

John Knox Village of Florida, Inc.

Request for Issuance of Tax-Exempt Bonds

April 17, 2020

John Knox Village of Florida, Inc. (the “Village” or “JKV”) is hereby requesting that the City of Pompano Beach act as the conduit municipal issuing authority (**Authorized under the resolution 2014-339, dated September 23, 2014, sub section “Conduit Bonds (page 14 of 16))** ,for the proposed sale of the Village’s Series 2020 tax-exempt bonds, in the amount of approximately \$90 million. The proceeds of these bonds will be used to fund important capital projects on the Village campus that are described in more detail herein (the “2020 Project”), as well to refinance two shorter-term bank loans with long-term permanent capital.

The Village has been a member of the Pompano Beach community since its inception in 1967. For 53 years the Village has grown in both the people it serves as well as the people its employees, making it one of the largest employers in Pompano Beach. As one of the largest non-profit Life Plan Communities in the country, the Village continually strives to improve the lifestyle and wellbeing of its residents. The 2020 Project is another step along a continued Master Plan path that will ensure the Village maintains its leadership role in this nation's retirement industry.

Background on the Village

Resolution 2014-339, dated September 23, 2014, sub section “Conduit Bonds”, contemplating factor #5.

The Village was incorporated in 1978 as a Florida, not-for-profit corporation to provide housing, health care and other related services to the senior population. The Village is qualified as an exempt organization by the Internal Revenue Service pursuant to Section 501(c)(3) of the Internal Revenue Code. The Village mission is shown below.

John Knox Village of Florida, Inc. provides an environment in which living in retirement begins a rebirth of knowledge, renewed lifestyle and self-fulfillment in a safe and collaborative atmosphere.

John Knox Village of Florida, Inc. places its staff in a workplace based on equal participation of ideals, rewards and benefits.

John Knox Village of Florida, Inc. recognizes the importance of being a civic leader in Pompano Beach. The Village is constantly looking for ways to enhance the interconnection between its residents and the broader community.

John Knox Home Health Agency, Inc. is a wholly owned subsidiary which is a Florida for-profit corporation and provides home health care services for Village residents and residents of the local community. John Knox Village of Florida Foundation, Inc. is a Florida, not-for-profit corporation controlled by the Village which serves as the fundraising arm of the Village. These three organizations are governed by volunteer Boards of Directors consisting of Village residents and members of the local business community.

The Village is located on approximately 65 acres and consists of 666 independent living units, 64 assisted living units and 194 healthcare beds built and staffed in the greenhouse family living model. The Village provides these extraordinary services to its residents under a life care contract. Residents occupy an independent living unit and have unlimited use of the assisted living facility and the health center as needs change. The life care contract assures life-long care for the remainder of the residents' lives.

The financial viability of the Village has always been a top priority for the Board of Directors as shown in the following Statement of Purpose:

To operate a financially responsible not-for-profit Life Plan Community that complies with legislative, professional and regulatory guidelines.

The combined corporations employ approximately 860 active employees with annual salary and benefits in excess of \$32,902,241 for the year ended December 31, 2019. Over 91% of the active employees live in Broward County and 170 of these employees live in Pompano Beach. These employees provide services to the almost 1,000 residents who currently reside at the Village. The Village is dedicated to being an employer of choice. This was exemplified during this most recent Covid-19 Pandemic, where the Village kept its workforce gainfully employed, providing hope and comfort to those families during this national crisis.

The Village is one of the largest property taxpayers in Broward County and paid in excess of \$919,466 in property taxes in 2019. Annual operating expenses, excluding payroll, totaled an additional \$22,422,160. The Village is continually upgrading units as new residents move in and makes ongoing improvements to the campus. Over the last three years, the Village spent over \$36,871,200 on capital improvements. The Village makes a concerted effort to purchase its supplies from local businesses to support the community.

As a retirement community, the Village is more than just a purchaser and consumer of goods and services. It is a home to senior residents who also desire a wide selection of ancillary goods and services. The residents of the Village have as their "suppliers" the local grocery stores, shopping malls, restaurants, hospitals, doctors and other businesses.

