www.ziegler.com

ZIEGLER
SENIOR LIVING FINANCE

2020 GLOSSARY OF SENIOR LIVING FINANCE TERMS

Ziegler

CAPITAL :: INVESTMENTS :: ADVICE

2020
Senior Living Finance + Strategy
Terminology

Finance[1]

Acceleration: a contract term providing for the principal amount of, and any accrued interest on, a debt obligation to become immediately due and payable upon occurrence of a contractually stipulated event (typically, certain specified events of default). See **Default**.

Accredited Investor: as defined by federal securities laws, any institution or individual meeting minimum net worth requirements for the purpose of qualifying under Regulation D registration exemption and does not count against the maximum limit of thirty-five investors. Municipal securities generally are not subject to registration under the Securities Act of 1933 but sometimes their sales are restricted to accredited investors to ensure that they are sold only to persons who are capable of understanding the risk and bearing the potential loss of an investment in the securities. An accredited investor is generally accepted to be one who:

- Has net worth of $1 million or more not including net equity in a primary residence; or
- Has had an annual income exceeding $200,000, or $300,000 for joint income, during each of the two most recent years and who has a reasonable expectation of reaching the same income level during the current year.

Actuarial Study: a study, the results of which indicate whether a retirement community is in "satisfactory actuarial balance" as defined by actuarial standards of practice. These standards of practice determine whether the cash and reserves held by the community are sufficient to cover its future health care obligations to current residents, whether the combination of monthly and entry fees charged to new residents covers their costs over their expected lifetimes, and whether projected cash flows are positive and will meet any financing covenants or regulatory requirements. The Board and management of **CCRCs** should use this study as a guide for annual fee adjustments and to determine whether their communities are solvent. Positive results from a comprehensive actuarial study are often shared with residents to assure them of the financial health of the community and to educate them about how fee increases are determined.

Actuary: a statistician who computes insurance risks, premiums, and population flows.

Adjustable Rate Bonds: a type of debt security featuring periodic interest rate resets prior to maturity. Adjustable rate bonds allow a borrower to achieve long-term amortization (30-35 years) while obtaining an interest rate from the short end of the interest rate **yield curve**. While these bonds carry variable rate risk, the variable periods are typically multiple years, giving these bonds less rate volatility than a **VRDB** or a variable rate **bank direct purchase**. Ziegler underwrites two types of adjustable rate bonds, **EXTRAS℠** and **ARROS℠**, each with differing features.

Advance Refunding: a refinancing, or refunding, of bonds more than 90 days prior to the call date of the refunded bonds. The proceeds of the new refunding issue are placed in an escrow account and invested in Treasury securities, federal agency securities, or **SLGS**, with principal and interest from these investments being used (with limited exceptions) to pay principal, interest and call premium, if any, on the refunded issue to the first call date, at which time the refunded bonds are redeemed. Advanced refunded bonds are also called "pre-refunded" after the refunding bonds have been issued, but before the advance refunded bonds have been redeemed. Pre-refunded bonds are often rated as **investment grade** by the **rating agencies,** due to the rating of the underlying escrowed securities**.** The Internal Revenue Code and regulations thereunder also restrict the yield that may be earned on invested refunding proceeds[2]. Recently, the 2017 Tax Cuts and Jobs Act eliminated the use of tax-exempt municipal bonds to fund advance refundings — borrowers must now use taxable bonds or **Cinderella Bonds** to fund advance refundings. See **Current Refunding** and **Defeasance**.

Agencies: A colloquial term for securities issued by a federal agency or certain federally chartered entities (often

[1] See sub-section on page 13 for terms related to Interest Rate Management and Derivatives.

[2] **Municipal Securities Rulemaking Board.** (2013) *Glossary of Municipal Securities Terms, Third Edition.* Retrieved September 4, 2013, from http://www.msrb.org/msrb1/glossary/.

referred to as government-sponsored enterprises or GSEs). Agency securities typically are not guaranteed by the federal government, particularly those of GSEs. Agency securities also are generally exempt from the registration and prospectus requirements of the Securities Act of 1933. Securities of the following entities, among others, generally are considered agency securities: Federal Agricultural Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks Funding Corporation (FFCB or Farm Credit), Federal Home Loan Bank System (FHLB or Home Loan), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), **Federal Housing Administration (FHA),** Federal National Mortgage Association (FNMA or Fannie Mae), **Government National Mortgage Association (GNMA or Ginnie Mae),** Student Loan Marketing Association (SLMA or Sallie Mae), and Tennessee Valley Authority (TVA).

Arbitrage: Refers to the difference between the rate of interest paid on tax-exempt bonds and the rate of interest earned on the invested and unspent bond proceeds. Federal income tax laws generally restrict the ability to earn arbitrage in connection with proceeds of tax-exempt bonds, though exceptions exist for construction project funds under certain circumstances. If the rate of interest earned exceeds the rate of interest paid, this is known as "positive arbitrage." Conversely, if this relationship is reversed, this situation is known as "negative arbitrage."

Arbitrage Rebate: A payment made by a borrower to the federal government in connection with an issue of tax-exempt bonds. The payment represents the amount, if any, of arbitrage earnings on bond proceeds and certain other related funds, except for earnings that are not required to be rebated under limited exemptions provided under the Internal Revenue Code. A borrower generally is required to calculate once every five years during the life of its bonds, whether or not an arbitrage rebate payment must be made.

ARROS℠ (Accelerated Redemption Reset Option Securities℠): underwritten exclusively by Ziegler, ARROS are intended for use in new entrance fee construction projects and are planned to be retired with entrance fee proceeds post-opening. They carry a term of 30 to 35 years, but are expected to be retired through mandatory optional redemptions when the project reaches stabilized occupancy. The initial rate period is set to extend beyond expected pay down (usually six to seven years), with an initial interest rate matched to that initial term. If the planned early redemption does not happen, a distinctive feature of the ARROS is that automatic one-year extensions begin at the end of the initial rate period, with no **call protection**, and the interest rate is pegged to long-term fixed rates, including the secondary market value of any fixed rate bonds in the debt issuance. ARROS are a successor to debt securities formerly known as **EXTRAS℠.** Like EXTRAS, they have an adjustable rate component with an average holding period of 48 to 60 months from the date of issuance, effectively making ARROS a **temporary debt** option to be redeemed from the collection of initial **entrance fee** proceeds. The fixed rate component of such **temporary debt** is now structured as **TEMPS.**

Assisted Living: often an intermediate step between **independent living** and **skilled nursing**. The services provided in assisted living residences may include meals, housekeeping and basic assistance with activities of daily living, supervision of self-administration of medication, medication administration, and limited nursing services. The units are usually studio or one-bedroom apartments with private bathrooms, kitchenettes and other features that address seniors' higher-level needs. Licensure and regulations differ by state. See **Continuing Care Retirement Community**.

