

# CASE STUDY

## SHENANGO PRESBYTERIAN SENIORCARE

\$14,500,000 | August 29, 2019 | New Wilmington, PA



FINANCED RIGHT®



A Presbyterian SeniorCare Network Community

### HJ SIMS SUCCESSFULLY COMPLETES INNOVATIVE REFINANCING AND EXPANSION PROJECT FINANCING

#### PARTNERED RIGHT®

Shenango Presbyterian SeniorCare d/b/a Shenango on the Green (“Shenango”) is a faith-based not-for-profit organization serving older adults, primarily in Mercer County and Lawrence County, PA. Shenango provides a continuum of quality living environments, care and services that support and assist individuals to remain as independent as possible. It is an affiliate of Presbyterian SeniorCare Network (“PSCN”).

Shenango is a continuing care retirement community/life plan community (“CCRC/LPC”), consisting of 48 Independent Living Units, 32 Personal Care beds plus 14 Memory Support Personal Care beds and 32 Skilled Nursing beds. It is located on approximately 2.4 acres in New Wilmington, PA (Lawrence County), approximately 60 miles north of Pittsburgh.

HJ Sims has provided investment banking services to PSCN and its affiliates for several years, including the Presbyterian SeniorCare Obligated Group and Presbyterian SeniorCare Woodside Place. HJ Sims worked with PSCN to analyze refunding opportunities for Shenango’s outstanding Series 2007 Bonds in late 2017, and closely monitored market conditions in recognition of existing prepayment penalties. This coincided with Shenango’s advancement of plans for an independent living project (13 cottages and Community Center) on a separate 6.5 acre property, which it planned to acquire, located less than a mile away from its campus.

#### STRUCTURED RIGHT®

As Shenango refined its development plans, HJ Sims evaluated plans of finance including a public issuance of bonds along with a direct placement with a commercial bank. As the prepayment penalties of the existing debt

#### Shenango on the Green At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> <li>» PSC is a not-for-profit, faith-based, multisite network of living and care options, serving more than 6,500 older adults in Western Pennsylvania.</li> <li>» Shenango is an affiliated CCRC and includes 48 Independent Living Units, 32 Personal Care beds plus 14 Memory Support Personal Care beds and 32 Skilled Nursing beds, and is located on approximately 2.4 acres in New Wilmington, PA.</li> <li>» HJ Sims engaged to assist in financing for 13 new cottages and a community center, as well as a refunding of outstanding Series 2007 Bonds.</li> </ul>	<ul style="list-style-type: none"> <li>» Shenango anticipated financing the \$5.5 million project from a combination of sources including equity, entrance fees and external financing.</li> <li>» Bank financing was supplemented by the use of entrance fees applied to reduce the required amount of financing and repay a portion of the bank financing following project completion.</li> <li>» Bank financing was selected given the construction-related use of proceeds, attractive interest rates and relatively small size of total financing.</li> </ul>	<ul style="list-style-type: none"> <li>» HJ Sims conducted a bank solicitation garnering multiple attractive financing proposals with favorable interest rate pricing, and upfront fees, limited conditions precedent to financing, and attractive covenants.</li> <li>» HJ Sims led the financing implementation process, parallel tracking completion of conditions precedent, transaction documentation and approval, to complete the financing on an expedited basis.</li> </ul>	<ul style="list-style-type: none"> <li>» The financing was completed on August 29, 2019, amidst renewed historic lows in borrowing rates.</li> <li>» While the financing carries underlying floating rate, Shenango opted to hedge it via a fixed-payor swap.</li> </ul>

were set to expire in 2019, HJ Sims and Shenango decided it was most efficient to pursue the refinancing of the existing debt in tandem with the financing of the expansion project.

Based on market conditions in the spring of 2019, and the total capital needs of the refunding and expansion project and anticipated strong bank appetite for the financing, HJ Sims and Shenango determined a direct placement with a commercial bank would be preferred, combining lower interest cost and reduced borrowing requirements. Accordingly, HJ Sims led a solicitation of almost 20 commercial banks active in senior living in Western Pennsylvania. The objectives of the plan of finance included:

1. Generate interest rate savings by taking advantage of lower interest rates for the Refinancing portion of the Financing.
2. Implement cost-effective construction financing combined with long-term financing for the Expansion Project.
3. Maintain unified financing covenants and maintain sufficient operating, financial and strategic flexibility.

