

# HJ SIMS COMPLETES THIRD FINANCING FOR CLIENT TO SECURE LONG-TERM BANK COMMITMENT AND REFINANCE ALL OF ITS OUTSTANDING DEBT, GENERATING SIGNIFICANT INTEREST RATE SAVINGS

### PARTNERED RIGHT®

Casa de las Campanas (“Casa”), a Life Plan Community in the Rancho Bernardo area of San Diego, California, is comprised of more than 500 units, including independent living, assisted living, memory care and skilled nursing. Casa’s multi-phase master plan includes assisted living and memory care unit renovation and expansion, as well as improvements to wellness facilities, dining venues, beauty salon and spa and other common spaces. In 2014, HJ Sims worked with Casa to secure bank financing through City National Bank for Casa’s Phase I expansion project, which included relocation of a salon, a new bistro lounge addition, and a new wellness and fitness addition featuring an indoor pool. Phases II and III of the master plan will include new skilled nursing facilities, independent living apartments and memory care beds. Casa is managed by Life Care Services, and LCS Development serves as the developer for the master plan project.

In 2017, HJ Sims assisted Casa with negotiating the Phase II financing terms with City National Bank. HJ Sims, along with the Developer, again led Casa through the Cal Mortgage Loan Insurance Program application process, and Casa was approved for the program by the State of California’s Office of Statewide Health Planning & Development (“OSHPD”). After successfully closing new money financing in 2014 and 2017 to finance Phase I and Phase II, HJ Sims continued to work with Casa to explore refinancing options for its outstanding Series 2010 bonds, and reduce Casa’s overall cost of capital.

### STRUCTURED RIGHT®

The original financing for Phase II was completed in August 2017, with City National Bank providing \$39 million in direct bank placement bonds. The 2017 financing was structured with draw-down and interest only features to minimize financing costs during the construction period, and delay principal payments until

### Casa de las Campanas At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"> <li>» Casa is comprised of more than 500 units, including independent living, assisted living, memory care and skilled nursing.</li> <li>» Casa’s multi-phase master plan includes assisted living and memory care unit renovation and expansion, as well as improvements to wellness facilities, dining venues, beauty salon and spa and other common spaces.</li> <li>» HJ Sims worked with Casa in 2014 and 2017 to secure bank financing for its phased expansion from City National Bank on parity with its outstanding Series 2010 Bonds issued through Cal Mortgage Insurance Program.</li> </ul>	<ul style="list-style-type: none"> <li>» The Series 2020 financing, which refinanced Casa’s outstanding bank and bond debt out of the Cal Mortgage Insurance Program, was structured with a 15-year credit commitment and 30-year amortization, ensuring interest rate savings beyond the commitment terms typically offered by commercial banks.</li> </ul>	<ul style="list-style-type: none"> <li>» The plan of finance was optimized at the full \$77 million credit commitment offered by City National Bank in order to realize potentially significant cash flow savings from refinancing the Series 2010 bonds and outstanding Series 2014 and 2017 bank bonds.</li> </ul>	<ul style="list-style-type: none"> <li>» The \$77 million financing closed on September 23, 2020 as a floating rate direct bank placement hedged with a LIBOR interest rate swap at an initial rate of 2.225% through 2035, based on Casa’s current credit rating of “BBB+”.</li> </ul>

revenues were generated from the new project. HJ Sims worked closely with City National Bank and Cal Mortgage to structure the financing as Cal Mortgage had not previously insured draw-down bonds prior to Casa's Phase II financing.

Casa applied \$7.1 million of equity, and transferred \$5.5 million of unused Phase I proceeds towards the Phase II financing. Funds were to be drawn down over an 18-month period to March 2019, at a floating rate and become fixed-rate after the initial construction period. However, due to complications of the Phase II concrete structure, subsequent mitigating efforts, and changes to the scope of the project, the Phase II project was significantly delayed. Casa and its Developer worked diligently to get the Phase II project back on track, correct construction and related issues, and navigate the state and local regulatory approval process to resume financing draws.