Auction Rate Securities: variable rate bonds whose interest rate is reset periodically under the **Dutch auction process**. There has not been an active market for auction rate securities following the market disruptions of 2008.

Audited Financial Statement: the report prepared by an independent certified public accountant following its audit or investigation of an entity's financial position and results of operations for a given period of time. As a general rule, the report should include: (a) a statement of the scope of the audit; (b) explanatory comments concerning exceptions from generally accepted accounting principles and auditing standards; (c) expression or disclaimer of opinions; (d) explanatory comments concerning verification procedures; (e) financial statements and schedules; and (f) statistical tables, supplementary comments and recommendations.

***B*alloon Maturity:** a maturity within a bond issue or loan (usually the last maturity) that contains a disproportionately large percentage of the principal amount of the issue. The payment of the balloon may be contingent upon or presume some form of refinancing or other event.

BAN (Bond Anticipation Note): a short-term municipal debt security to be repaid from the proceeds of a long-term debt issuance. BANs are most commonly used to fund pre-finance construction costs on new projects. BANs can be secured or unsecured instruments.

Bank Direct Purchase: Common term used to describe either **Bank-Qualified (BQ) Bonds** or **Non-Bank Qualified (NBQ) Bonds** that are sold to or placed directly with a financial institution or bank.

Bank-Qualified (BQ) Bond: a bond or loan purchased by a commercial bank and offering the bank tax-exempt treatment of the bank's interest income. Historically, **conduit issuing authorities** were permitted under the tax code to issue $10 million of BQ debt *in aggregate* per year for which the bank purchasers were allowed to deduct 80% their corresponding cost of capital. The Economic Stimulus Act of 2009 temporarily expanded BQ debt options by allowing borrowers to obtain up to $30 million per year of tax-exempt BQ debt. While this expanded BQ provision reverted back to the $10 million limit at the end of 2010, commercial banks have continued to purchase bonds or loans known as **Non-Bank Qualified (NBQ) Bonds**. The interest on **NBQ Bonds** is exempt from federal income tax, but carry a higher interest rate than **BQ Bonds** as banks cannot deduct the corresponding cost of capital. BQs are subsets of **Bank Direct Purchases.**

Basis Point: 1/100th of 1 percent. For example, when a bond yield increases from 5 percent to 5.5 percent, the increase is 50 basis points. Alternatively, a fee of 0.75% is equal to 75 basis points.

Blue Sky Laws: Although these laws vary from state to state, most contain provisions concerning (a) prohibitions against fraud, (b) regulation of **broker-dealers** doing business in the state, and (c) registration of securities. Municipal securities are generally exempt from state securities registration requirements, although broker-dealers selling them are subject to many states' registration and regulatory requirements

Board of Trustees, Board of Directors ("Board"): the governing body of a **not-for-profit** corporation.

Bond: the legal obligation of a **borrower** to repay the principal of a loan to bond investors at a specified future date. Bonds are usually issued in denominations or par values of $5,000 and increments of $5,000 for **fixed interest rate bonds** and $100,000 for **variable rate demand bonds**. The **borrower** promises to pay a percentage of the par value as interest ("**coupon")** on the borrowed funds for fixed rate bonds. The interest rate is set initially and reset periodically for variable interest rate bonds.

Bond Counsel: legal counsel responsible for drafting the **bond documents** and issuing the approving opinion regarding the validity and tax-exempt status of the bonds.

Bond Documents: refers to all documents necessary for a bond offering. Principal documents include the Bond Indenture, Loan Agreement, etc.

Bond Insurance: a form of **credit enhancement**; an insurance policy issued for the benefit of bondholders, insuring full and timely payment of all interest and principal over the life of the bonds, thereby resulting in the assignment of the bond insurer's rating to the bonds. Bond Insurers are typically paid an up-front premium that is calculated on total interest and principal paid over the life of the bonds. The business model of most bond insurers was severely impacted from the 2008 financial crisis, and as a result no private bond insurers are active in the senior living market.

Bond Purchase Agreement: the commitment by an **underwriter** to purchase bonds.

Bond Trustee: a bank trust department that acts as a fiduciary on behalf of the **bondholders**. The trustee controls certain funds created for the bond issue (including the debt service fund and the debt service reserve fund), controls disbursement of bond proceeds and is responsible for enforcing remedies and taking actions in the event of **default**.

Bondholders: the owner of a bond purchased from a broker dealer either in the primary market or secondary market who may be an institutional investor or retail (individual) investor.

Book Running Manager: the designation given to the **Underwriter** of a negotiated bond issue responsible for setting the interest rates and allocating the bonds among the various **broker dealers**. Other managers (or selling group members) may be involved in the sale of the debt issue, but they do not play the key role of the book running manager. Sometimes called the "Lead Manager" or "Lead Underwriter."

Borrower: organization borrowing money. **Not-for-Profit** borrowers may use tax-exempt bond proceeds to finance capital projects or to refinance certain debt, but cannot use such proceeds primarily for working capital.

Borrower's or Corporation's Counsel: represents the **borrower** in the transaction, frequently drafts necessary disclosure statements about the borrower and issues opinions on behalf of the borrower regarding its 501(c)(3) status, and the legality of its actions regarding the bond issue. **Borrower's Counsel** ensures that the appropriate documentation of **Board** approval is obtained, ensures that the appropriate people are signing the correct documents, etc., and issues the opinion regarding the **borrower's** compliance with any outstanding regulations and/or laws.

BPS (or bps): abbreviation for **basis points.**

Broker-Dealer: The term broker-dealer is used in U.S. securities regulation parlance to describe stock brokerages, because most of them act as both agents and principals. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer (or principal) when it trades for its own account.