The Village gives back: The Village has always been active in the larger Pompano Beach Community. The Village participates by being a model employer, providing the best quality rehabilitative care for the County, in the opened Woodlands. The Village uses local vendors and suppliers. But the Village also supports the needy through participations in many programs. A partial list is below:

Resolution 2014-339, dated September 23, 2014, sub section "Conduit Bonds", contemplating factor #2.

The Village has given \$810,000 to the community between 2014-2019 through the Sharing and Caring programs.

The Village has given \$10,000 each year to the Meals on Wheels program in Broward.

The Village has given back packs stuffed with school supplies to need children in the back to school efforts.

The Village interacts with children from the Innovation Charter School in reading programs, and our Annual Holiday Parade.

The Village participates annually in the Collier City Fun Day. This event benefits low income families in our Pompano Beach Community.

The Village supports The Summit rehab apartments, sponsors Pee Wee Football teams, Broward Children's Center annual Miles for Smiles event, NAMI Broward County Annual Walk, Pompano Beach High School Harvest Drive and many other programs in our back yard.

The Villages debt Structure

The Village has three outstanding debt issuances. All of which comprise the \$61,481,960 of short-term and long-term debt shown on the Balance Sheet of the 2019 Audited Financial Statements (details in the footnotes). This is offset by \$59,087,142 of unrestricted cash and investments and \$109,334,296 of Property, Plant and Equipment. This debt is made up of three debt issues detailed below:

Series 2010 City of Pompano Beach, Florida Health Facilities Revenue Refunding Bonds: These variable rate bonds have a current balance of \$20,160,000 with principal due annually on September 1 through 2035. These bonds were issued to refund the original 2002 Variable Rate Demand Bonds (often called 7-day floaters).

Series 2015 City of Pompano Beach, Florida Revenue Bonds: These are fixed rate bonds bearing between 2.875 and 5.000%, with principal due annually through 2044. Outstanding balance at December 31, 2019 was \$27,175,000. These bonds were issued to build a state of the art 144 room Green House model healthcare facility. The first step in the Villages Mater Plan repositioning.

3-year Line of Credit facility of \$13,500,000 starting in July of 2018 due July of 2021: This is variable rate debt and has an outstanding balance on December 31, 2019 was \$12,985,914. This debt has been used to repurpose the existing healthcare facility into another Greenhouse Model Home consisting of 50 licensed long-term beds. In addition, this line of credit was also used to modernize the Village's auditorium.

All debt has parity and is governed by a Master Trust Indenture (MTI). The 2010 Variable Rate debt is held in by PNC Bank, which has a mandatory redemption date of December 31, 2024.

Credit Rating (A-, Stable Out Look as affirmed by Fitch Rating Service)

Resolution 2014-339, dated September 23, 2014, sub section "Conduit Bonds", contemplating factor #1.

Resolution 2014-339, dated September 23, 2014, sub section "Conduit Bonds", contemplating factor #4.

The Village's credit rating was affirmed by Fitch Rating Service (Fitch) in 2018 as a A- credit with a positive outlook. This credit rating is only one of a very few Life Plan Communities to achieve a A- rating category and speaks well of the financial strength of the Village. Fitch uses an approach which looks at various aspects of the Villages financial strength to include current operations, balance sheet strength, fulfillment of mission and occupancy. Each of these are weighed to determine the overall rating.

The Village's balance sheet is our strongest metrics. Fitch looks at an entities unrestricted cash and investment (allowing for Florida Mandatory Liquid Reserve (MLR) to be counted as unrestricted assets) as compared to the outstanding debt. Using these criteria, the Village has more assets than liabilities. This is not the usual case in the Life Plan business and is the cornerstone of the rating. Additionally, the Village

maintains in excess of 365 days cash on hand (liquidity). Fitch views the days cash on hand ratio as a great strength which allows for the Village to weather any storm such as the current Covid-19 Pandemic.

