

CASE STUDY

PRESBYTERIAN VILLAGES OF MICHIGAN

\$38,180,000 | September 30, 2020 | Greater Detroit, MI



FINANCED RIGHT®

HJ SIMS ADVISES ON FINANCING INDEPENDENT LIVING RENTAL EXPANSION PROJECT, VARIOUS REFINANCINGS, AND ADDING NEW MEMBERS TO THE OBLIGATED GROUP



PARTNERED RIGHT®

Presbyterian Villages of Michigan (“PVM”) is an award-winning non-profit, aging services network. PVM serves people of all faiths and diverse communities across Michigan since 1945. As an aging services network, PVM has an interest in 51 entities and seven that are managed only. Of the 51 entities, 24 are owned outright and 27 are owned in partnership or co-sponsorship with other non-profit and/or for-profit organizations. PVM serves as the management agent for 42 of the entities, whereas nine are managed by PVM’s partners, co-sponsors, or separate executive teams of the joint venture. Of the 51 entities, 31 are non-profit corporations (all with 501(c)(3) determinations), four limited liability corporations, three condominium associations, and 13 Limited Dividend Housing Association (“LDHA”) limited partnerships.

Presbyterian Villages of Michigan At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> » HJ Sims completed its first financing with PVM in 2015, serving as underwriter for PVM’s Series 2015 bonds. » Since 2015, HJ Sims has continued to provide advisory services to PVM for planning future capital expansion projects, monitoring debt capacity, and analyzing the obligated group structure. 	<ul style="list-style-type: none"> » In 2002, PVM acquired land immediately adjacent to its Village of East Harbor campus for an expansion project. » In 2018, The Village of East Harbor completed a new health and wellness center. » The new project involves the final phase of the Health and Wellness Center project, and a new IL rental expansion project known as Harbor Inn. » The Harbor Inn campus will include 12 rental single-level ranch homes containing 36 rental ILUs, and a three-story apartment building containing 60 ILUs. 	<ul style="list-style-type: none"> » PVM and its board, based on analysis provided by HJ Sims decided to absorb the Weinberg Green Houses into the Obligated Group, in addition to adding Harbor Inn. » HJ Sims worked with PVM and Fitch Ratings to secure a “BB” rating for the new bond issuance, and existing Series 2015 bonds. 	<ul style="list-style-type: none"> » The \$38.18 million financing closed on September 30, 2020, consisting of \$18.18 million of Series 2020A bonds underwritten by HJ Sims, and \$20 million Series 2020B direct placement draw-down bonds purchased by HPCC. » The Series 2020B bonds were issued in a floating rate mode and hedged with a forward starting SWAP beginning at the end of the draw period, and cancellable in five years, and a seven-year final maturity matching the loan tenor. » The projected combined cost of capital of the 2020A and 2020B bonds is 3.48%.

HJ Sims completed its first financing with PVM in 2015, serving as underwriter for PVM's Series 2015 bonds, to refinance their outstanding Series 2005 bonds, renovate portions of PVM's East Harbor campus, and divest licensed portions of The Village of Redford campus. Following the divestiture of the licensed portions of The Village of Redford campus, the PVM Obligated Group includes two life plan communities known as The Villages of East Harbor, and The Villages of Westland, The PVM Foundation, and PVM, the Obligated Group Agent and Management Agent. Since 2015, HJ Sims continued to provide advisory services to PVM for planning future capital expansion projects, monitoring debt capacity, and evaluating the potential absorptions of other PVM interests into the PVM Obligated Group. Work continues with HJ Sims on future planning.

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In 2002, PVM acquired land immediately adjacent to its Village of East Harbor campus in Chesterfield Township, MI to develop an expansion project. In 2018, The Village of East Harbor completed an expansion of its licensed nursing facilities and the inpatient rehabilitation phase of a new health and wellness center that was financed with proceeds from Redford's disposition, 2015 tax exemption bond proceeds, and donations from a capital campaign. The new project involves the construction of an approximately 4,900 sq. ft. wellness center, which will complete the health and wellness center, including licensed outpatient rehabilitation and bistro spaces. The Harbor Inn project will include 12 rental single-level ranch homes containing 36 rental independent living units ("ILUs"), and a three-story apartment building containing 60 ILUs. The Harbor Inn project will target middle market income seniors, and provide another offering for those on the existing waiting list for independent living.