C

Call Premium, Call Protection, Call Protection Period: the time period from bond closing to the first date (call date) on which a **borrower** may optionally redeem bonds, either at par or perhaps at a Call Premium of 1 to 3% of par, depending upon market conditions at the time of bond issuance. **Fixed rate bonds** usually carry call protection of five to ten years depending upon the call premium. **Variable rate demand bonds** do not carry **call protection**; they may be redeemed at par at any time with a short notice to investors. Direct bank purchase obligations typically allow for pre-payment at terms negotiated directly with the bank purchaser.

Capital Expenditure: any cost of a type that is properly chargeable to a capital account and expensed over time through annual depreciation expense. Capital expenditures are the primary expenditures eligible to be financed with tax-exempt debt.

Capital Structure Ratios: one of three types of ratios (Liquidity, Profitability, and Capital Structure ratios) used to evaluate the financial strength of a senior living provider. Capital Structure ratios measure a provider's ability to access capital. See **Liquidity Ratios** and **Profitability Ratios**. Summary of **Capital Structure Ratios** in Exhibit A.

Capitalized Interest: interest added to the cost of a constructed, long-term asset involving the interest on debt used to finance the asset's construction. The interest specified is added to the cost of the project instead of being expensed in the current period income statement based on accounting rules governed by GAAP. The capitalized interest will be part of the asset's cost reported on the balance sheet, and will be part of the asset's depreciation expense that will be reported in future income statements.

Cash Flow: the cash received by a senior living provider less the cash paid out. There are four primary categories of cash received by not-for-profit senior living providers: **monthly fees** paid by residents, **entrance fee** receipts, earnings on investments, and contributions.

Change in Tax Law Risk: the risk that there will be an unanticipated change to current tax laws, which would impact the differential between tax-exempt and taxable interest rates. Recently, the **Tax Cuts and Jobs Act of 2017** lowered corporate tax rates which made **bank direct purchase bonds** more expensive for borrowers, but generally had no effect on public tax-exempt fixed rate municipal bonds, which are tied to the individual's federal income tax rate.

Cinderella Bonds: a special type of bond which begins as a taxable bond and converts to a tax-exempt bond on the "Cinderella Date." A Cinderella Bond is most commonly used for advance refundings after the **Tax Cuts and Jobs Act of 2017** eliminated the use of municipal bonds to fund advance refundings. As such, the Cinderella Date is usually 90 days before the first optional redemption date of the refunded bonds — when the refunded bonds could be currently refunded with tax-exempt bonds. Cinderella Bonds pay the higher taxable interest rate at closing but receive the benefit of the lower tax-exempt interest rates after the Cinderella Date. Cinderella Bonds may be sold to either public institutional investors or banks.

Co-manager: a **broker dealer** that enters into a formal agreement with the **book running manager** of a financing to share a defined portion of the underwriting liabilities and profits.

Commission on Accreditation of Rehabilitation Facilities (CARF): an independent, nonprofit organization that provides accreditation services at the request of health and human service providers.

Conduit Authority or Issuer: a governmental entity with authority to issue bonds that are exempt from federal and/or state income tax. The **issuer** loans the bond proceeds to the borrower without any obligation on the part of the issuer to repay the amount of the loan. The **issuer** can be a special government entity created solely to issue tax-exempt bonds (e.g., Economic Development Authority, Health and Higher Education Facilities Authority) or a city, town, county or state.

Construction Loan: A short-term financing, generally provided by a bank, in which proceeds are used to finance construction for new projects. Loan proceeds are drawn down on a monthly basis, thus eliminating negative arbitrage. Repayment ability may be based on something that can only occur when the project is built. Thus the defining features of these loans are special monitoring and guidelines to ensure that the project is completed so that repayment can begin to take place. *Syn*. **Taxable Term Loan** or **Term Loan.**

Continuing Care Retirement Community (CCRC): a senior living community that provides multiple levels of care generally to include all, or a combination of: **independent living units**, **assisted living** units, **memory support** units

and **skilled nursing** beds or health care units. At a minimum, must have independent living and skilled nursing on the same campus. In 2015, a task force led by LeadingAge suggested a renaming of the "CCRC" to "**Life Plan Community (LPC)**."

Continuing Covenant Agreement: an agreement between a bank and **borrower** traditionally used with **Bank Qualified Bonds, Non-Bank Qualified Bonds**, **Bank Direct Purchases** and **Private Placements.** This document typically contains the covenants, repayment terms (amortization schedule) and fees associated with the bonds or loan. This document's counterpart in a **Variable Rate Demand Bond** context is the **Reimbursement Agreement** or the **Bond Purchase** and **Loan Agreement.** *Syn*. **Put Agreement.**

Continuing Disclosure: disclosure of material information relating to municipal securities provided to the marketplace from time to time by the borrower of the securities or any other entity obligated with respect to the securities. Securities & Exchange Commission Rule 15c2-12 mandates certain continuing disclosure by **borrowers** of tax-exempt debt. A Continuing Disclosure Agreement or Undertaking sets requirements of the trustee, dissemination agent or borrower to disseminate financial information, operating information and required disclosures pursuant to Rule 15c2-12, whereas the **Master Trust Indenture** may set forth additional continuing disclosure requirements agreed to between the borrower and the bondholders separately from Rule 15c2-12.

Contract Types: general reference to the types of resident contracts that describe the services offered by continuing care retirement communities: **Extensive Contract** ("Type A" or "Lifecare"), **Modified Contract** ("Type B" or "Modified Lifecare"), **Fee-for-service Contract** ("Type C"), **Rental Contract** ("Type D"), and **Equity Contract** ("Type E"). CCRCs may offer multiple contract types with different levels of refundability.

Coupon: The interest rate stated on a bond at issuance. The coupon is typically paid semiannually on fixed rate bonds and monthly on bank loans. Bonds used to have physical coupons attached to them for investors to redeem interest payments, but now records are kept electronically ("book entry").

Credit Enhancement: a form of guarantee of payment issued by a **Credit Enhancer** on behalf of a borrower that assures the payment of interest and repayment of principal on bond issues. See **Bond Insurance** and **Letter of Credit**.

