

CASE STUDY

BARCLAY FRIENDS

\$20,519,000 | May 3, 2019 | West Chester, PA



FINANCED RIGHT®



HJ SIMS ASSISTS BARCLAY FRIENDS SECURE A COMBINATION OF REPLACEMENT FACILITY CONSTRUCTION FINANCING AND REFINANCING

PARTNERED RIGHT®

Barclay Friends is a not-for-profit, Continuing Care Retirement Community/ Life Plan Community, and affiliate of The Kendal Corporation, with a 125-year history of operation. The campus is located on 10 acres in the Borough of West Chester, PA and is comprised of 96 private and semi-private nursing beds located in a one-story skilled nursing building (“Cotter”).

Prior to November 2017 and a devastating fire, Barclay Friends also offered 48 units of residential living and personal care in a variety of suites and studios in the two-story Woolman Building. This building also housed the Tapestry Program for residents needing additional memory support along with dining and common areas, and administrative and office space.

Following the fire, Barclay Friends and the Kendal Corporation developed plans to replace the Woolman Building with a new replacement building (“Preston”) to again offer personal care and memory care services. Barclay Friends had property and casualty insurance coverage and anticipated funding a portion of the replacement facility with insurance proceeds together with an equity contribution. The remainder of funding was to be provided through external debt financing. Accordingly, in August 2018, Barclay Friends engaged HJ Sims to assist

Barclay Friends At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> » Barclay Friends is a not-for-profit, Continuing Care Retirement Community/ Life Plan Community, and affiliate of The Kendal Corporation, based in West Chester, PA. » HJ Sims was engaged to assess options and implement project financing and refinancing for a 60-unit personal and memory care replacement building. 	<ul style="list-style-type: none"> » Evaluated multiple financing options, seeking to balance all-in cost of financing and debt service, interest rate risk and future operating and financial flexibility. » Key elements of the Plan of Finance included confirmation of sources of funds and determination of preferred debt financing source, amount of debt to be refinanced, assessment of interest rate modes and hedging strategies and confirmation of covenant and financing security provisions. » Financing timing was particularly critical, enabling timely commencement of construction to hold contract pricing and meet target completion date to allow resumption of full operations and return to full revenue-generating capacity. 	<ul style="list-style-type: none"> » Preston Project was funded with a combination of insurance proceeds, equity, and draw-down bank financing. All outstanding debt was refinanced. » Project Financing and Refinancing issued in variable interest rate mode, hedged upon closing with a forward starting swap, and current starting swap, respectively. » Financing included a balanced set of covenant and financing security provisions including occupancy covenant that phases-out following project completion/ stabilization and combination of debt service coverage ratio and days cash on hand to track ongoing financial performance. 	<ul style="list-style-type: none"> » Financing ultimately totaled \$20.5 million with two series: \$13.6 million Series A Preston Project financing, hedged following construction, with a two year forward starting swap at 3.609% and \$6.9 million Series B Refinancing, hedged with a current starting swap at 3.579%. » Successfully completed financing on schedule, positioning Barclay Friends to continue fulfilling its mission of serving seniors with housing, health and related services in a community setting.

in the assessment of project financing options and complete implementation to provide full financing for the replacement project.

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Following HJ Sims' engagement and collaborative work with Barclay Friends and Kendal, the financing planning and preparation process unfolded quickly with the goal of completing financing and commencing construction in spring 2019. This time sensitivity was driven by a number of factors including the need for Barclay Friends to resume full operations and its continuum of services to displaced and new residents and return to full revenue-generating capacity, as quickly as possible. Additionally, given the strong economy and robust construction activity across the Philadelphia region, Barclay Friends sought to minimize the impact of continuing increases in construction and related project costs that would increase borrowing and debt service requirements. As background, immediately after the fire, the entire campus was closed and operations suspended. The Woolman building had to be demolished due to the extensive damages sustained in the fire. However, the skilled nursing building, Cotter, was largely undamaged, and reopened to returning residents and new admissions in April 2018.

Working with HJ Sims, Barclay Friends evaluated several financing options for the Project as well as the merits of refinancing its outstanding debt – these included bank and bond financing as well as the possible use of FHA-insured mortgage financing. Key criteria for evaluation of the financing options centered on the anticipated amount of total borrowing and associated annual and total debt service. Barclay Friends sought to minimize annual debt service while also preferring a fixed interest rate for the life of financing or, at least initial term of financing, to avoid unanticipated increases in interest expense and related debt service.

