

CASE STUDY

WESTMINSTER PINES

\$48,805,000 | December 7, 2017 | St. Augustine, FL



FINANCED RIGHT®

BIFURCATED FINANCING ENABLES WESTMINSTER COMMUNITIES OF FLORIDA TO ACQUIRE BANKRUPT COMMUNITY



PARTNERED RIGHT®

Westminster Pines, Inc. d/b/a Westminster St. Augustine (the “Borrower”) is a not-for-profit corporation wholly owned by an affiliate of Presbyterian Retirement Communities, Inc. (“PRC”), otherwise known as Westminster Communities of Florida. In 2017, the Borrower successfully negotiated a purchase agreement to acquire Glenmoor, a life plan community that had been in bankruptcy since 2013. Glenmoor is located in St. Augustine, with a 40-acre landscaped campus that consists of 159 residential units, a Health Center containing 30 Assisted Living Units, 30 Skilled Nursing Beds and a 329,000 square foot Community Center. As of September 2017, the community’s occupancy was 82% in its independent living units, 59% in assisted living units and 78% in skilled nursing units.

PRC and its affiliates (collectively, the “PRC Obligated Group”) constitute the largest group of life plan communities in the State of Florida with a total of 3,244 units including 2,025 residential units, 468 assisted living units and 751 skilled nursing units. According to the 2016 *LeadingAge 100 Report*, the Obligated Group is the 14th largest non-profit operator of senior living units in the United States. The PRC Obligated Group currently has an “A-” by Fitch Ratings, Inc.

Of the nine life plan communities currently owned and operated by PRC, six were acquired under circumstances of financial distress.

Westminster Pines At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> » Westminster Pines, an affiliate of Presbyterian Retirement Communities – 14th largest non-profit senior living provider in the United States, #1 in the state of Florida. » Acquire an existing life plan community out of bankruptcy to reposition its business model. » 78% current occupancy in all units. 	<ul style="list-style-type: none"> » Acquire the community through an affiliate of PRC that is not a member of the PRC Obligated Group. » Address the remaining balance of Guaranteed Refunds. » Develop a plan of finance utilizing both tax-exempt and taxable financing options given the large number of independent living units on the campus. 	<ul style="list-style-type: none"> » Evaluated multiple financing plans and scenarios. » Crafted a blended solution of tax-exempt and taxable financing. » Secured low interest rate with True Interest Cost of 5.27%. 	<ul style="list-style-type: none"> » Guaranteed Refunds balance was lowered. » Provided flexibility to bring community into PRC Obligated Group over a 5-7 year period. » Implemented a revitalization plan to bring stability to the acquired Community.

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In 2010, due to the recession and negative attrition, Glenmoor had offered primarily refundable entrance fee contracts, which led to high refund liabilities that had escalated to unpaid balance of approximately \$7 million by 2012. Not able to fulfill its growing obligations, Glenmoor entered into bankruptcy in 2013. By the end of 2016, after the original reorganization plan was unsuccessful, it was ordered by the United States Bankruptcy Court to be sold. Westminster Communities of Florida provided the second highest bid, and won the right to acquire the property after the stalking horse bidder pulled out of the transaction.

With total refund liabilities of \$19 million to current residents at the time of closing and \$9 million of additional past-due refunds, PRC decided to purchase Glenmoor through its affiliate, Westminster Pines, which is not currently a part of the PRC Obligated Group. At such time that the community reaches stabilized occupancy and a reduction in the amount of refund liabilities, PRC has the right to add the Borrower to the PRC Obligated Group.

In addition, due to the current IRS code, the purchase price for the independent living units could not be financed with tax-exempt bonds, and, therefore, a portion of the plan of finance would need a form of taxable financing.

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After evaluating several financing plans, Sims recommended the use of non-rated taxable and tax-exempt bonds to acquire the community, pay down past due refunds and fund capital improvements. The \$43,805,000 bond issue consisted of an allocation of \$34,975,000 of taxable bonds and \$8,830,000 of tax-exempt bonds.

To provide the Borrower with a lower cost of capital and recognizing the intent to bring the community into the PRC Obligated Group over the next seven years, the bonds were structured with a mandatory seven-year tender from the closing date and amortized over 30 years to allow for sufficient debt service coverage on a pro-forma basis. PRC and its affiliates provided for \$11.5MM of support for the project for working capital and minimum liquid reserves required by the State of Florida in the form of subordinate loans. The non-rated bond issue obtained a blended cost of capital of 5.27% with an optional redemption beginning in year five at a 101% call premium.



Westminster
St. Augustine

FINANCED RIGHT®

As a result of the transaction, PRC acquired a community with minimal construction and fill-up risk in a market where it has demonstrated historical success at Westminster Julington Creek, which is 15 miles from Glenmoor. The acquisition provides the opportunity for Westminster St. Augustine (formerly “Glenmoor”) to have both operational and financial stability while allowing PRC the opportunity to expand its presence in the Jacksonville/St. Augustine market.

Ultimately, PRC was able to:

Reduce Remaining Balance of Guaranteed Refunds

With support from PRC and its affiliates, the Guaranteed Refunds payable to residents was reduced by \$9 million, and the remaining \$19 million will be paid out over the course of the next eight years as the new revitalization plan is implemented and generates excess cash flow.

Provide Financial Flexibility to PRC

The seven-year mandatory tender provides for Westminster Pines to have a taxable fixed rate of 5.50% and tax-exempt fixed rate of 4.125%, while also having the flexibility to evaluate strategic options for the community over the next 5-7 years.

Implement a Revitalization Plan

Under the new plan, Westminster Pines will utilize PRC’s buying power, which will produce savings in every department; and, under the management of Westminster Services, Inc., operating expenses will become more efficient. Additionally, to ensure a powerful presence among surrounding competitors, Westminster St. Augustine’s Entrance and Monthly Fees will provide for adjusted pricing for Independent Living units to boost sales. Marketing plans and budgets have also been created to ensure rebranding and public relations efforts. Ultimately, the plan should bring greater stability to the community, ensuring its ability to serve current residents and to meet the needs of future residents.

“This was a very difficult acquisition that required a lot of thinking outside the box. HJ Sims not only provided us with much needed borrowing assistance, but with guidance on the statutory, bankruptcy and other nuances of this acquisition. It was great to have an underwriter that was not just there to sell bonds.”

— Hank Keith, Chief Financial Officer,
Westminster Communities of Florida

For more detailed information
on how Westminster Pines
was Financed Right® by HJ Sims,
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