Credit Enhancers: financial institutions willing to use their credit and financial strength to enhance the financial or credit strength of a bond issue. The typical credit enhancer is a **Letter of Credit Bank** or **Bond Insurer** (either a private company or governmental insuring body).

Credit Rating: see **Rated Bonds**.

Cumulative Cash Operating Loss (CCOL): from the opening of a new campus project or substantial repositioning financed with bond proceeds, the sum of operating and non-operating revenues (excluding **entrance fees** amortization), net **turnover entrance fees** and investment earnings, less operating and non-operating expenses (excluding depreciation) on a cumulative basis. Often a covenant tested from opening until the commencement of **Debt Service Coverage Ratio** and **Liquidity Ratio** covenant testing, the CCOL is based on forecasted working capital losses and is a measurement of cash utilized ("cash burn") to the operator and capital markets. This is a defined term in financing documents such as the **Master Trust Indenture** or **Bond Indenture** and varies by project.

Current Refunding: a refinancing (**refunding**) transaction in which the municipal securities being refunded are callable within 90 days of the transaction closing date. Certain federal income tax rules relating to permitted yields on invested proceeds of the refunding issue, rebate of arbitrage earnings and the ability to refund certain types of municipal securities are significantly less restrictive (or may not apply) in the case of **current refundings** as contrasted with **advance refundings**. In addition, **underwriters** are not obligated to submit refunding documents to the MSRB under Rule G-36 in the case of current refundings.[2]

CUSIP: unique identification number assigned by the Committee of Uniform Security Identification Procedures to each maturity of a bond issue.

***D*ebt Service Reserve:** for **fixed rate bonds**, investors typically require a full year of interest and principal to be set aside as additional security with a bond **trustee**. These funds are available in a payment **default** situation and give the **borrower** and investors time to work through problems. **Debt service reserves** are generally funded with bond proceeds at the time of a debt issuance. The Internal Revenue Code restricts using tax-exempt bond proceeds to fund a debt service reserve to the lesser of (i) 10% of the par amount of the bonds, (ii) 125% of average annual debt service, and (iii) maximum annual debt service. See **Reserves.**

Default: the failure by the **borrower** to perform, or refrain from, certain agreed upon actions or activities as specified in the **bond documents. Bondholders,** or banks, often distinguish between a "technical default," which involves a missed covenant, and a "payment default" (or "monetary default"), the latter of which tends to cause a greater focus on the activities of the **borrower.**

Defeasance: termination of the rights and interests of **bondholders** and termination of **bondholder** collateral liens related to a bond issue. This is sometimes referred to as a "legal **defeasance**." **Defeasance** usually occurs in connection with the refunding of an outstanding issue after provision has been made for future payment of all obligations under the outstanding bonds through cash reserves or funds provided by the issuance of a new series of bonds. In some cases, particularly where the bond contract does not provide a procedure for termination of these rights, interests and liens other than through payment of all outstanding debt in full, funds deposited for future payment of the debt may make the pledged revenues available for other purposes without affecting a legal defeasance. This is sometimes referred to as an "economic defeasance" or "financial defeasance." If for some reason the funds deposited in an economic or financial defeasance prove insufficient to make future payment of the outstanding debt, the issuer would continue to be legally obligated to make payment on such debt from the pledged revenues.[2] See **Advance Refunding**.

Department of Housing and Urban Development (HUD): The United States federal department that among other duties, administers federal programs dealing with affordable housing and urban renewal.

Deposit or Entrance Fee Deposit: amount paid by a prospective resident to reserve an independent living unit in a continuing care retirement community. Typically, a 10 percent deposit of the **entrance fee** is required to reserve a specific unit within a community.

Derivative: a product, whose value is derived from an underlying security or index, structured to deliver varying benefits depending on financial objectives to different market segments and participants. The term encompasses a wide range of products offered in the marketplace including **interest rate swaps**, **caps**, **floors**, **collars** and other products.

Designated Funds or Board Designated Funds: term applied to cash and investments shown on a balance sheet that the **board** of a senior living provider has set-aside for specific purposes. A board can "un-designate" these funds if necessary and be used for any other discretionary purpose. Designated funds are therefore **unrestricted.**

Developer: the individual, team, or firm engaged to bring a senior living project from conception to, or through, opening through the provision of development, marketing and/or management services. Nationally-recognized senior living developers include Greystone Communities Inc., Life Care Services, Eventus Partners, Greenbrier, Sawgrass Partners, and Plante Moran Living Forward.

Dutch Auction Process: process by which securities are offered for sale to a broad spectrum of bidders. The interest rate for the auction period (usually 30, 60, 90, 120 days or longer) is established as the lowest rate at which all securities are subscribed. These securities differ from **variable rate demand bonds** in that investors may only divest of a position if another buyer bids for that position at the next auction; there is no letter of credit or other liquidity facility available to fund a "put" of the securities. **Auction rate securities** do require credit enhancement for **borrowers** not rated in the "A" category; the most common enhancement vehicle is **bond insurance**, since the liquidity provided by a commercial bank is not needed. The Dutch auction market imploded in February 2008 as bond insurers were downgraded, leading to failed re-marketing's, and auction dealers (typically large Wall Street investment banks) were unable to support the market. Dutch auctions also are sometimes used in the secondary market to liquidate an investor's large position in a security.[2]

E

Endowment Fee: see **Entrance Fee.**

EMMA: Electronic **M**unicipal **M**arket **A**ccess system, a centralized online database that provides free public access to disclosure and transaction information about municipal bonds. EMMA is operated by the **Municipal Securities Rulemaking Board (MSRB)**.

Entrance Fee: a fee paid by a CCRC resident prior to move-in to cover capital costs and/or future health care benefits. Amount is normally based on size of resident's living unit, contract type, and refund policy. For accounting, entrance fees show up on all three major financial statements: (i) on the cash flow statement as entrance fee payments are received and refunds are paid out (the net number is called **Turnover Entrance Fees)**; (ii) on the assets of the balance sheet as unrestricted cash (except if earmarked to repay **Temporary Debt** or for specific state-required reserves) and as liabilities on the balance sheet for the refundable and non-refundable portions; and (iii) on the statement of operations as entrance fee amortization (sometimes called "earned entrance fees" or "amortization of entrance fees"), representing the non-cash revenue recognition of the decline of the refund liability. The **debt service coverage ratio** includes the turnover entrance

fees and excludes the amortization of entrance fees and **initial entrance fees**.

