

SIMS HELPS PENNSYLVANIA CCRC IN CAMPUS REPOSITIONING PROJECT AND REFINANCING IN CREATIVE MULTI-BANK FINANCING

BACKGROUND

Cross Keys Village (“Cross Keys”) is a not-for-profit continuing care retirement community providing residential, health care and other supportive services to seniors in South Central Pennsylvania. It is located on approximately 250 acres in New Oxford, Pennsylvania. Cross Keys is the ninth largest single-site, not-for-profit CCRC in the U.S. and currently consists of 444 independent living units (apartments, cottages and country homes), 91 personal care units and 270 skilled nursing beds. Cross Keys was founded in 1908 and is affiliated with the Southern District of the Pennsylvania Church of the Brethren. It is currently rated “A-” by Standard & Poor’s. In 2014, Sims completed a \$10 million Line of Credit bridge financing for Cross Keys Village, enabling commencement of the first phase of the campus expansion/renovation project.



CHALLENGE

Coming out of an extensive master planning process, Cross Keys identified a range of capital investment needs and opportunities across its continuum. Working with its project planning team, including SFCS, Greenbrier Development and Sims, Cross Keys ultimately decided to undertake a significant renewal of its health center facilities, particularly in skilled nursing, add capacity in personal care memory support (32 beds) and build 50 new cottages (the “Project”). The Project consisted of multiple components to be undertaken on a phased basis over a multi-year period – this included three sub-phases of independent living units requiring advance pre-sales. Additionally, Cross Keys had approximately \$32.7 million of outstanding LOC-backed variable rate demand bonds (2007 Debt) with the letter of credit renewal slated for November 2015, accompanied by an existing long-dated variable-to-fixed interest rate swap.

In the fourth quarter of 2014, Sims assisted Cross Keys in obtaining a \$10 million Line of Credit with its existing bank in order to begin the Project with an initial phase of independent living units. Cross Keys sought to begin construction before year-end 2014, so the access to this interim financing was time sensitive. This financing was intended to be a bridge to permanent financing, specifically anticipated to be refinanced as part of a broader Project financing and refinancing in the fourth quarter of 2015.

For the proposed permanent financing to be undertaken in 2015, both bond and bank financing options were evaluated. Given Cross Keys’ strong credit profile and comfort with the use of variable/adjustable interest rates and credit renewal requirements, it opted to use bank financing for all of its new capital needs along with the refinancing. Given the size of the capital need and competitive bank financing landscape, with Sims’

“We engaged HJ Sims to assist us with our master planning and strategic planning process. Due to the many moving pieces resulting from campus repositioning, refinancing of existing debt, and addition of new debt for expansion needs, their work in determining size and plan of refinance was invaluable.”

— Kent A. Shisler, Vice President of Finance, Cross Keys Village – The Brethren Home Community

leadership, Cross Keys undertook an extensive bank solicitation process with the objective of achieving the most favorable financing outcome for its full capital needs.

Cost of capital, interest rate mix (and risk exposure), and financial capacity and flexibility for possible future capital needs were among the top factors analyzed when determining the plan of financing. Cross Keys ultimately elected to refinance its 2007 Debt with financing from its existing bank and finance the new capital needs with a new bank partner using a combination of two direct bank loans on both bank qualified and non-bank qualified bases. This two-bank structure enabled Cross Keys Village to most favorably address the factors noted above and achieve its desired financing outcome.

EXECUTION

Multiple structuring options were considered including: i) the desired combination of fixed rate and variable rate long term debt (and related interest rate hedging options); ii) the required amount of financing along with structure and timing to achieve lower cost bank qualified financing; and iii) structuring the financing to include two banks and optimize the financing economics and flexibility, while seeking to unify the covenants and other financing terms for the mutual benefit/requirements of Cross Keys along with the two banks.

The refinancing of the 2007 Debt was funded by direct bank financing, replacing its LOC and the variable rate demand bonds. The refinancing followed the same principal maturity/amortization structure as the current debt. Cross Keys elected not to modify the amortization, which was “front-loaded” (larger principal repayments in the near-term, followed by declining principal repayment in later years) due to its strong credit profile, including liquidity and cash flow availability, and ability to pay-off the debt quickly, while maintaining strong financial ratios.

Further, given Cross Keys’ comfort with its existing 50%/50% variable and fixed rate debt mix and the negative mark-to-market on the existing swap, the swap was maintained and supports the new refinancing debt.

The Project financing was ultimately structured as a \$9.8 million initial phase of bank qualified financing. Proceeds were used to refinance the 2014 Line of Credit Financing, fund the next phase of project construction draws, including second phase of cottages, the memory support project and additions to selected common areas. Financing for additional capital needs in 2016-2017 (up to \$15 million) will occur through additional bank qualified financing provided by the new bank. The use of a three-tranche, bank-qualified structure, with initial financing in 2015, followed by financing in 2016 and 2017, was conceived for the future financings to occur relatively seamlessly with minimal subsequent financing costs. At the end of construction in 2017, Cross Keys Village expects to have approximately \$16.2 million of outstanding permanent new capital financing, after entrance fees received are used to pay-down the final tranche of bank debt at the end of construction.

Further, after analyzing different interest mode structures, Cross Keys Village elected to have the new capital financing split approximately with 50% as variable rate and 50% as fixed rate (synthetically fixed through a swap), matching the interest rate mix on its 2007 Debt to be retained in the refinancing. The swap was structured as a 2 year forward starting swap (with subsequent 10 year term) allowing Cross Keys to take advantage of low variable interest rates during construction, while locking-in attractive fixed rates following Project completion. This served to reduce the amount of funded interest during construction and lower the total financing cost.

RESULTS

With the assistance of Sims and the financing working group, Cross Keys was successful in completing the financing in November 2015, as intended. Cross Keys achieved its various objectives with a very attractive financing structure for refinancing and new capital, leveraging its credit strength with its existing bank, while adding capacity and a relationship with a new bank.

Highlights include:

- i)** having committed funding for the entire campus expansion/renovation project, including current funding now along with future financing installments for 2016 and 2017
- ii)** low all-in cost of financing, combining variable rate financing along with fixed rate financing, including retaining its existing swap on the refinancing and added a forward starting swap (2 Years Forward + 10 Year Term) on what will be 50% of permanent new capital financing
- iii)** utilizing a draw-down feature, along with bank qualified financing, for all new capital needs to reduce the all-in cost of capital
- iv)** maintaining desired future flexibility for additional capital needs

Sims served as Structuring Agent and Co-Swap Advisor for the financing/refinancing, and this was the sixth financing transaction completed for Cross Keys Village by Jim Bodine over more than 20 years.

**For more detailed information
on how Cross Keys Village was
Financed Right® by HJ Sims,
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