Fitch further recognizes that the Village has been investing its moneys wisely in the plant, property and equipment over the last three years in repositioning itself early to take advantage of the growing demographics of the aging population in our country. Better to invest in the future while in a position of financial strength rather than make investments and improvements after a decline in financial strength due to lost competitive advantage.

The Village has added to its financial strength by improvement in the operational metrics (income statement). Net income from core operations improved by \$500,000 in 2019 over the results from 2018 (Income Statement of the Audited Financial Statements 2019).

Finally, the Village has maintained a 91% occupancy over the last three years. This occupancy has been maintained by providing superior services at a very affordable price line. Fitch rating service recognize the potential of raising rates in our competitive market if necessary.

The Villages response to Covid-19: The current pandemic has spelled financial trouble for many businesses in Pompano Beach, Broward County, State of Florida and the United States in general. The Village made choices early and our financial strength has allowed the Village to keep its residents and employees safe.

Mission #1 “Protect the residents”: The number one mission of the Village from day one of this Pandemic was to keep our residents safe. The Village began an isolation effort in early March which include reduction of non-essential personnel and vendors from coming on campus, reducing external admission from rehab into our Woodlands Homes, screening all visitors onto the campus, asking loved ones to reduce visitation of healthcare units and assisted living units, closing dining venues, providing education on safe home delivery of grocery shopping, establishing 14 day self-isolation for residents who may be exposed to Covid-19 and asking residents to maintain social distances.

The employees at the Village were reassigned new duties to avoid layoffs. The Village instituted a 14-day personal time off policy authorizing an additional 14 days of Covid-19 PTO for any employee diagnosed with this virus. It has recently increased a bonus to employees who are put at risk when working with residents.

The Goal of the Village’s Covid-19 response is to protect our residents and employees while making as few disruptions to our Resident’s and employee’s lives as is possible. Where risk from Covid-19 infection can be mitigated, we have tried to continue our vendor business. The Village takes seriously it’s actions as these actions effect our resident’s daily lives, employees and their families and our vendors businesses.

The Project (3 parts totaling approximately \$90,000,000 when reserve funds, capitalized interest and other financing charges are included).

Resolution 2014-339, dated September 23, 2014, sub section “Conduit Bonds”, contemplating factor #3.

Resolution 2014-339, dated September 23, 2014, sub section “Conduit Bonds”, contemplating factor #5.

The Village is in the process of updating the entire campus in phases. The purpose of which is to change the culture of the campus from sedentary lifestyle to one of engaged growth throughout the life process. The first step was changing the healthcare delivery to our most vulnerable residents in a licensed health care setting. The Woodlands and Seaside Cove greenhouse model homes has placed the Village at the top tier of healthcare in a Life Plan Community.

The next stage is to create resident experience zones. To accomplish this task the Village has used its own capital spend to build three facilities with the intention of reimbursing expenses with a public municipal tax-free debt offering. At the same time the Village intends to build additional experience zones and refinance the 2010 Variable Rate mentioned above.

- 1) Reimbursement Portion (approximately \$20,000,000): Over the last 2 years the Village has spent unrestricted capital on projects with the intention of reimbursement at the time of a larger financing. The Villages has spent and continues to spend capital on a variety of projects. The Village has the intentions to reimburse itself of these dollars during a larger debt issuance. The projects the Village has self-funded include:

Aquatic Center and dining venue: The Tropics Dining venue will overlook a new resort pool and aquatic center. This destination zone will rival the best offerings of hotels and clubs in a place designed for entertainment as well as health. The center will have outdoor grills and places for entertainment venues. It will serve our residents and will be opened to the public for special events.

Professional Building Renovation: The renovation of this building into a Village clinic is designed to provide healthcare treatment and diagnostics for the Village's residents, Village's employees and employees of other local employers who choose to participate in this health clinic.

The Village has teamed up with John Hopkin's to provide healthcare to employees in a preventative model. Removing many of the barriers to good health such as eliminating time away from work, accountability to treatment plans and transportation issues. The goal of which is prevent disease where possible and mitigate disease through following treatment plans. At the same time providing a walking distance clinic for our residents, staffed by local professionals from Baptist Hospital.