Entrance Fee Waterfall: typically refers to the legal provisions included in a senior living borrower's bond documents regarding the use of **initial entrance fees** received in connection with a new campus or major expansion and is commonly depicted in a diagram that parallels the detailed language contained in the legal documents. The term "waterfall" is used to refer to the "trickle down" effect of incoming cash (initial entrance fees). After each specified "bucket" is fully funded, cash trickles downwards to the next bucket. In the case of new senior living campuses, the permitted uses of initial entrance fees are highly structured and may reflect a sequence similar to the following:

Entrance fees are received by the borrower upon resident move-in and deposited with the borrower's bond trustee, who deposits the entrance fees into the "buckets" described below:

- First, pay refunds to residents pursuant to residency agreements;
- Second, fund an **operating reserve fund** up to a maximum dollar amount. Some replenishment may be permitted over the course of the life of the waterfall if the initial amount is depleted;
- Third, fund a **working capital fund** to a maximum level; and
- Fourth, repay **Temporary Debt**.

There are many variations of the entrance fee waterfall tailored to different transactions.

Equity Contract: contract that involves the actual purchase of real estate or membership. Includes condominiums and cooperatives. Referred to as a "Type E" contract.

Equity: money invested in a senior living project by interested parties or indirectly through the planned non-reimbursement of fees to parties involved in the project development (contractor, architect, developer, etc.).

Escrow Deposit Agreement: an agreement that typically provides for the deposit of moneys or securities in an escrow account to refund an outstanding issue of municipal securities. The agreement sets forth the manner in which funds are to be invested (generally in eligible securities) pending their expenditure, the schedule of on-going debt service payments, and scheduled early redemptions, if any.[2] See **Advance Refunding** and **Current Refunding**.

Escrow Funds: Treasury Securities (usually, State and Local Government Securities, or "**SLGS**") that are sufficient to redeem outstanding bonds at a future date. These funds are typically held by a third party until the agreed upon obligations of a contract are met.

Extensive Contract or Life Care Contract: contract between a CCRC and a resident of the CCRC that has an **entrance fee** and includes housing, residential services amenities and unlimited, specific health-related services with little or no substantial increase in monthly charges, except for normal operating costs and inflation adjustments. Referred to as a "Type A" contract.

EXTRAS℠ (Extendable Rate Adjustable Securities℠): underwritten exclusively by Ziegler; EXTRAS are **adjustable rate bonds** where the interest rate can be reset at the borrower's option for varying periods. EXTRAS have been replaced by **ARROS**. See **ARROS**.

FASB (Financial Accounting Standards Board): promulgates accounting protocols that affect non-governmental entities. Most not-for-profit healthcare and senior living providers are governed by this board's pronouncements. Auditors must follow the rules of FASB. Note: **GASB** (Governmental Accounting Standards Board) issues pronouncements affecting state and local entities' accounting and financial reporting.

FASB Statement 133: issued by the Financial Accounting Standards Board (FASB), Statement 133 requires companies that report according to GAAP to include the fair value (i.e. mark-to-market) of their derivative positions on their balance sheets.

FASB Statement 157: issued by the Financial Accounting Standards Board (FASB), Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements.

Feasibility Study: a study of the financial feasibility of a proposed senior living project, typically prepared according to standards of the American Institute of Certified Public Accountants (AICPA) and based on a set of assumptions provided by the developer or sponsoring organization regarding project costs, number of units to be constructed, entrance and monthly fee pricing, age at entry, operating expenses, etc. A feasibility study encompasses a review of the market demographics, establishing the primary market area, secondary market area, and sometimes a tertiary market area. A feasibility study is prepared just prior to a financing. The most active senior living feasibility

consulting firms in the country are Dixon Hughes Goodman, CliftonLarsonAllen, Baker Tilly, and Plante Moran. Sometimes referred to as "the feaso."

Federal Housing Administration (FHA): The Federal Housing Administration is a division of **HUD** which provides mortgage insurance on loans made by FHA-approved lenders to fund various forms of housing and healthcare facilities.

Fee-for-service Contract: an entrance fee contract that includes housing, residential services, and amenities for the fees stated in the resident agreement. Access to healthcare services is guaranteed, but the resident pays the then-current market rates. Referred to as a "Type C" contract.

Fill Period (or Fill-Up): the time it takes units in a new campus construction or expansion to reach stabilized occupancy rates (typically, 90 to 95 percent occupancy).

Financial Advisor: may be retained by a **borrower, conduit authority** or **issuer** to assist in developing a plan of finance or preparing legal documents, and to evaluate the pricing and final structure of the bond issue. A financial advisor can become involved in a financing at various points in the financing process and sometimes is retained by a borrower prior to the selection of the **underwriter.** Financial advisors may be paid hourly, on a flat fee basis, or at closing, based on a negotiated fee arrangement.

FINRA (Financial Industry Regulatory Authority): the largest independent regulator for all securities firms doing business in the U.S.

Fitch Ratings: one of two **rating agencies** that actively rates senior living debt. See **Rating Agency**.

Fixed Rate Bonds: bonds that pay investors a fixed rate of interest for the life of the bonds. This structure provides the **borrower** consistent debt service requirements for the life of the project. Fixed rate financings often include a combination of **serial bonds** and **term bonds** structured to create level annual debt service.

Floating Rate Notes (FRNs): Municipal Floating Rate Notes are variable rate debt securities issued by tax-exempt borrowers and sold to public institutional investors. FRNs are indexed to a short-term reference rate plus a fixed spread which is based on the credit quality of the borrower at the time of pricing. Typically, tax-exempt borrowers will index FRNs to the **SIFMA** Index or a percentage of **LIBOR**, which resets periodically. FRNs are generally issued with a long-term nominal maturity (e.g. 30 years) with a shorter-term mandatory purchase date (three to seven years). Since pricing is based on the credit quality of the borrower, there is no need for a letter of credit but FRNs are generally only available for borrowers with an investment grade rating. Since the **Tax Cuts and Jobs Act of 2017**, FRNs have a pricing advantage over bank direct purchases since the **taxable equivalent yield** is tied to the federal income tax rate for individuals vs. the corporate tax rates of the bank. For example, a FRN might be indexed to 70% of LIBOR vs. 79% of LIBOR for a bank direct purchase. The first FRN issued for a not-for-profit senior living provider occurred in 2016.

