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September 12, 2011

Mr. Gavin Cohen  
Chief Financial Officer  
City of Rockville  
Rockville City Hall  
111 Maryland Avenue  
Rockville, Maryland 20850

Re: The Mayor and Council of Rockville Economic Development Revenue Bonds  
(National Lutheran Home & Village at Rockville Project)

Dear Mr. Cohen:

Enclosed is a letter from the National Lutheran Home & Village at Rockville, Inc. formally requesting the City to issue economic development revenue bonds in an amount not to exceed \$25,000,000 to finance certain improvements to NLHV's existing facilities located at 9701 Veirs Mill Road. Also enclosed is a brief project description and a table summarizing the sources and uses of funds for the project.

Please contact me after you have had a chance to review the enclosed so that we can discuss next steps. I would also be happy to answer any questions you may have about the letter or the project.

Sincerely,



Cheryl O'Donnell Guth

COG: crh  
Enclosures

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August 26, 2011

Mr. Gavin Cohen  
Chief Financial Officer  
City of Rockville  
Rockville City Hall  
111 Maryland Avenue  
Rockville, Maryland 20850

Re: The Mayor and Council of Rockville Economic Development Revenue Bonds  
(National Lutheran Home & Village at Rockville Project)

Dear Mr. Cohen:

Pursuant to and in accordance with the Maryland Economic Development Revenue Bond Act, Sections 12-101 to 12-118, inclusive, of the Economic Development Article of the Annotated Code of Maryland (the "Act"), National Lutheran Home & Village at Rockville, Inc., a Maryland nonstock corporation (the "Facility Applicant") respectfully requests that The Mayor and Council of Rockville, a body corporate and politic and municipal corporation of the State of Maryland and a public body within the meaning of the Act (the "City") authorize, issue and sell its economic development revenue bonds, in one or more series, in an aggregate principal amount not to exceed Twenty Five Million Dollars (\$25,000,000) (the "Bonds"), for the purpose of financing the costs of certain facilities (within the meaning of the Act) hereinafter described. It is intended that this letter, if accepted by the City, shall constitute a "letter of intent" as contemplated by Section 12-101(f) of the Act.

The Facility Applicant proposes that the City lend the proceeds of the Bonds to the Facility Applicant pursuant to the terms and provisions of a loan agreement to be entered into by and between the City and the Facility Applicant (the "Loan Agreement") for the purpose of financing and refinancing a portion of the costs of the Project (hereinafter defined), funding a debt service reserve fund and capitalized interest account for the Bonds and financing a portion of the costs of issuance of the Bonds and other related costs. All costs of constructing the Project in excess of such loan proceeds will be paid by the Facility Applicant.

The Bonds shall be repayable by the City solely from the revenues derived from payments made to the City pursuant to the terms and provisions of the Loan Agreement and from such other monies as may be made available by the Facility Applicant to the City for such purpose. The Loan Agreement will require that (1) the proceeds of the Bonds be used solely to finance and refinance the costs of the Project and (2) the Facility Applicant make payments which will be sufficient to enable the City to pay the principal of, premium, if any, and interest

on the Bonds, and all expenses incurred by the City in connection with the issuance of the Bonds and the making and administration of the loan, as the same become due and payable.

The Facility Applicant will use the proceeds of the loan from the City to (i) finance and refinance a portion of the costs of improvements to the Facility Applicant's existing senior living facilities located at 9701 Veirs Drive, Rockville, Maryland (the "Existing Facilities"), including renovations to existing apartment units and the reconfiguration of certain skilled nursing units to add an additional level of care, as more particularly described below (the "Project"), (ii) fund a debt service reserve fund and capitalized interest for such Bonds, and (iii) pay certain costs of issuance and other related costs.

The Existing Facilities consist of 300 skilled nursing beds, 144 residential apartment units and related common spaces. After completion of the Project, the Facilities will consist of 160 skilled nursing beds, 50 assisted living beds, 144 residential apartment units and related common spaces. The Project will be built in phases and is expected to be completed in October 2014. The Facility Applicant believes that the Project will generally promote the purposes of the Act, by (i) creating and sustaining jobs and employment, thereby relieving conditions of unemployment in the City, Montgomery County, Maryland (the "County") and the State; (ii) encouraging the increase of industry and commerce and a balanced economy in the City, the County and the State; (iii) assisting in the retention of existing industry and commerce in the City, the County and the State; (iv) promoting economic development; and (v) generally promoting the health, welfare and safety of the residents of the City, the County and the State.

The Facility Applicant has been determined by the Internal Revenue Service to be an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and will own, within the meaning of Section 145(a) of the Code, all of the property which is to be provided by the net proceeds of the Bonds.

