LARSON
Consulting Services, LLC

October 22, 2019

Memorandum

To: Ms. Linda Senne, CPA, Finance Director
City of Venice, Florida ("the City")

From: Jeff Larson, President, Larson Consulting Services, Orlando
Financial Advisor to the City

Re: City of Venice, Florida, Resolution No.2019-27; Up to $23,000,000, Retirement Community Revenue Bonds, Series 2019 (Southwest Florida Retirement Center, Inc. d/b/a Village on the Isle ("the Company" or "the Borrower")

Please allow this memo to serve as a summary of the proposed tax-exempt, long term bond issue for the Company. We are serving as the Financial Advisor to the City, and not as the Financial Advisor or Municipal Advisor to the Company. As cited in the draft Preliminary Official Statement ("POS") and numbers from the Underwriter, the Company and its Financing Team expect the bond issue to be sized at around $17,350,000. That, together with original issue premium of estimated $1,907,000 and a Company contribution of $251,000, will produce a total Source of Funds of approximately $19,508,000. As noted below, the bonds will fund a project reimbursement amount of $18,000,000 and pay for a deposit to the Debt Service Reserve Fund for the 2019 bonds, Underwriters Discount and Cost of Issuance.

A. BACKGROUND

Key members of the Financing Team for the bonds are listed below:

Borrower:	Southwest Community Retirement Center, Inc. d/b/a Village on the Isle, a local not-for-profit, 501(c) 3 continuing care retirement community. Affliated with the Evangelical Lutheran Church in America, with an affiliated Not for Profit Foundation.
Borrower's Financial Consultant:	Dixon Hughes, PLLM, Atlanta, GA
Borrower's Counsel:	Butler Snow, LLP, Atlanta, GA Graham Legal Group, Orlando, Florida
Bond Counsel:	Nabors Giblin & Nickerson, P.A., Tampa, Florida
Underwriter:	B.C. Ziegler & Company, St. Petersburg, Florida

Underwriter's Counsel:	Holland & Knight, Lakeland, Florida
Trustee:	The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida
Auditor:	CliftonLarsonAllen LLP
Rating Agency:	Fitch Ratings, provided an Investment Grade Ratings of "BBB-"
Dissemination Agent:	To be determined, we are recommending Digital Assurance Corporation ("DAC").

B. COMPANY SUMMARY:

The Company was established in January 1979, obtained its IRS 501(c) in March 1981, and began operations in 1982 as a "continuing care" provider under Florida Statutes Chapter 651. Based in Venice, residents enter into a Residence and Service Contract that calls for the payment of a one-time entrance fee and monthly service fees. As of December 31, 2018, the Company had approximately 250 employees and currently operates:

- 194 existing Independent Living Units ("ILU's"), these units in Matthew Hall and Trinity Hall are being renovated
- 46 new Independent Living Units opened in June 2019
- 64 Assisted Living Units, including 16 new Memory Care units
- A new 64 bed, 66,000 SF licensed skilled nursing facility expected to open by the end of 2019.

The Company has been able to historically achieve very high levels of occupancy of 90% or higher for all of its units. Company's goal is to maintain a minimum level of occupancy of 93-95%.

Two prior bond issues were done in 2016 and 2017 via the Sarasota County HFA, with the City able to meet the Company's objective of closing on this Series 2019 issue by the end of December. Our 2019 issue will be a parity issue to both the 2016 and 2017 bonds. The 2016 issue totaled $33,190,000 and refunded a Series 2007 issue and funded $10,000,000 for campus improvements. The $58,385,000 2017A issue and $13,250,000 2017B issue provided, net of cost of issuance, and debt reserve funds, approximately $67,000,000 in project funds for the construction of additional ILUs, ALUs, a healthcare facility, and other common spaces. The 2017 B issue was structured as shorter term, temporary debt with the pledge and receipt of the initial entrance fees from the ILUs being used to retire these bonds.

