

# CASE STUDY

## VOLUNTEERS OF AMERICA'S HOMESTEAD AT ROCHESTER

\$47,505,000 | November 2013 | Rochester, MN



### **SIMS FINANCES EXPANSION OF VOLUNTEERS OF AMERICA'S HOMESTEAD AT ROCHESTER CCRC**

#### **BACKGROUND**

Sims was hired by the Homestead at Rochester, Inc. to secure permanent debt financing for the refinancing of existing debt and for the expansion of a continuing care retirement community in Rochester, Minnesota called "The Homestead at Rochester". The Homestead at Rochester, Inc. is a Minnesota not-for-profit Corporation incorporated in 2003 for the development, construction and operation of a senior living campus located in Rochester, MN (the "Company"). The sole member of the Company is Volunteers of America Care Facilities ("VOA Care Facilities"), a Minnesota nonprofit corporation engaged principally in the business of owning and operating health care facilities which provide skilled nursing, convalescent and rehabilitative care to elderly persons on an in-patient basis, and residential care facilities for the elderly. Before the expansion, the Homestead at Rochester consisted of 77 independent living units (the "Existing Independent Units"), 44 assisted living units (the "Assisted Living Units"), and 16 memory care units (the "Memory Care Units" collectively, the "Existing Project").

The Existing Project is a senior housing campus that encompasses approximately 230,000 sq. ft. with two buildings that are connected by a 21,500 sq. ft. town center (the "Town Center"). The Homestead at Rochester is located on an approximately 7.8-acre campus which includes approximately 3 acres for the Project.



The Existing Project was financed with a bank loan in 2005, which was refinanced with a portion of the Bonds which Sims underwrote. The Homestead at Rochester's approximately 140,400 sq. ft. expansion includes a 4-story independent living building with 52 units (the "Project Independent Living Units") and a one story skilled nursing building that will have 56 beds (the "Skilled Nursing Beds", collectively, the "Project"). The Project also includes an addition to the Town Center and additional heated underground parking below the Skilled Nursing building to accommodate parking for the Existing Independent Units.

#### **CHALLENGES**

The Company sought long-term, fixed-rate tax-exempt debt financing in a very difficult tax-exempt marketplace. Tax-exempt bond funds had outflows for the previous 25 consecutive weeks totaling \$55 billion before the sale of the Bonds. Interest rates on AAA general obligation bonds increased over 125 basis points over the previous six months, with non-rated tax-exempt bond interest rates increasing by over 200 basis points during that same period. The Company sought limited recourse from its sole member, VOA Care Facilities. The Company preferred to structure level debt service in order to have steady principal and interest expense. Additionally, the Company wanted to ensure that the Project had adequate cash flows in the early years of the Project when operations were in its initial phase.

# CASE STUDY

## VOLUNTEERS OF AMERICA'S HOMESTEAD AT ROCHESTER



FINANCED RIGHT®

### SOLUTION

After holding preliminary discussions with a number of traditional bank lenders, Sims concluded that the Company would not be able to meet its objective of a long-term, fixed rate debt financing or a limited guarantee from VOA Care Facilities with a bank loan. As a result, Sims structured two tranches of tax-exempt debt financing: a \$46,795,000 bond (the "Series 2013A Bonds") and a \$1,000,000 bond (the "Series 2013B Bonds" collectively, the "Bonds"). The Series 2013A Bonds were fixed for 35-years and the Series 2013B Bonds were fixed for 4 years. The Series 2013A Bonds did not begin to amortize until the Series 2013B Bonds matured. By differing Series 2013A Bond principal payments until the Series 2013B Bonds are retired, the Company will be able to maximize its cash flows in the early years while the Project is stabilizing.

The Bonds had an overall level debt service structure to assist the Company in its capital budgeting. Only the Series 2013B Bonds, which were secured by entrance fees from certain new independent living units, had a guarantee from VOA Care Facilities.

### RESULT

Sims successfully met all of the Company's objectives. Sims closed on the Bond financing on November 22, 2013 and was able to sell approximately \$10 million of the bonds to our retail investors.

Additionally, Sims held approximately \$6 million of Bonds in its own account to close the financing in a very challenging market.

**For more detailed information on how Volunteers of America's Homestead at Rochester was Financed Right® by HJ Sims, please call or email:**

**Mark Landreville**

952.683.7509

[mlandreville@hjsims.com](mailto:mlandreville@hjsims.com)

[hjsims.com](http://hjsims.com)