.§

NOREEN WHITE FINISHES TERM WITH THE NJHCFFA

Noreen P. White, who faithfully served as a Public Member since December 1994, has finished her tenure with the Authority. Her final meeting was held on December 15, 2005.

Ms. White joined the Authority as its first female Public Member, held elected positions as the Authority's Treasurer and Assistant Treasurer, and served as the Authority's Vice Chairperson for eight of her last nine years of service. She also sat on the Authority's Finance Committee for the majority of her term.

Ms. White's vast knowledge of the investment banking industry was a welcome contribution to Authority business. The Authority would like to thank Ms. White for her outstanding service and for her donation of time to the Authority and its mission. §

Noreen P. White

STEPHANIE GIBSON

The Authority would like to offer its sincere condolences to the family and friends of **Stephanie Gibson**, a managing director of Public Financial Management Inc. and head of the firm's health care and higher education group.

On November 15, 2005, Ms. Gibson died at the age of 58 from complications related to the treatment of myelodysplastic syndrome, a rare blood disease.

Ms. Gibson spent many hours working with the Authority as a financial advisor on transactions and as an educator, teaching various areas of her expertise to the Authority staff and financial executives from the borrowing community. §

NJHCFFA

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

SENIOR NJHCFFA STAFF

Mark E. Hopkins
Executive Director

Dennis P. Hancock
Deputy Executive Director,
Director of Project Management

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

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

NJHCFFA MEMBERS

Ex-Officio Members

Fred M. Jacobs, M.D., J.D. Chairman · Commissioner of Health and Senior Services

Donald Bryan, J.D. ·
Acting Commissioner of Banking and Insurance

Kevin Ryan ·
Acting Commissioner of Human Services

Public Members

Moshe Cohen, Ph.D.

Gustav Edward Escher, III. ·

Carmen Saginario, Jr., J.D. ·

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NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY

P.O. Box 366
Trenton, NJ 08625
ph: (609) 292-8585
fx: (609) 633-7778
Email us at info@njhcffa.com
Visit us at www.njhcffa.com
or www.state.nj.us/njhcffa/