2018 annual revenues rose slightly to $22,840,000 from $22,170,000 in 2017. A majority of revenues come from resident service fees, healthcare service fees and an amortization of the earned entrance fees. Operating Income before Depreciation totaled $3,940,000 in 2018 versus $3,380,000 in 2017. Due to a change in net unrealized losses on investments of $1,134,000 in

2018, the company's change in net assets was a negative $372,000 versus an addition to Net Assets in 2017 of $1,410,000.

The Company is fairly well leveraged given the capital intensive nature of their industry. However, the 2017B temporary bonds should be redeemed by the end of 2019 given the accelerated "fill up" of the new ILU's constructed with the 2017 bond proceeds. Financial covenants contained in the 2016 Master Indenture continue to be met, as cited below:

Debt Service Coverage:	Proforma 1.65X to 2.82X (min. 1.20X)
Days Cash on Hand:	Projected 496 to 650 days, 386 days as of 12.31.18 (min. 150 days)

Per Florida Statutes Chapter 651 as a continuing care facility, the Company is required by the Office of Insurance Regulation to maintain a "Minimum Liquid Reserve" for (i) a debt service reserve fund, (ii) an operating reserve and (iii) a reserve for renewal and replacement needs. As of FYE December 2018, the Debt Service Reserve Funds for the existing 2016 and 2017 bonds totaled $6,622,000 and are held with the Trustee. The operating reserve and renewal and replacement reserve totaled $4,146,000 and are held by the Company's Escrow Bank, SunTrust.

C. PROPOSED BOND STRUCTURE

Purpose and Bond Structure: Together with the Company's cash contribution at closing and estimated original issue premium, the 2019 bonds will provide funds to (a) finance and refinance a number of Capital Improvements on their Campus totaling over $18,000,000, (b) provide funds for a contribution to the 2019 Bonds Debt Service Reserve Fund and (c) pay for Cost of Issuance including the Underwriter's Discount.

Gross revenues of the company's operations are pledged, in addition to bondholders receiving a parity lien on the security and assets of the company via the Mortgage and Security Agreements. The final maturity of the Series 2019 Bonds will be up to 120% of the estimated weighted average, useful life of the underlying assets being financed as determined by Bond Counsel, and is currently expected to be approximately 32 years. Assuming their December 19, 2019 targeted Closing Date, the interest on the 2019 Bonds will be payable each January 1st and July 1st, commencing on July 1, 2020. In order to try to have an aggregate Level Debt Service Structure, the 2019 Bonds will have a long Interest Only Period with Principal due each January 1, beginning on January 1, 2033. This initial interest only structure through 2032 is being used as the 2016 Bonds will mature on January 1, 2032. Aggregate level debt service is estimated to be $6,942,000 beginning in 2022 after the Series 2017B Bonds are paid off, and then leveling down to around $6,073,000 in 2033 with a final maturity on January 1, 2052. The Series 2019 Bonds are expected to be sold as three Term Bonds as set out below:

2037 Term Bond:	est. $ 2,900,000
2047 Term Bond:	est. $ 8,425,000
2052 Term Bond:	est. $ 6,025,000
Total:	est**. $ 17,350,000**

<u>Projected Sources and Uses Statement: (As of September 5th from Underwriter)</u>

Source of Funds:	
Bond Par Amount:	$17,350,000
Company Contribution:	251,369
Original Issue Premium:	1,907,156
Total Source Of Funds:	**$19,508,525**
Use of Funds	
Project Funds/Reimbursement:	$18,000,000
Cost of Issuance(1)	450,000
Debt Service Reserve Fund:	867,500
Underwriter's Discount:	186,512
Miscellaneous:	4,513
Total Use of Funds:	**$19,508,525**

(1) We feel comfortable with the estimated total Cost of Issuance for the Bond issue, and will get the detailed components prior to Closing. The estimated and preliminary Underwriter's Discount of $10.75/1,000 is in line with this BBB- rated specialty healthcare tax exempt bond issue, and reflective of the Underwriter's long term relationship with the Borrower. There will be no bond insurance as credit enhancement for this issue.