In addition to securing financing for the East Harbor Wellness Center and Harbor Inn projects, PVM sought to refinance outstanding bank loans with Huntington National Bank ("HNB"), refinance outstanding CDFI debt on the Harry and Jeanette Weinberg Green Houses ("Weinberg Green Houses") at Rivertown Neighborhood (see below), and finance the pre-planning development services and renovation and repurposing of certain facilities at The Village of Westland. PVM and HJ Sims worked with HNB to secure up to \$20 million of new bank financing for the Harbor Inn project, however, PVM needed additional capital for the various refinancings and financing the remainder of the \$27 million Harbor Inn project. To fill this gap, HJ Sims was selected to serve as Underwriter for a bond financing, in addition to structuring agent, to complete a hybrid bond and bank plan to finance the new projects and refinance existing indebtedness. HJ Sims also negotiated the terms of the SWAP with HNB on the bank financing. Finally, HJ Sims worked with PVM to secure the services of an excellent financing team.

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PVM needed to increase the collateral base and free cash flow of its Obligated Group in order to meet loan to value constraints, increase debt capacity, and satisfy the additional indebtedness tests of its Master Trust Indenture. Of the 51 entities PVM operates, 24 are owned outright, and HJ Sims worked with PVM to evaluate which entities could be accretive to the free cash flow of the Obligated Group, increase debt capacity based on debt service coverage, and increase collateral for loan to value constraints. After careful consideration, PVM and its board, based on analysis provided by HJ Sims decided to absorb the Weinberg Green Houses into the Obligated Group, in addition to adding Harbor Inn to the Obligated Group.

The Weinberg Green Houses is a 501(c)(3) designated, Michigan non-profit corporation located in downtown Detroit, Michigan. This project was completed in 2017 and consists of 21 studio apartments licensed as Home for the Aged. PVM has a Use Agreement with PACE Southeast Michigan, a joint venture of Henry Ford Health System and PVM, for the exclusive use of The Weinberg Green Houses. Adding The Weinberg Green Houses to the Obligated Group allowed PVM to increase its debt capacity, satisfy additional indebtedness tests, and satisfy loan to value constraints. Additionally, absorbing The Weinberg Green Houses into the Obligated Group allowed PVM to refinance the outstanding CDFI debt as part of the 2020 tax-exempt bond financing.

With a plan in place to expand the Obligated Group membership, finance the new projects, and refinance existing debt, HJ Sims worked with PVM and Fitch Ratings to secure a rating for the new bond issuance, and review the ratings of PVM's existing Series 2015 bonds. While the market study suggested strong demand for rental independent living units, the lack of entrance fees in the new project increased the amount of long-term bonds needed to finance the projects. Despite more than doubling its long-term debt with the new issuance, Fitch rated PVM "BB" with a stable outlook.

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PVM, HJ Sims, and HNB closed the \$38.18 million financing on September 30, 2020. The financing consisted of \$18.18 million of tax-exempt Series 2020A bonds underwritten by HJ Sims, and \$20 million of tax-exempt direct placement draw-down bonds purchased by HNB affiliate, Huntington Public Capital Corporation ("HPCC").

The Series 2020A bonds were issued with a 33-year principal amortization and final maturity in 2053. The Series 2020B were issued in a floating rate mode and interest-only for 30 months, with a forward starting SWAP beginning at the end of the draw period, and cancellable in five years, ahead of the seven-year tenor of the underlying loan, and seven-year final maturity of the swap. The five-year cancel option on the SWAP mirrors the five-year call option on the long-term fixed-rate bonds. The projected combined cost of capital of the 2020A and 2020B bonds is 3.48%.

"Following up on the 2015 restructuring and financing, our partners at HJ Sims went back to work with PVM's Board and management leadership to provide key guidance to PVM's next steps in expanding and strengthening its Obligated Group, resulting in the 2020 restructuring and financing described below – remarkably during the COVID 19 pandemic. Sims provided excellent leadership to the financing team. PVM looks forward to working with our partners at Sims as we immediately explore other financing needs to expand and reposition its service offerings."

— Brian Carnaghi, SVP of Finance and Business Development, CFO, Treasurer, Presbyterian Villages of Michigan

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

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