

CASE STUDY

FREDERICK LIVING

\$19,500,000 | December 28, 2017 | Frederick, PA



FINANCED RIGHT®

SIMS SUCCESSFULLY COMPLETES \$19.5 MILLION DEBT REFINANCING, GENERATING INTEREST RATE AND CASH FLOW SAVINGS, EXTENDED BANK CREDIT COMMITMENT AND SUPPLEMENTARY NEW PROJECT FINANCING PRIOR TO YEAR-END FEDERAL TAX REFORM DEADLINE

PARTNERED RIGHT

Frederick Mennonite Community, d/b/a “Frederick Living”, is a Type C life plan retirement community located on a 67-acre campus in Upper Frederick Township, Montgomery County, Pennsylvania.

Frederick Living operates 166 Independent Living Units, 111 Personal Care beds, and 61 Skilled Nursing Beds. HJ Sims was engaged by Frederick Living in September 2017 to explore options for refinancing all or a portion of its existing debt (with approximately \$15.5 million total outstanding) along with funding new capital for a future expansion project along with routine capital expenditures (up to \$5 million).

STRUCTURED RIGHT

Frederick Living’s existing \$15.5 million debt portfolio consisted of six separate series of bank debt provided by Univest and Fulton Bank over a 16-year time period. The breadth of Frederick Living’s debt portfolio was cumbersome with multiple credit commitment expirations/renewal dates, an evolving set of financial of covenants which had proven to be more constraining over time and uneven annual debt service which including front-loaded payments over the next several years. Further, given what remained attractive market interest rates, there was an opportunity to reduce interest expense along with annual debt service as part of a refinancing.

Separately, while Frederick Living is in the final stages of completing an independent living expansion project, it is also advancing plans for further campus renovation and expansion. Therefore, it sought to raise funds for a portion of the costs associated with this project along with anticipated capital expenses in the next several years to



Frederick Living At A Glance

Partnered Right	Structured Right	Executed Right	Financed Right®
<ul style="list-style-type: none">» Type C life plan retirement community in Upper Frederick Township, PA with 238 total units/ beds across the continuum of care.» Sought to refinance all or a portion of its outstanding debt along with capital project financing.» Sims was engaged to assess options, focused on bank financing, for modification/refinancing of the existing debt along with financing of new capital needs.	<ul style="list-style-type: none">» Existing \$15.5 million debt profile consisted of six separate series of bank debt originated by Univest and Fulton Bank over a 16-year time period.» Multiple credit commitment expirations/ renewal dates, evolving set of outstanding financial of covenants which had become increasingly constraining over time and uneven annual debt service.» Opportunity to unify terms and provisions of outstanding debt and new capital needs in a single issue at attractive market interest rates.	<ul style="list-style-type: none">» Initially planned full bank solicitation including incumbent and new banks. Proposed Federal tax reform legislation created incentive to advance financing on expedited basis and close by year-end 2017.» Worked constructively with Univest and Fulton to finalize an attractive financing proposal that achieved Frederick Living’s financing objectives.» Completed required conditions precedent and financing approvals and documentation on expedited four week time period	<ul style="list-style-type: none">» Financing was successfully completed on December 28, 2017, amidst a historic year-end tax-exempt financing volume.» Achieved Frederick Living’s desired combination of refinancing and new capital and met its multiple objectives.

bolster its liquidity and enhance future operating and financial flexibility.

Accordingly, Frederick Living sought HJ Sims' assistance to assess opportunities to modify/refinance its debt as well as raise new capital, considering alternatives from Univest/Fulton Bank, with whom it enjoyed a very positive relationship, as well as other banks active in senior living financing in Pennsylvania/mid-Atlantic region.

EXECUTED RIGHT

In October 2017, Sims commenced a bank financing solicitation. However, soon afterwards, the U.S. House of Representatives released their initial tax-reform bill, which proposed the elimination of tax-exempt private activity bond financing for not-for-profit organizations along with other potentially unfavorable provisions. While the Senate soon followed with a bill that preserved the tax exemption for private activity bonds, the differing treatment of tax exemption for private activity bonds in the two bills created heightened uncertainty in the tax-exempt borrowing markets and financing dilemmas for tax-exempt borrowers. Elimination of tax-exempt financing would have precluded Frederick Living from refinancing its debt on a tax-exempt basis, likely eliminating the economic benefits of refinancing, as well as financing future capital needs on a tax-exempt basis, instead requiring future borrowings at higher taxable rates.

Accordingly, Frederick Living's pursuit of financing, on an expedited basis, took on a more urgent importance. Following discussions between Sims and Frederick Living, the decision was made to suspend the full bank financing solicitation and concentrate discussions with Univest and Fulton, focusing on achieving Frederick Living's refinancing/financing objectives and doing so by year-end. Discussions with Univest and Fulton were productive and the banks coalesced around a proposal to meet Frederick Living's objectives, including competitive loan and interest rate pricing and targeted closing by year-end.

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The financing was successfully completed on December 28, 2017, amidst a historic year-end volume of tax-

exempt borrowing resulting from the proposed federal tax reform. As desired, the refinancing component, \$15.75 million, consolidated Frederick Living's Series 1999, 2000, 2005, 2007, 2009, and 2015 debt into a single financing. Additionally, the new money component provided \$3.75 million to fund initial expenses associated with the future renovation/expansion project along with a portion of capital expenditures anticipated over the next three years. Financial covenants were revised and unified. The resulting final financing totaled \$19.5 million with a tenor of seven years and a balance sheet-based fixed rate of 3.15% and fully amortizing over 20 years.

With Sims' leadership and the collaborative work of Frederick Living Management, Univest and Fulton bank partners and the full financing working group, Frederick Living successfully completed the financing and realized its goals. These included: 1) generation of interest rate savings by taking advantage of lower interest rates, 2) restructuring of debt service to better match asset-liability lives and smoothing annual debt service, 3) achieving a longer and unified tenor/credit commitment for all outstanding debt, 4) modifying and unifying covenants and maintaining sufficient operating, financial and strategic flexibility, and 5) generating funding for the initial costs associated with its future renovation and expansion projects and routine capital expenses and allowing for increased liquidity.

**For more detailed information
on how Frederick Living
was Financed Right® by HJ Sims,
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