<u>Security Structure:</u> Via the Trust Indenture, Loan Agreement and assignment of the City's issuer rights to the Trustee, the Borrower, Village on the Isle, will have an obligation to pay the debt service on the secured Series 2019 Bonds to the Trustee on a parity basis with the existing 2016 and 2017 Bonds. There will also be a mortgage and security agreement on the financed assets with the Trustee for the benefit of the bondholders, similar to the structure on the existing 2016 and 2017 Bonds.

Ratings Status: Fitch Ratings, investment grade, "BBB-, with a negative outlook. "

Minimum Denominations: Due to the investment grade rating, $5,000 and multiples thereof.

Investors: Due to the investment grade rating, available for both retail and institutional distribution, with an expectation of the Underwriter initially selling this to institutional investors.

Financial Covenants: Discussed earlier. We will continue to be part of the POS review process along with City staff and City Attorney until closing.

A. REPORTING REQUIREMENTS- CONTINUING DISCLOSURE TO INVESTORS

Prior bonds done in 2016 and 2017 had a Continuing Disclosure Agreement and SEC Rule 15c2-12 obligation on behalf of the Borrower. Although the Underwriter has shared its intent to sell these bonds to institutional bondholders, the small minimum denominations do allow them to be sold to retail or individual investors. Therefore, we recommend to the City that the Borrower select a Dissemination Agent like DAC to perform that role, as the City does for its own AA rated bonds.

Economic Development/Employment Metrics for the City:

Since the Series 2019 Bonds are refinancing prior capital expenditures of the Company financed via operating cash flows, there is not a need to request any metrics. We expect this financing to enable the Borrower to maintain its existing level of employment at its facilities, and continue to provide their high quality of continuing care services and housing options.

B. FINANCIAL ADVISOR RECOMMENDATION

We have had a chance to review the Application material provided by the Company, initial round of bond documents, the initial draft POS, and support material on this proposed bond financing. Historical and proforma debt service was also reviewed. The POS noted that the Borrower in the past had struggled financially back in 1991, had filed for bankruptcy in 1992, but came out of bankruptcy in 1993. Since then, and for the most recent audited periods, comfort is taken in the continued growth and success story represented by the Company, their high level of occupancy rates, the prior experience on comparable issues of the Company in 2016 and 2017, and the quality of the Project Financing and Legal Team. Their Consultant's Report provides additional details and evidence of strong historical debt service coverage and projections. Cash and cash equivalents remained at strong levels notwithstanding the Company cash funding the $18,000,000 plus of capital improvements to its campus that will be reimbursed by the 2019 Bonds.

Therefore, we find this to be a transaction that we can recommend to you and the City Council for their consideration and approval on November 12th.

This recommendation is subject, to the following:

1) Continued receipt and review by LCS, City Attorney, and City Staff of the updated Numbers, Bond Documents, and POS as the final changes and inserts are made leading up to a proposed pricing in early December, and projected closing by the end of December 2019.

2) LCS’ participation on behalf of the City in the Bond Pricing and Allocation of initial bonds. LCS will also review that the pricing is done at current market coupons and yields for an Investment Grade, “BBB-“rated health card bond for the selected initial TERM periods.
3) City’s consideration of requesting that the Borrower retain a Dissemination Agent.
4) We understand that the City is in receipt of the appropriate Indemnification from the Company regarding this financing, to the satisfaction of the City Attorney.

We appreciate the opportunity to support the City on this proposed Revenue Bond issue, plan to be at the November 12th meeting, as requested, to help address any questions that the City Council may have.

Jeffrey T. Larson
President
Larson Consulting Services, Orlando
SEC Licensed, Series 50, Municipal Advisor
Series 54 Municipal Principal