Forbearance Agreement: a contract that obligates a lender to refrain from enforcing existing or anticipated defaults for a period of time in consideration of new agreements by a borrower. The lender does not waive defaults and may enforce them and its rights and remedies at the conclusion of the forbearance term. During a forbearance period, the intent is that the borrower cures defaults, improves performance, or exits its relationship with the lender.

Forward Delivery Agreement (FDA): see Interest Rate Management & Derivatives section for definition.

Forward Refunding: An agreement between an **issuer** and the **underwriter**, whereby the **issuer** agrees to issue bonds on a specified future date and an underwriter agrees to purchase such bonds on such date. The proceeds of such bonds, when issued, will be used to refund the borrower's outstanding bonds. Typically, a forward refunding is used where the bonds to be refunded are not permitted to be advance refunded on a tax-exempt basis under the Internal Revenue Code. In such a case, the borrower agrees to issue, and the underwriter agrees to purchase, the new issue of bonds on a future date that would effect a current refunding.

Fronting Bank: the Bank whose name and credit rating are on an **LOC** providing **credit enhancement** and **liquidity** support to a **Variable Rate Demand Bond** issue. On larger issues, a **fronting bank** may lead a group or syndicate of banks known as **Participants**, though bond purchasers will only see the name and rating of the **fronting bank**.

Funded Interest: a fund in which a portion of the bond proceeds are deposited to pay interest on the bonds. Interest is commonly funded with bonds during the construction period of a revenue-producing project, and sometimes for a portion or all of the fill-up period thereafter to allow operating revenues to catch up to operating expenses (including interest on debt). Funded Interest is sometimes referred to as **Capitalized Interest**.

GASB: Governmental Accounting Standards Board.

Government National Mortgage Association (GNMA): A wholly government-owned corporation that issues pass-through mortgage debt certificates backed by the full faith and credit of the US government. *Syn*. Ginnie Mae

Guaranteed Investment Contract (GIC): see Interest Rate Management & Derivatives section for definition.

Guaranteed Maximum Price (GMP) Contract: a type of contract commonly entered into by the contractor and borrower for a construction project. A GMP Contract, also known as not-to-exceed price, is a cost-type contract where the contractor is compensated for actual costs incurred plus a fixed fee subject to a ceiling price. Any savings are returned to the owner. IPD (Integrated Project Delivery) Agreement is an alternative to the GMP Contract.

G-11 Letter: establishes terms and conditions for sales by municipal securities dealers of new issues of municipal securities in primary offerings, including provisions on priority of customer orders when there are separate order periods for institutional and retail investors. The G-11 letter is an **MSRB** requirement.

G-17 Letter: requires dealers and municipal advisors to deal fairly with all persons with whom they conduct municipal securities business or municipal advisory business. The G-17 letter is an agreement between the **Underwriter** and the **Issuer** that discloses the Underwriter's role, Underwriter's compensation and pertinent financial characteristics and risk characteristics of the transaction. The G-17 letter is an **MSRB** requirement.

Home and Community Based Services (HCBS): generally used to describe home care and home health services which can be paid by various payor sources included Medicaid, Private Pay and other third-party providers such as insurance companies. Examples of HCBS include CCaH (Continuing Care at Home), adult day care, PACE (**P**rograms of **A**ll-Inclusive **C**are for the **E**lderly), home health, home care, concierge services and hospice care. HCBS can be provided at a residence, a senior living community or in a location designated by the provider.

I

Independent Living: typically age-restricted housing which, when necessary and if available, allows the resident to participate in the community's healthcare program. Residents require little or no assistance with activities of daily living (i.e., dressing, bathing). Independent Living Units (ILUs) usually contain one or two bedrooms, have full kitchens and include special design features to address the needs of seniors.

Initial Entrance Fees: **entrance fees** received from the initial occupancy of any **Independent Living** Unit (and in some cases **assisted living** and **memory support** units) not previously occupied. Initial entrance fees are identified as such in a borrower's accounting records due to the unique way that they are treated in certain bond covenant calculations as well as within the **Entrance Fee Waterfall**. This term is generally used with respect to new campuses and major expansions resulting in new residential units.

Institutional Investor: organizations that combine large sums of money and invest those sums in securities and other investment assets. Institutional investors make up roughly eighty percent of the buyers of municipal bonds. Typical municipal bond institutional investors include mutual funds, insurance companies, investment advisors, hedge funds and banks. Mutual funds make up a large portion of the buyers of senior living bonds. Institutional investors generally have more influence in shaping the debt covenants and interacting with the management of senior living organizations than individual investors.

Interest Rate Risk: the risk associated with changes in interest rates (e.g., the risk that changes in interest rates will adversely affect the position of a **borrower** with respect to borrowing costs, re-investment opportunities, at-market investment termination, etc.)

Inverted Yield Curve: an unusual situation that occurs when interest rates for short-term investments are higher than interest rates for longer-term investments. A "normal" yield curve is upward-sloping when time is on the x-axis and interest rates are on the y-axis, as investors typically want to be paid more to commit their funds for a longer period of time. In the unusual situation above, a graph of the curve will show a downward-sloping, or "inverted" yield curve. In the past, an inverted yield curve has signaled an impending recession.

Investment Bank or Underwriter: an institution in the business of raising capital for senior living providers, e.g., B. C. Ziegler and Company. Responsibilities include managing the financing and selling the bonds. The underwriter buys the bonds from the **conduit authority** or **issuer** (also called underwriting the bonds) and sells the bonds to institutional and retail investors. Although these terms are frequently used interchangeably, a distinction should be made between the investment banker and underwriter. The investment banker structures the project

financing; the underwriter distributes the securities to the investing public. Ziegler functions as both.

Investment Grade: a credit designation given by a **rating agency** to municipal securities that have a high probability of being repaid. Bonds rated "BBB-" or higher by **Standard & Poor's** or **Fitch Ratings** or "Baa3" or higher by **Moody's Investors Service** are generally deemed investment grade.

