CASE STUDY

WELLSPRING LUTHERAN

$44,627,028 | October 2015 | Monroe, MI

HJ SIMS

FINANCED RIGHT®

REFINANCING FOR WELLSPRING LUTHERAN GENERATES LIQUIDITY AND FLEXIBILITY FOR CURRENT AND FUTURE STRATEGIC DECISIONS

"Approaching this financing, Wellspring Lutheran Services understood we were looking to develop a sophisticated, long range capital plan to serve our organization by positioning us for stability now and growth in the future. The HJ Sims team, led by Aaron Rulnick, provided expert advice, timely support and drove the process to a very successful outcome. Our partnership with Sims exceeded all our expectations."

— David Gehm, President & CEO, Wellspring Lutheran Services ("Wellspring")

BACKGROUND

Wellspring Lutheran Services ("Wellspring") was founded in 1893. The organization provides senior housing, skilled nursing, assisted living and memory care in five locations in Michigan: Monroe, Frankenmuth, Livonia, Saginaw and Fairview. Additionally, Wellspring provides certified home healthcare and hospice services within greater Saginaw County and home and community based services to older adults residing in Frankenmuth, Alpena and Saginaw, MI as well as various child and family services.

Wellspring's Obligated Group consists of the parent corporation and five other entities. These entities include: Lutheran Home Care Agency, LHM Asset Management, AuSable Valley Continuing Care Retirement Community, Aging Enriched Services and Lutheran Home Care Personal Assistance. The Obligated Group consists of more than 720 units across the spectrum of care.

Wellspring had approximately $25.9 million of outstanding bank loans to refinance. In addition, $8.85 million of new money would be used for renovation projects and deferred maintenance, $3.8 million for a skilled nursing community acquisition and $5 million for the creation of a liquidity support fund.

Wellspring Lutheran At A Glance

Background	Challenge	Execution	Results
» Wellspring was founded in 1893 and constructed its first community in 1894 in Monroe, Michigan » The Obligated Group consists of 6 entities, including the parent corporation, and operates in 5 locations in Michigan » $25.9 million in outstanding bank debt	» Evaluated the tax status of all outstanding debt to determine optimal plan of finance and allocation between taxable and tax-exempt financing » Analyzed multiple financing scenarios to determine the best configuration for Wellspring to meet the goals of the refinancing, generate extra liquidity and facilitate future acquisition/affiliation opportunities and other strategic growth initiatives	» Completed a holistic review of Wellspring's current financial, capital and organizational structure over several months » Secured financing from two banks to achieve desired financing structure which utilized a taxable bank loan and direct purchase of tax-exempt bonds » Utilized swaps with call options to create flexible fixed-rate debt for Wellspring	» Created a Financing Plan that increased the financial viability of the Obligated Group » Funded $5,000,000 operating reserve to enhance Wellspring's liquidity » Generated financial flexibility to support and grow Wellspring's mission

CASE STUDY

WELLSPRING LUTHERAN *continued*

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CHALLENGE

From the beginning of the process, Sims and Wellspring worked towards a financing structure that met the goals of the organization. These goals were:

1. *Create a long-term financing plan*
2. *Address refinancing needs for existing commercial loans*
3. *Reduce interest rate and refinancing risk*
4. *Generate additional liquidity for the Obligated Group*
5. *Provide initial capital to fund certain improvements at the communities of the Obligated Group*
6. *Expand its missions through strategic acquisition opportunities*
7. *Create financial flexibility to support and grow Wellspring's mission*

Sims, Wellspring and bond counsel reviewed the outstanding debt to define the tax status of each previous financing. In addition to the tax status, the financing needed to incorporate new money for renovations and deferred maintenance, a liquidity support fund and the acquisition of a nearby skilled nursing community. Given these conditions, it was determined that taxable bank loan with tax-exempt bonds would be the most effective plan of finance.

EXECUTION

Working with Wellspring, Sims created a detailed request for financing package that was sent to regional and national banks. After hosting a site visit, several competitive term sheets were received, and Sims worked with the banks to structure a partnership that would finance both the taxable and tax-exempt components.

Two regional banks provided the financing, with the lead bank covering the $31.1 million taxable loan and the other bank purchasing $13.5 million of tax-exempt bonds.

While interest rates were favorable for both term sheets, swaps were put in place to provide fixed rates on both financings to mitigate Wellspring's variable interest rate risk and provide a solid financial foundation for future capital needs and growth. In order to preserve financial flexibility and still take advantage of low interest rates, creative swap structures were utilized. For both financings, 10 year swaps were put in place with a 5-year cancellation option. In addition, the new money for construction would not be swapped until drawn on, allowing Wellspring to take advantage of the current low interest rate environment.

RESULTS

The $44.6 million total taxable bank loan and Series 2015 bond issue closed on October 29, 2015. Specific benefits of the refinancing include:

Refinancing of Existing Commercial Debt
The refinancing of existing debt into two different tax structures allowed Wellspring to take advantage of lower interest rates on its tax-exempt debt and to lower its current bank loan rates. In addition, the low cost of the bank financing creates and preserves additional debt capacity for future growth opportunities

Liquidity Support
As part of the new money in the financing, Wellspring was able to establish a $5 million operating reserve fund to enhance the organization's liquidity position

Flexible Swap Structures
Swaps were used for both structures, but were made flexible to allow for a cancellation, without penalty, any time after five years providing for future financial flexibility

Funding for a Strategic Acquisition
$3.8 million of the new money was funded by the tax-exempt bonds to acquire a skilled nursing community and expand Wellspring's mission

Provided Proceeds for Capital Improvements
$8.85 million of the new money will be used to fund renovation projects at several of the communities within the Obligated Group

For more detailed information on how Wellspring Lutheran was Financed Right® by HJ Sims, please contact:

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