### EXECUTED RIGHT®

The solicitation package was sent to prospective banks in April 2019, and HJ Sims and Shenango hosted a site visit in May. Shenango received five very competitive proposals. After careful evaluation of each bank's proposal and follow-up negotiations, PSCN selected First National Bank of Pennsylvania ("FNB") as the preferred commercial banking partner in June.

Shenango's development plan targeted construction to begin in August; however, an appraisal and a number of other conditions precedent were required to be completed prior to financing. Due to these constraints, HJ Sims worked with PSCN, FNB and the financing team to parallel-track completion of conditions precedent, transaction documentation and approvals, including tax-exempt issuance, to advance the financing on an expedited basis.

In order to reduce the overall borrowing cost of the Expansion project, and efficiently apply expected entrance fees, funding of the Expansion Project was segmented into two phases. Phase 1 includes the construction for 11 of the 13 cottages, site work, pre-development and pre-marketing expenses. Phase 2 includes construction of the 12th and 13th cottages, the community center, funding capital improvements to existing facilities, along with furniture, fixtures and equipment for the new units.

New capital financing proceeds will fund Phase 1. Entrance fees generated from the cottages constructed in Phase 1 will be used as a source of funds for Phase 2 combined with application to accelerated repayment of a portion of the New Capital Financing. Further, in order to preserve existing cash during construction, interest will be funded for approximately 10 months beyond the estimated construction schedule.

### FINANCED RIGHT®

The \$14.5 million financing closed on August 29th as a direct bank financing with FNB. Proceeds from the \$10.5 million Refunding Note were used to refinance the currently callable Series 2007 Bonds with the proceeds escrow and invested to the first call date at which the Bonds could be called at par, rather than at a more costly premium redemption price. Proceeds from the \$3.96 million Capital Projects Note will be used to finance the Expansion Project. The total financing was undertaken at an underlying variable rate to be hedged with a variable-to-fixed rate swaps, corresponding to the refunding and new capital components of the financing.

As noted above, among the innovative features of the financing was the use of anticipated entrance fees to both: 1) fund the final sub-phase of cottages as well as 2) pay-down a portion of the project financing. In combination, this structure allowed Shenango to downsize the amount of project financing and reduce total debt service, rather than using the typical draw-down loan with a forward starting swap. Rather, given current interest rate conditions, Shenango opted to draw all funds at closing, invest them at a nominal investment rate and enter into a current starting swap to hedge its interest rate risk on both the project financing and refinancing.

Furthermore, PSCN and HJ Sims successfully negotiated with FNB to maintain financial covenants contained in the existing Master Trust Indenture and preserve desired operating, financial and strategic flexibility. Consistent with the existing Master Trust Indenture, the 2019 Financing maintained a Days Cash on Hand covenant of 100 days, a debt service coverage ratio of 1.20x, and significantly reduced Shenango's debt service reserve requirement. This Days Cash on Hand Covenant threshold provided Shenango with flexibility to apply entrance fee proceeds from the first phase of cottages towards the construction of the second phase of cottages. It also allowed Shenango to proceed with using cash for planned improvements to its existing facilities rather than having to borrow additional funds for this purpose.

*“Once again, HJ Sims has shown their flexibility and focus in assisting Presbyterian SeniorCare maneuver through a small and unique project financing in a BIG way! While the refinancing and expansion totaled about \$15 million (\$10.5 million for refinancing and \$4.5 million for new capital), the interest expense reduction on the new money will garner the community a savings of almost \$200,000 annually. Further, the new capital will be used to develop a new independent living option, incorporating the introduction of smart home technology, to serve seniors in the rural Lawrence and Mercer county community.”*

— Joe Wenger, CPA, NHA  
Senior Vice President & Chief Financial Officer

**For more detailed information  
on how Shenango Presbyterian  
SeniorCare was  
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