

SIMS FINANCES CAMPUS EXPANSION AND REPOSITIONING PROJECT INTEGRATING NEW BOND DEBT WITH EXISTING BANK FINANCING



PARTNERED RIGHT

Village Shalom is an existing life plan community, comprised of 64 independent villas, 54 assisted living apartments, 52 skilled nursing units and 36 memory care suites, located on a 26-acre campus in Overland Park, Kansas. While Village Shalom’s current campus opened in 2000, Village Shalom traces its roots of serving the Kansas City Jewish community to 1902. Sims was engaged by Village Shalom in Fall 2014 and played a key role in planning for this major campus expansion and repositioning project – this included assisting in the navigation of the design-development process, providing input on multiple financing options and assessment of financial feasibility, along with formulation and successful implementation of the plan of finance. As part of this process, Sims served as structuring agent for a \$6.3 million pre-development loan, structured as tax-exempt bank debt, with Cedar Rapids Bank & Trust completed in April 2017.

Village Shalom At A Glance

Partnered Right	Structured Right	Executed Right	Financed Right®
<ul style="list-style-type: none"> » Village Shalom: life plan community in Overland Park, Kansas consisting of 64 independent villas, 54 assisted living apartments, 52 skilled nursing units and 36 memory care suites. » Sims played key role in project and financing planning over 4-year period leading up to financing. » Previously secured \$6.3 million Pre-Development Loan to fund initial Project-related costs. 	<ul style="list-style-type: none"> » Campus expansion and repositioning to include: 76-unit independent living apartments, 25 net Assisted Living-Memory Care and Skilled Nursing Units/ Beds and relocation and enhancement of rehab center and therapy gym. » Explored combination of bank and bond financing; ultimately opted for all Bond financing for both intermediate-term financing, repaid with combination of entrance fees and capital campaign proceeds, and long-term financing with retention of attractive outstanding bank financing. 	<ul style="list-style-type: none"> » Integrated all financing on parity basis, including new Series 2018 Bonds and outstanding Series 2013 Bank debt and Series 2017 Pre-Development Loan, with the latter repaid with a portion of First Generation Entrance Fees and Capital Campaign Proceeds. » Carved-out a portion of initial project entrance fees to fund liquidity on the balance sheet. » Coordinated amendments to existing Master Trust Indenture to address transitions in operations resulting from the facility repositioning along with construction and fill-up of the independent living units. 	<ul style="list-style-type: none"> » Successfully closed \$60.6 million of non-rated tax-exempt bonds, combining long-term and intermediate-term financing with flexible repayment using combination of entrance fee and capital campaign proceeds, as received. » Accelerated completion of financing to meet construction start deadline with expedited bond marketing and sale and closing just three days following bond sale. » Positions Village Shalom for continued success, with expanded independent living capacity and broadened range of healthcare services in both assisted living and skilled nursing, supported by a long-term committed capital structure.

STRUCTURED RIGHT

Catalysts for the project included consistently strong demand for independent living units and a desire to realign the mix of healthcare services (assisted living and skilled nursing), particularly in memory care. The 76-unit apartment expansion will include underground parking and a new “Main Street” with added common areas and amenities. The new memory care building will consist of two 16-bed assisted living households and one 16-bed skilled nursing-based household. The proposed project will also include the relocation and enhancement of the rehab center and therapy gym. In aggregate, the project will result in the addition of 101 total units/beds, including 76 new ILUs (Apartments) and 25 net beds in healthcare (AL-MC and SNF). Further evidencing Village Shalom’s commitment to the project, it embarked on a major fundraising campaign in support of the new project with a \$16 million campaign goal, a portion of the proceeds of which will supplement external debt financing.

With a portion of the project combining demolition, renovation and new construction, there were a number of issues to consider in the staging of this work and its impact on operations and financial performance. Sims participated actively in this planning and evaluation process. This included assessing the financial impact of a transition in operations leading up to the project commencement, in the healthcare center, in particular, with the requirement for a controlled census reduction to vacate a portion of the healthcare center to permit planned demolition of a portion of the facility.

Sims explored a range of financing alternatives including all bond financing as well as a combination of bond and bank financing, particularly for the portion of the financing to be repaid with first generation entrance fees anticipated to total about \$20 million. Village Shalom ultimately opted to proceed with all bond financing while retaining existing bank financing outstanding at an attractive rate and financing terms.

A key element of financing structuring related to balancing the use and timing of the application of anticipated debt financing proceeds, combined with entrance fees from the sale of the new ILUs and capital

campaign proceeds of up \$12 million (with \$9.3 million in pledges at the time of financing). This included use of entrance fees and capital campaign proceeds to repay the outstanding Series 2017 Bank Debt (pre-finance capital) as well as retention of a portion to bolster balance sheet liquidity, prior to being applied to repay a portion of the Series 2018 Bonds.

EXECUTED RIGHT

Financing implementation addressed a number of factors. This included integration of multiple components of financing on a parity basis, combining the new Series 2018 Bond financing with outstanding bank financing. Outstanding debt consisted of Series 2013 Bank Debt, fully amortizing at an attractive fixed rate, and Series 2017 Bank Debt (Pre-Finance Capital) to be repaid with a combination of capital campaign proceeds and a portion new entrance fee receipts to be received from the lease of the new ILUs. Further, Sims assisted in the formulation and approval of amendments from the existing banks to an existing Master Trust Indenture to address the financial impact of the temporary reduction in healthcare census, along with the typical transitional impact on operations and financial performance during project construction and subsequent project fill-up. This was paired with the formulation of marketing and occupancy covenants to track the continued pre-sales and ultimate occupancy of the new ILUs, continuation of a liquidity covenant with thresholds scaling-up during the construction and fill-up periods along with a debt service coverage ratio, with covenant calculation resuming following project completion and stabilization. While the project and financing process unfolded over a four year period, due to the scope and phasing of the project undergoing significant changes, completion of financing was accomplished on an accelerated basis. This resulted from the need, following several earlier delays, to start construction in mid-July and avoid the possibility of construction cost increases. Sims worked constructively with Village Shalom and the financing team to undertake an expedited bond marketing/sale process and closing just three days following bond sale.

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On July 16, 2018, Sims closed the \$60,585,000 issuance of non-rated tax-exempt bonds, comprised of \$41.1 million of long-term, fixed-rate bonds with a 35-year final maturity combined with \$19.5 million of fixed-rate, intermediate-term bonds with a final maturity of seven years (2025) (and anticipated redemption by 2021). The financing allows Village Shalom to commence an important next chapter in its existence and service of seniors in the greater Kansas City region, offering additional independent living units as well as a more comprehensive array of healthcare services including assisted living, memory care and skilled nursing, both long-term care and shorter-stay rehabilitation. It represents a committed long-term and stable source of capital with fixed interest rates along with security and covenant structure that provides clarity to operations and finances going forward along with a framework for future growth of programs and/or facilities.

"We had the pleasure of working with the team at HJ Sims in preparation for our recent campus expansion. They did an exemplary job of helping us navigate what was a very complex debt structure. They brought an amazing depth of experience, were patient, and provided thorough explanation throughout the process. Their wonderful team is professional, responsive, and enjoyable to work with. HJ Sims is a true partner in every sense of the word – they invested in our mission, in the success of our organization, and went above-and-beyond their role as investment bankers."

— Matt Lewis, CEO, Village Shalom

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

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