Following a detailed assessment of financing options, Barclay Friends opted to pursue direct bank financing as its primary financing option. It reserved bond financing as an alternative option, in the event that bank financing was not available or cost prohibitive. While Barclay Friends enjoyed a good relationship with its incumbent bank, M&T, it sought to obtain proposals not only from M&T, but also a broader universe of

commercial banks. Accordingly, HJ Sims led a bank financing solicitation to combine the new project capital needs with a refinancing of all or a portion of Barclay Friends' outstanding debt. The financing solicitation included over 20 other banks active in providing senior living financing to not-for-profit providers in the Eastern Pennsylvania region. The solicitation process was productive, generating multiple competitive financing proposals. After an extensive review process, including HJ Sims, Barclay Friends Management and Board and Kendal, and negotiations with a short-list of banks, Barclay Friends selected M&T to continue as its banking partner.

There were a number of issues to address in the structuring of the financing. These included:

1. Determining the allocation of insurance proceeds, equity from Barclay Friends and borrowed proceeds for funding of the estimated \$24.2 million of total project costs, plus costs of issuance and Funded Interest during the construction and fill-up periods.
2. Determining whether to refinance all or a portion of \$7 million of outstanding floating rate M&T bank debt (two series of debt).
3. Assessing interest rate modes and hedging strategies for the new capital and refinancing components as well as amortization of the new debt. M&T offered a floating rate, bank-held fixed rate for any refinancing and synthetically fixed rates (via a swap) for both new project financing and refinancing with the ability to fix the rates at closing or at a future date, particularly for the new project portion of the financing which would be drawn as costs are incurred.
4. Confirming the covenant and financing security provisions which would have implications for Barclay Friends' future operating, financial and strategic flexibility.

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With the selection of M&T, the financing implementation process commenced with HJ Sims and M&T working collaboratively with Barclay Friends and Kendal along with the full working group. Major action items included completing the conditions precedent to financing (appraisal, environmental review, project plans review), legal document drafting and the tax-exempt

issuance process, including selection of an issuing authority, along with confirmation of the plan of finance and related elements. The Plan of Finance included:

1. Composition of the final sources of financing – consisting of \$9.2 million of Insurance proceeds, \$2 million of Barclay Friends' equity and borrowed \$13.6 million of Bank Financing proceeds. Together, these funds will be used to construct the Preston, a 61,000 square foot facility, with 40 residential living/personal care units and a 20-bed memory care unit (12 additional units than in the Woolman Building).
2. Amount of existing debt to be refinanced – ultimately including both series of the existing debt, allowing Barclay Friends to extend both the length of its bank credit commitment (tenor) and amortization of this portion of debt to reduce its annual debt service.
3. Interest rate mode of the debt (variable or fixed) – resulting ultimately in all fixed-rate financing with two components: i) variable rate on the new project financing, as drawn for project expenses through the end of construction followed by a fixed rate, accomplished through a forward starting interest rate swap and ii) a fixed rate on the refinancing, achieved through a current starting interest rate swap.
4. Financing covenant and security provisions – consisted of a balanced set of covenants including: i) an occupancy covenant, for the Cotter skilled nursing facility, which would be eliminated following completion and stabilization of the Preston, ii) debt service coverage ratio, effective with completion and stabilization of the Project and iii) days cash on hand. Security for the financing consisted of a standard combination of a pledge of gross revenues of Barclay Friends and mortgage on the Barclay Friends campus.

swap rate at 3.579%. The financing was completed within Barclay Friends' targeted time frame, allowing it to complete site work and commence construction within the parameters of its construction contract. More broadly, the financing and commencement of construction represents another important milestone in Barclay Friends' continuing renewal following the fire, positioning it to continue to fulfill its mission of serving seniors with housing, health and related services in a community setting.

"In seeking an investment banking firm, we chose HJ Sims because of their reputation for creativity in the development of plans of finance. Our project – a new personal care and memory support building – was on a very tight schedule, with design, land development approvals, fund raising and finance happening on parallel tracks. The Sims team took on this challenge by developing several alternative scenarios while key variables were being worked out, keeping all financing options open until a way forward was clear. In the end, the project was financed on time and with a very favorable rate structure. All of the members of the Sims team worked together seamlessly with our project team. Besides being extremely knowledgeable and customer-focused, they were a pleasure to work with. I would highly recommend HJ Sims!"

— Linda M. Sterthous, Executive Director, Barclay Friends

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On May 3, 2019, Barclay Friends closed the financing, comprised of \$20.5 million of total bank debt, with two series. Series A provided financing for the new Preston project and the Series B included the refinancing. HJ Sims structured the amortizations of the two series to have level aggregate debt service and a coterminous tenor over 10 years. Series A was hedged with a forward starting swap rate effective May 4, 2021 at 3.609%, and Series B was hedged with a current starting

For more detailed information on how Barclay Friends was Financed Right® by HJ Sims, please call or email:

James Bodine

267.360.6245
jbodine@hjsims.com

Patrick Mallen

203.418.9009
pmallen@hjsims.com

hjsims.com

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