Gardens West (Assisted living) Renovation: This building was designed to provide care to Village residents in a medical room model. The renovation will address needed upgrades to nurse call systems, common areas upgrades, and meal preparations designed to make living less clinical and more like a home. Care is already given in a greenhouse model philosophy and now the facility will echo the same.

The Villages towers exterior and interior renovations: The Village has spent a large sum of money for the modernization of the exterior envelope of its high-rise apartments. These modernizations include replacement of all windows with hurricane rated windows, removal and replacement of exterior caulking and painting, replacement of roofing materials. The Village is also renovating the Cassels Tower interior, East Lake interior, and Village Tower interiors. All these replacements or renovations are designed to make the Village meet the aspirations of the next generations of future residents.

Seaside Cove Health Facility: The Village completely gutted and rebuilt the Long-term Care facility in 2018. Seaside Cove provides care for up to 40 of its residents in a new greenhouse model facility. At the same time Seaside Cove also provides 10 hospice beds, which are designed to help both Village residents but also provide end of life care to the Community at large.

Reimbursement of Pavilion early money spent: The Village is prefunding some infrastructure necessary for the building of the 2nd part of this debt funding. The funds to be reimbursed are for the necessary parking, sewer lines and water lines necessary for the timely completion of the Pavilion Project detailed below. The early preparation will shorten the project timeline saving the village both escalation of project costs as well as interest cost of holding tax free debt while the project ramps up.

- 2) Pavilion Project (approximately \$37,000,000): The Village has designed and will use a portion of these debt proceeds to build an experience zone. This destination will be anchored by 3 buildings, one of which exists today (Cassels Tower). This experience zone will have a multitude of venues. The Cassels Tower will anchor the south side of a new lake/walk piazza and will house a salon and retail/coffee shop. The north side of the lake/walk piazza will be anchored by a Pavilion. This Pavilion is the heart of this project and lake/walk piazza.

The Pavilion is a new construction building designed to house 2 dining areas, and a near 500-person entertainment theater. The vision of this building is to provide the Village residents a choice in their dining experience from upscale to at the bar dining. The Pavilion will also house a theater which will provide a first-tier entertainment experience on campus. This venue will host a variety of events and will establish a new venue for Pompano Beach as well as village residents as we tear down the walls and welcome in a more holistic lifestyle for Village residents mixing it up with the larger Pompano Beach residents.

- 3) Refinancing of 2010 Variable Rate Debt (\$20,160,000): The Village has many phases to this major repositioning. This debt issue provides for the second phase. The Village would like to refinance the 2010 variable rate debt issuance with a fixed rate debt issuance and remove the more restrictive debt covenants required by the bank with less restrictive covenants common place today. The less restrictive covenants will allow the Village to access further capital and continue with the next phase of the Master Plan.
- 4) Establishment of a Debt Service Reserve Fund and Capitalized Interest Fund will round out the issuance along with financing charges.

Resolution 2014-339, dated September 23, 2014, sub section "Conduit Bonds", contemplating factor #6,7,8,9.

The Village (Borrower) acknowledges the responsibility to issue debt that has no recourse to the issuer, is solely responsible for the payments of all fees and services required for the issuance of the debt by the issuer, is responsible for the continuous disclosure as is required by the Borrower's legal documents and offering statements and the payment of a non-refundable administrative fee of \$3,500 and an additional closing fee of .1% of the Par Value of debt to be issued, should the conduit financing be completed.

Asks:

Allow John Knox Village of Florida to issue Tax-exempt municipal bonds using the City of Pompano Beach as the conduit.

Summary

The Village is excited to have an opportunity to continue its relationship with the City of Pompano Beach. The City can provide the means for the Village to issue new fixed rate bonds as the Village works to realize its Master Plan of creating a lifestyle of inclusion and lifetime learning. The projects are designed to open the hedge and start a growing interaction between local Pompano Beach residents and Village residents in commonly sought-after venues to include theatrical arts, dining and entertainment venues. We look forward to working with the City on this project.

Bruce Chittenden
Chief Financial Officer
John Knox Village of Florida