Investor Letter : A letter signed by an institutional investor acknowledging the risks associated with the securities being purchased and usually containing one or more representations of the institutional investor as to its financial ability to take such risks, its access to information on the securities, its intent to hold the securities for investment purposes, and/or such other matters determined by the issuer or underwriter of the securities. This letter is sometimes referred to as a "big boy letter" or "sophisticated investor letter." When used in a private placement, this letter may be referred to as a "private placement letter." Some letters may be said to "travel" if they include a representation on the part of the institutional investor to the effect that, if the institutional investor resells the securities, it will require the purchaser to sign an identical letter. Such a letter is often referred to as a "traveling letter."

Issuance Costs: costs incurred in connection with, and allocable to, the issuance of bonds. Federal tax law permits up to 2% of the par amount of tax-exempt bond proceeds to be utilized to pay for qualified issuance costs. These issuance costs include (but only to the extent incurred in connection with, and allocable to, the borrowing): **underwriter's discount**; counsel fees; financial advisory fees; **rating agency** fees; trustee fees; paying agent fees; bond registrar, certification, and authentication fees; accounting fees; printing costs for bonds and offering documents; public approval process costs; engineering and **feasibility study** costs; guarantee fees, and other similar costs.

Issue Date: in reference to a bond issue, the date on which the borrower receives the dollar purchase price in exchange for that bond. In no event is the issue date earlier than the first day on which interest begins to accrue on bonds for federal income tax purposes.

Issuer: the entity that issues or sells debt securities. When a governmental body acts as a **conduit authority** and issues tax-exempt bonds on behalf of a not-for-profit senior living provider, the conduit authority is called the "**Issuer**" and the senior living provider is typically referred to as the "**borrower**" (since, technically, the senior living provider is borrowing the bond proceeds from the governmental **Issuer**, whose involvement is essential to securing the tax-exempt status of the bonds). However, a senior living provider may also be considered an "Issuer" when, for instance, it issues obligations under a **Master Trust Indenture** to secure its various forms of indebtedness (including indebtedness in the form of "Related Bonds").

Issuer's Counsel: represents the **conduit authority** or **issuer**. **Bond counsel** often serves as issuer's counsel as a matter of convenience and/or to minimize **issuance costs**.

Letter of Credit (LOC): a form of **credit enhancement** provided by a commercial bank that is drawn to purchase tendered bonds and to pay related interest on **variable rate demand bonds**. The dollar value of the LOC is normally an amount sufficient to cover the full par amount of the outstanding enhanced bonds plus certain number of days' (as determined by the **rating agency**) interest on the variable rate demand bonds. A **letter of credit** provides both credit strength (bondholders can rely on the credit of the bank rather than the credit of the borrower) and liquidity (the bank will purchase all of the bonds, if necessary, at the time of a put).

Letter of Credit Bank (LOC Bank): provides a **letter of credit** for a bond issue, typically **VRDBs**, resulting in the credit rating of the LOC Bank being assigned to the bonds. Typically, the minimum rating for an LOC Bank is "A" or higher. The capital and financial markets disruption of 2008 and 2009 significantly reduced the number of eligible LOC Banks active in the senior living sector, both nationally and regionally. Since that time banks have largely stopped providing LOC's in favor of **bank direct purchases**.

Letter of Credit Bank Counsel: represents the **LOC Bank**, reviews all documents involving the **LOC Bank** and drafts the **reimbursement agreement.**

Levels of Care: **Independent Living**, **Assisted Living** and **Skilled Nursing** that commonly comprise a CCRC. **Memory Support** is often offered as a level of care as well. Licensure by level of care varies by state.

LIBOR: London Inter-Bank Offered Rate (LIBOR) is the interest rate banks charge each other for short-term money, usually in Eurodollars, for terms of one day to one year. LIBOR may be used as the underlying rate for the Floating Leg a swap. The British Bankers Association (BBA) sets the rates daily. In 2017, the BBA announced its intention to wind down and replace LIBOR over a five year period. A replacement or replacements for LIBOR as a

base interest rate or Index have not yet been identified. See **Swap Index.**

Life Care: a term often used interchangeably with "continuing care," as in a life care community. Sometimes refers to a contract type, namely, the **Extensive Contract**, in order to distinguish the care it provides (for life, without additional fees by level of care) from that of the other contract types (**Modified Contracts** and **Fee-for-service Contracts**) that require additional fees for living at higher levels of care.

Life Plan Community (LPC): a senior living community that provides multiple levels of care generally to include all, or a combination of: **independent living units**, **assisted living** units, **memory support** units and **skilled nursing** beds or health care units. At a minimum, must have independent living and skilled nursing on the same campus. Also referred to as a **Continuing Care Retirement Community (CCRC)**.

Liquidity: a measure of the liquid cash and investments available to an organization to meet its financial needs. May also refer to the need to provide funds to pay the purchase price of tendered **VRDBs** for which a **letter of credit** may be required.

Liquidity Facility: an agreement by a bank to provide liquidity for the purchase of tendered bonds; different from a letter of credit because the bank providing the liquidity facility does not provide credit support to investors or a related bond rating. Used most frequently with **bond insurance** and **variable rate bonds**. See **Variable Rate Demand Bonds**.

Liquidity Ratios: one of three types of ratios (Liquidity, Profitability, and Capital Structure ratios) used to measure the financial strength of senior living providers. Liquidity ratios measure the strength of a provider's unrestricted cash and investment balances to meet its financial needs. See **Profitability Ratios** and **Capital Structure Ratios**. Summary of **Liquidity Ratios** in Exhibit A.

Liquidity Support Agreement (LSA): an agreement from a creditworthy entity to provide capital as is needed to a **borrower**. Typically LSA's are provided by sponsor organizations to new venture borrowers, such as a new campus community. The amount of support is defined; the levels of support often decline as the creditworthiness of the borrower improves.

Loan-to-value (LTV): This ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. Loan to value is one of the key risk factors that lenders, typically banks, assess when qualifying borrowers for a loan. Lenders typically require a LTV requirement between 70 and 85 percent.

