CASE STUDY

ASBURY PENNSYLVANIA OBLIGATED GROUP

$47,615,000 | Mechanicsburg, PA | June & October 2021

HJ SIMS

FINANCED RIGHT®

ASBURY COMMUNITIES PARTNERS AGAIN WITH HJ SIMS TO ACHIEVE SAVINGS THROUGH UNIQUE FINANCING STRUCTURE

PARTNERED RIGHT®

Asbury Communities, Inc. ("Asbury"), owns and operates life plan communities in Pennsylvania, Maryland, and Tennessee, as well as HUD Section 202 senior housing buildings, a foundation, and a for-profit technology consulting firm. All facilities included in its Pennsylvania and Maryland Obligated Groups are owned and operated by Asbury Atlantic, Inc., a wholly-owned subsidiary of Asbury Communities.

Asbury's Pennsylvania Obligated Group (the "PA Obligated Group") is comprised of two life plan communities – Bethany Village Retirement Center ("Bethany Village") located in Mechanicsburg, Pennsylvania, and Springhill located in Erie, Pennsylvania. Bethany Village consists of two campuses with an aggregate of 400 independent living units, 100 assisted living units, and a 69-bed skilled nursing center and related amenities. Springhill has 158 independent living units, 35 personal care units and an 80-bed skilled nursing facility.

HJ Sims has served as underwriter to Asbury for several transactions in recent years, most recently a $59.5 million financing in 2019 for the PA Obligated Group's refinancing of their Series 2010 Bonds.

Asbury Pennsylvania At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
» The PA Obligated Group consists of two life plan communities – Bethany Village located in Mechanicsburg, PA, and Springhill located in Erie, PA. » Bethany Village consists of two campuses with an aggregate of 400 independent living units, 100 assisted living units, and a 69-bed skilled nursing center and related amenities. Springhill has 158 independent living units, 35 personal care units and an 80-bed skilled nursing facility.	» Asbury sought to refinance its Series 2012 Bonds while focusing on its primary objectives of maximizing debt service savings, while also minimizing or eliminating the renewal risk associated with traditional commercial bank financings. » Tax-exempt advance refundings were eliminated by the 2017 Tax Cuts and Jobs Act, therefore, Asbury did not have the option to refund the Series 2012 Bonds on a tax-exempt basis until October 3, 2021. Thus, HJ Sims assisted Asbury in structuring a refinancing that used a fully amortizing low-rate bank loan and a forward direct placement of tax-exempt bonds.	» HJ Sims negotiated with one of Asbury's existing bondholders to provide certainty of interest rate on a portion of the refinancing and a minimum level of savings to permit Asbury to proceed with securing a Cinderella bank loan for the remaining portion of the refinancing. » The use of semi-annual sinking fund installments minimized interest expense.	» This approach provided approximately $400,000 per year in debt service savings totaling $5.5 million of Net Present Value savings. » Had the transaction been completed entirely as a forward delivery of tax-exempt bonds, savings would have been 8.59%. By utilizing a hybrid structure with a fully amortizing bank loan and fixed-rate bonds, the actual savings was 11.73%.

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In late 2020, Asbury engaged HJ Sims again to facilitate the refinancing of the PA Obligated Group's outstanding Series 2012 Bonds, which have an initial optional redemption date of January 1, 2022. In evaluating potential refunding structures, the two key objectives were to maximize debt service savings while also minimizing or eliminating the renewal risk associated with traditional commercial bank financings.

Following a competitive solicitation to select a banking partner, HJ Sims recommended a hybrid finance plan that combined the benefits of a traditional bank loan as well as a fixed-rate bond issuance, while seeking to mitigate the negative aspects of each.

"Once again HJ Sims was able to help Asbury navigate through a complicated transaction, which lowered our interest costs while maintaining existing covenants and all other material debt terms."

— Andrew Jeanneret, Chief Financial Officer
Asbury Communities, Inc.

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The refinancing of the Series 2012 Bonds was split into two distinct components – a bank loan in the amount of $20,380,000 and tax-exempt fixed-rate bonds in the amount of $27,235,000 offered on a forward basis in a direct placement. The bank loan utilized the "Cinderella Bond" structure, with initial issuance on a taxable basis until eligible for conversion to a tax-exempt rate in October 2021. In addition to favorable cost of capital resulting in debt service savings, the loan is fully amortizing over its 12-year term, eliminating the need to refinance the debt after the term concludes. To fully remove any exposures associated with changes in interest rates, a forward starting interest rate swap, set to initiate upon conversion to a tax-exempt interest rate was put into place, resulting in a synthetically fixed rate for the bank loan.

A forward commitment for the fixed-rate bond portion refinanced the remainder of the Series 2012 Bonds, which was placed with a single bondholder at Asbury's request, with principal amortization beginning following maturity of the bank loan. The structure took advantage of a favorable interest rate environment to lock in pricing instead of taking on the risk that rates may increase by October 2021, which is the earliest a current refunding would have been possible. Discussions regarding pricing of the fixed-rate bond portion of the refinancing occurred during late March 2021 in a rising interest rate environment. At that time, Asbury sought certainty that the savings opportunity would not disappear as rates continued to rise and achieve a targeted savings of at least 10%. The transaction ultimately initially closed in June 2021; the taxable loan will be refinanced by a tax-exempt bank loan and the tax-exempt bonds will be delivered October 4, 2021.

Combined with the bank loan, the Series 2021 Bonds maintained level debt service for the PA Obligated Group for the remaining life of the bonds and provided savings of 11.73%.

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For the PA Obligated Group, the aggregate $47,615,000 Series 2021 Bonds are projected to generate over $400,000 of annual debt service savings through final maturity in 2041, for net present value savings of $5.5 million. Inclusion of the bank improved savings for Asbury relative to a fixed-rate forward refunding structure for the full refinancing by providing approximately 20% of the total NPV savings, driving down the overall cost of capital and interest expense while maintaining full certainty with respect to future debt service for the life of the bonds.

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

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