### **EXECUTED RIGHT®**

Casa worked with City National Bank and OSHPD to extend the draw period through September 2020; extending the benefits of a draw-down feature, while maintaining the credit commitment for the Phase II project. Because of the draw-down structure, Casa paid minimal interest through 2019, despite the construction and planning complications.

Less than three months after closing the 2017 financing, the Tax Cuts and Jobs Act (TCJA), passed in December 2017, eliminated the possibility for Casa to advance refund its outstanding Series 2010 bonds prior to the first optional redemption date in September 2020. In the fall of 2019, HJ Sims and City National Bank discussed the possibility of pricing a forward-starting tax-exempt refinancing. The objective of a forward pricing structure would be for Casa to lock in an interest rate to refinance its outstanding Series 2010 bonds, 2014 bank debt, the outstanding portion of the 2017 bonds, and fund the remaining undrawn portion of the 2017 bonds coterminous with both the end of the Series 2017 draw period, and Series 2010 first optional redemption date.

The projected total financing could be up to \$97 million, with City National Bank providing up to \$77 million while seeking a syndicate member to complete the full financing amount.

### **FINANCED RIGHT®**

As HJ Sims, City National Bank, and Casa planned to close a financing in the first quarter of 2020, the Coronavirus pandemic roiled financial markets, and halted bank financing commitments. City National Bank honored their \$77 million commitment to Casa, and continued to seek a syndicate member through the spring and summer of 2020, but unfortunately no banks were willing to match City National Bank's aggressive pricing proposal. As the first optional redemption date of the 2010 bonds approached, the plan of finance evolved from a forward refunding, to a current refunding, and HJ Sims and Casa targeted to close a refinancing in September 2020. Without a syndicate banking participant, the plan of finance was optimized at the full \$77 million credit commitment offered by City National Bank in order to realize potentially significant cash flow savings from refinancing the Series 2010 bonds and outstanding Series 2014 bonds. Additionally, the Series 2020 financing was structured with a 15-year credit commitment and 30-year amortization, ensuring interest rate savings beyond the commitment terms typically offered by commercial banks. In addition, Casa expects to close on a line of credit to fund the balance of the project, with HJ Sims' assistance. The line of credit can be refinanced once a syndicate bank is identified as the commercial bank environment improves.

The \$77 million financing closed on September 23, 2020 as a floating rate direct bank placement hedged with a LIBOR interest rate swap at an initial rate of 2.225% through 2035, based on Casa's current credit rating of "BBB+", potentially decreasing to 2.10% in the event that Casa is upgraded to "A-" in the future. The financing refinanced all of the Series 2010 and 2014 bonds, all \$6.2 million of the Series 2017 financing drawn to date bonds, and provided \$15.3 million for future and reimbursable Phase II project costs. At a "BBB+" rating, Casa anticipates annual cash flow savings on existing debt of \$2.45 million through 2035, with net present value savings of \$12 million and 18.3% of refunded debt over the 30-year amortization.



*“Once again, working with the HJ Sims team provided the best solution to meet our refinancing objectives. Sims continues to be our trusted financial advisor, helping us evaluate opportunities to improve upon our current debt structure while ensuring Casa is well positioned to access future financings related to our Master Plan. HJ Sims was able to provide valuable insight and guidance on the various refinancing scenarios to our Management Team and our Board. The refinancing was successfully structured to eliminate the previously required Cal Mortgage insurance and related debt service reserve fund. With the new low interest rate, Casa is able to save millions and drastically improve our cash flow and future debt capacity. In addition, HJ Sims went beyond the call of duty and presented industry guidelines and insights at our Board Retreats to ensure we accomplish our goals and maintain our mission.”*

*— Dave Johnson, CFO,  
Casa de las Campanas*

**For more detailed information  
on how Casa de las Campanas  
was Financed Right® by HJ Sims,  
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