The Facility Applicant hereby acknowledges that the City reserves the right, in its sole and absolute discretion, to take any actions which the City may deem necessary in order to ensure that the City (a) complies with all federal and state laws, whether proposed or enacted, which may restrict the issuance of its economic development revenue bonds, and (b) issues such bonds that finance or refinance facilities which the City determines, in its sole and absolute discretion, will provide the greatest benefit to the City. Specifically, the City reserves the right to choose to issue its economic development revenue bonds for facilities other than the Project, and to issue or not to issue such bonds and the Bonds in the order of priority which the Mayor, in her sole and absolute discretion, may determine.

It is expressly agreed and understood that (a) the City will not incur any liability, direct or indirect, or any cost, direct or indirect, in connection with the issuance and sale of the Bonds or the making of the loan, (b) the Project will be constructed so as to conform to the requirements

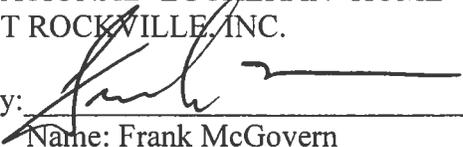
of the Facility Applicant, and (c) the Facility Applicant shall (i) select and work with the suppliers and contractors who will provide, construct and equip the Project and (ii) pay all costs incurred by or on behalf of the City in connection with the proposed financing and refinancing, including the administration thereof, the fees of bond counsel and counsel to the City, all costs incurred in connection with publication of notices of any public hearings to be held in connection therewith, and compensation to any other person (other than full-time employees of the City) performing services by or on behalf of the City in connection with the transactions contemplated by this Letter of Intent, whether or not the proposed financing and refinancing is consummated.

It is further understood and agreed by the undersigned that the proposal contained herein is subject to (a) the approval and appropriate action by the Mayor and City Council of the City, and (b) the approval of the detailed provisions of all documents pertaining to the financing and refinancing as yet to be developed. The acceptance of this Letter of Intent by the City shall evidence the present intent by the City to authorize, sell, issue and deliver the Bonds and to authorize the loan for the purposes described herein; provided, however, the City cannot guaranty or assure the undersigned that the Bonds will actually be sold on terms acceptable to the Facility Applicant or any other interested parties, that the Facility Applicant will obtain purchasers of the Bonds qualified to purchase the Bonds under applicable federal and state securities law, that the Facility Applicant will have the ability to make payments sufficient to enable the City to repay the Bonds, or that the proposed transaction will be consummated.

The Facility Applicant understands that the Bonds are and shall remain payable solely from moneys derived from payments to the City by the Facility Applicant and that the Bonds and the interest or premium thereon are not debts or charges against the general credit or taxing powers of the City, within the meaning of any constitutional or charter provision or statutory limitation, and may not give rise to any pecuniary liability of the City. Nothing contained in this Letter of Intent shall be deemed to constitute an undertaking by the City to expend any of its funds to effect any of the transactions contemplated by this Letter of Intent.

Very truly yours,

NATIONAL LUTHERAN HOME & VILLAGE  
AT ROCKVILLE, INC.

By:   
Name: Frank McGovern  
Title: Executive Director

ACCEPTED:

THE MAYOR AND COUNCIL OF ROCKVILLE

By: \_\_\_\_\_  
Phyllis Marcuccio  
Mayor

Date: \_\_\_\_\_

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## **Project Description**

### **Background**

The National Lutheran Home & Village of Rockville (“NLHV”) has owned and operated a retirement community on its 30-acre site at 9701 Veirs Drive in Rockville, Maryland for over thirty years, with an existing capacity for approximately 450 residents, although the current NLHV census is approximately 400 residents.

### **Project Overview**

NLHV has commenced the implementation of a master plan to reconfigure the existing skilled nursing areas and common spaces and to add a new assisted living level of care. The construction and renovations will be undertaken in phases so as to minimize the disruption of existing residents. After completion of all planned renovations and construction, NLHV’s capacity will be approximately 350 residents. The purpose of the Project is to facilitate the addition of Assisted Living units and to reconfigure the existing skilled nursing beds to eliminate semi-private rooms.

### **Project Description**

As currently planned, the renovations are expected to be completed in six phases as follows:

- Renovation/reconstruction of 3rd Floor Maryland Unit.
- Renovation/reconstruction of 1st and 2nd Floor Maryland Unit.
- Renovation/reconstruction of 2nd and 3rd Floor Virginia Unit.
- Renovation/reconstruction of 2nd Floor Potomac Unit.
- Renovation/reconstruction of 1st Floor Virginia Unit.
- Renovation/reconstruction of 1st Floor Potomac Unit.

The Project will primarily involve the renovation and reconfiguration of units within NLHV’s existing buildings, although a new entryway/portico is included as part of the Project. The building permit for phase 1 of the Project has been issued.

**Estimated Sources and Uses**Sources

Bond Proceeds	\$25,000,000
Equity Contribution	<u>11,750,000</u>
Total	\$36,750,000

Uses

Construction Costs	\$33,250,000
Capitalized Interest	2,000,000
Debt Service Reserve Fund	750,000
Cost of Issuance	<u>750,000</u>
Total	\$36,750,000