CASE STUDY

PRESBYTERIAN RETIREMENT COMMUNITIES

$107,360,000 | September 28, 2020 | Multiple Locations, FL

HJ SIMS

FINANCED RIGHT®

TAXABLE FIXED-RATE ADVANCE REFUNDING AND TAX-EXEMPT EXPANSION FUNDING ALLOW FOR STREAMLINED CAPITAL STRUCTURE AND CONTINUED LOW-COST GROWTH

Westminster Communities of Florida

PARTNERED RIGHT®

Presbyterian Retirement Communities, Inc. ("PRC"), d/b/a Westminster Communities of Florida, and its affiliates, (collectively, the "Obligated Group"), constitute the largest group of Life Plan Communities ("LPC") in the State of Florida with a total of 3,593 units including 2,297 residential units, 515 assisted living units and 781 skilled nursing units.

PRC was originally chartered in 1954 and opened its first LPC, Westminster Manor in Bradenton, in 1961. Over the years, PRC has grown primarily through strategic acquisitions of underperforming LPCs and through the expansion of its existing communities. Only three of its ten LPCs were developed by PRC, while the other seven were acquired amid significant financial issues or bankruptcy and were successfully turned around. Today, the Obligated Group is rated "A-" by Fitch Ratings and has maintained system-wide occupancy in excess of 90% for over five consecutive years.

The most recent acquisition of PRC, Westminster St. Augustine – formerly known as Glenmoor, was acquired out of a second bankruptcy in October 2017. The financing for the acquisition was completed outside of the Obligated Group, but with significant support from PRC in the forms of a subordinate loan from the Westminster Foundation and liquidity support directly from PRC. At the time of acquisition, Westminster St. Augustine was 73.7% occupied, with a residential living occupancy of 80.3%. As of August 28, 2020, the community had an overall community occupancy of 86.8%, with 93.1% of the residential living units occupied.

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While the original expectation was that Westminster St. Augustine would achieve stabilized occupancy in five to seven years, the community's vacant residential living units were nearly 100% reserved within three short years. The accelerated financial rebound of

Presbyterian Retirement Communities At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
» Presbyterian Retirement Communities: 3,593 units in 10 Life Plan Communities » History of successfully acquiring and turning around financially strained communities » Acquired Westminster St. Augustine (f/k/a Glenmoor) out of bankruptcy in October 2017	» With the accelerated financial rebound of Westminster St. Augustine, PRC sought options to release their support obligations » Opportunity to also refinance variable rate 2010B bonds and fund forthcoming capital projects	» Structured taxable and tax-exempt bonds around existing debt service » Successfully underwrote the bonds without a funded DSRF » Secured low interest rate with blended True Interest Cost of 3.87% (taxable and tax-exempt)	» Eliminated interest rate risk and LIBOR exposure » Streamlined debt and organizational structure » Secured new capital at low cost and positioned PRC for continued growth while maintaining "A-" Fitch Rating

the community created an opportunity to explore refinancing options which could release PRC and the Foundation from their financial support obligations. Since the Series 2017 bonds were not callable until October 1, 2022, and since the 2017B bonds were issued on a taxable basis given IRS rules regarding acquisition financings, an advance refunding would need to be completed using taxable debt. HJ Sims worked with PRC to analyze different plans of finance and identify whether a refinancing made economic sense. Ultimately management and the Board decided to move forward with a fixed-rate taxable bond financing with the Obligated Group as the Borrower since the low interest rate environment for investment grade rated bonds was sufficient to offset negative arbitrage associated with the advance refunding.

In addition to the advance refunding of the Series 2017 debt, HJ Sims analyzed a refinancing of the Obligated Group Series 2010B tax-exempt bonds which were variable rate and indexed to LIBOR. With LIBOR phasing out and a large balloon payment approaching in 2028, management decided it was the appropriate time to refinance these bonds and eliminate the only variable rate debt in the Obligated Group. Finally, PRC sought to take advantage of the historically low interest rates and borrow additional capital for forthcoming expansion projects, however it was important to management that maximum annual debt service stay below a certain threshold.

Because of the principal payment structure of the Obligated Group's other series of outstanding debt, it was paramount that the Series 2020 debt be structured around the existing debt in order to achieve a relatively level aggregate debt service schedule.

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Ultimately, HJ Sims underwrote two tranches of debt, one of taxable municipal bonds and the other of tax-exempt municipal bonds. The taxable bonds, in the amount of $45.4 million, were used to purchase open market securities and fund an escrow necessary to advance refund the Series 2017 bonds. In order to appeal to a broader investor base, and level annual debt service in aggregate, HJ Sims structured two medium-term bonds maturing in 2025 and 2028, leaving the rest of the taxable bonds to amortize between 2048 and 2050.

The tax-exempt bonds, in the amount of $62.0 million, were used to currently refund the Series 2010B bonds and fund $50 million of capital expenditures. In order to maximize spending flexibility, HJ Sims worked with counsel to execute an interlocal agreement between the issuer and two other municipalities such that PRC could spend the bond proceeds on a variety of planned projects across the state.

Given the strength of the Obligated Group, HJ Sims successfully underwrote the bonds without a debt service reserve fund ("DSRF"). HJ Sims was also able to structure the long-term bonds with a 4% coupon at a time when most investors sought a 5% coupon. Additionally, the bonds have a five-year call option which gives PRC greater flexibility to refinance the debt in the future.

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HJ Sims successfully closed the $107,360,000 issue on September 28, 2020 with a blended all-in true interest cost of 3.87% through 2055. The true interest cost of the tax-exempt bonds was 3.73% while the true interest cost of the taxable bonds was 4.13%.

As a result of the financing, PRC was able to achieve the following objectives:

Eliminate Interest Rate Risk and LIBOR Exposure

The Series 2017 bonds had a mandatory put in 2024, thereby exposing PRC to future interest rate risk. Similarly, the LIBOR-indexed Series 2010B bonds were subject to ongoing fluctuations in short-term interest rates. By refunding both series of bonds, PRC was able to secure long-term fixed rates and eliminate interest rate uncertainty from its capital structure.

Streamline Debt and Organizational Structure

By refunding the Series 2017 bonds and satisfying their respective legal documents, Westminster St. Augustine was able to repay the liquidity support note from PRC and now has the flexibility to repay the Foundation loan. With all of its LPCs now in one obligated group, PRC's outstanding debt is once again governed by a single Master Trust Indenture and the organization will enjoy simplified accounting and financial reporting processes going forward. Additionally, by refunding the Series 2010B bonds and eliminating the $8 million bullet payment that was to come due in 2028, PRC now also has a more consistent annual debt service structure.

Position PRC for Continued Growth While Maintaining Fitch A- Rating

By borrowing $50 million for forthcoming expansion projects near historically low fixed interest rates, PRC is well positioned to continue growing its existing campuses. Limiting the borrowing to $50 million also enabled PRC to cap its maximum annual debt service at a manageable level and maintain its "A-" rating from Fitch. The ability to fund growth with low-cost debt, instead of cash, will enable PRC to strengthen its liquidity position in the months ahead, which is especially paramount in the recent COVID environment.

"Working with the Sims team on this bond issuance enabled us to achieve numerous financing objectives with ease. The low cost of capital far exceeded our expectations, while the unique and tailored structure enhances the stability and flexibility of our overall debt profile."

— Hank Keith, Chief Financial Officer

For more detailed information on how Presbyterian Retirement Communities was Financed Right® by HJ Sims, please call or email:

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