Low-Income Housing Tax Credit (LIHTC): Federal low-income housing tax credits are a source of capital that may be used instead of, or in addition to, housing bonds in order to finance affordable housing projects. LIHTC is a dollar-for-dollar tax credit for affordable housing investments. LIHTC gives incentives for the utilization of private equity in the development of affordable housing. The LIHTC provides funding for the development costs of low-income housing by allowing an investor to take a federal tax credit equal to a percentage (up to 70 percent or 30 percent of present value depending on the credit type) of the cost incurred for development of the low-income units in a rental housing project. Development capital is raised by "syndicating" the credit to an investor or, more commonly, a group of investors.

Management Letter: a phrase typically used to describe an auditor's communication with an audit client's board of directors and management.

Manager: individual or firm that receives a fee (typically a percentage of operating revenues) for managing the day-to-day operations of a senior living provider. Multi-site providers typically receive a management fee for services they provide at the facilities they own or manage.

MAP™ (Market Area Profiles): program developed by **NIC** that collects quarterly key statistics (revenues, occupancy, construction starts, etc.) from senior living providers in 100 Metropolitan Statistical Areas (MSAs). The raw data and metrics of the MSAs, the regions they cover and an aggregate of all of the MSAs are available on a subscription basis. The MAP Monitor™ reports on the quarterly data.

Master Trust Indenture (MTI): a document outlining a set of terms and conditions under which a **borrower** may offer multiple types of debt obligations. Collateral is held centrally on behalf of all creditors by the Master Trustee, facilitating parity shared liens by multiple creditors/creditor groups.

Materiality: the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

Material Weakness in Internal Control: auditors are responsible for, among many other items, ensuring that borrowers maintain appropriate divisions of responsibility and "cross check" functions, especially in financial areas, in order to minimize the potential for material misstatement of results or fraud. For example, a clerk processing payable requests should not also be permitted to sign checks or send wires to make payment. A borrower's failure to maintain adequate divisions of responsibility and "cross check" functions would be found to have a material weakness in internal control, a reportable condition that may impair access to capital, among other things, and requires correction.

Memory Support: **level of care** residence that is specifically designed to address the needs of seniors coping with Alzheimer's disease and other forms of dementia. *Syn*. Memory Care.

Modified Contract or Modified Lifecare Contract: contract between an **entrance fee CCRC** and a resident which specifies benefits received by the resident in return for a monthly fee after the payment of an entrance fee. Modified contracts typically include housing, residential services amenities and a discount to healthcare services either as (i) a specific amount of free healthcare days at the independent living unit monthly rate; and/or (ii) as a flat percentage discount to healthcare services. Referred to as a "Type B" contract.

Monthly Fee: fees paid on a monthly basis by residents of senior living communities to cover operating expenses of those communities. Entrance fees, together with monthly fees, typically comprise the fee arrangement for residents who enter CCRCs.

Moody's Investor Service: one of three ratings agencies that rates health care and senior living debt (not currently active in the senior living sector). See **Rating Agency**.

Multi-site or Multi-facility (Provider)**:** a senior living organization that owns and/or operates multiple senior living communities. *Syn*. **System** provider**.**

Municipal Advisor (MA) Rule: On September 20, 2013 the SEC approved a rule establishing the definition of Municipal Advisor and establishing a permanent process for them to register with the SEC. The Rule imposes a fiduciary duty upon municipal advisors that give advice to municipal entities. Effective July 1, 2014, under the MA Rule a "Municipal Advisor" is any person who provides advice to or on behalf of any municipal entity or obligated person concerning the issuance of municipal securities or municipal financial products, unless that person is eligible for an exclusion or exemption from the Rule. In defining who constitutes a municipal advisor, the SEC opted for an activities-based definition instead of a status-based definition, which means that a person becomes a municipal advisor if it engages in the activity described by the Rule, regardless of how a person holds itself out, how a person represents oneself to its clients or even what it is agreed to with the clients themselves. Thus, whether a person is a Municipal Advisor hinges on (a) whether that person provides the right kind of advice (advice concerning the issuance of municipal securities or municipal financial products) to the right kind of people (municipal entities and obligated persons) and (b) whether that person can rely on an exemption or exclusion under the MA Rule.

Municipal Continuing Disclosure Cooperation Initiative (**MCDC) Initiative**: announced by the Securities and Exchange Commission (SEC) in 2014, the MCDC Initiative was created intending to address alleged violations of certain federal securities laws by participants in the municipal finance industry. Under the MCDC Initiative, these industry participants were allowed to self-report violations of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). Specifically, the MCDC initiative focused on disclosures relating to compliance with continuing disclosure obligations within offering circulars. Participants that self-reported also agreed to settle any potential violations with the SEC according to a standardized set of civil penalties and undertakings.

MMD (Municipal Market Data): a reference to a proprietary yield curve for municipal market (tax-exempt) issues published daily by Thomson Financial Services and widely used as a benchmark for determining interest rates on new issue and secondary market tax-exempt issues.

Municipal Securities Rulemaking Board (MSRB): a self-regulatory organization (SRO) authorized to create rules designed to prevent fraudulent and manipulative acts and practices, to promote equitable principles of trade, to foster cooperation with transaction participants, and to perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest. The MSRB writes investor protection rules and other rules regulating **broker-dealers** and banks in the United States municipal securities market, including tax-exempt and taxable municipal bonds, municipal notes, and other securities issued by states, cities, and counties or their agencies to help finance public projects or for other public policy purposes. To further protect market participants, the MSRB promotes disclosure and market transparency through **EMMA**[2]. See http://emma.msrb.org.

N

Negative Arbitrage: see **Arbitrage.**

New Campus: term used to describe a new **continuing care retirement community (Life Plan Community)**, independent living, assisted living facility or nursing home that is planned for construction, under construction or recently constructed.

NIC: National Investment Center for the Seniors Housing & Care Industries. NIC facilitates efficient capital formation for the seniors housing and care industries through research, networking, and provision of business and financial information.

Non-Bank Qualified (NBQ) Bonds or Loans: following the statutory sunset for expanded **Bank Qualified (BQ) Bonds** at the end of 2010, commercial banks continued to make direct purchases of tax-exempt bonds or loans issued for the benefit of non-profit senior living **borrowers** as an alternative to **Variable Rate Demand Bonds.** These tax-exempt instruments became known as **Non-Bank Qualified Bonds** because, unlike their BQ Bonds, the purchasing bank is not permitted to deduct a portion of the applicable cost of capital for federal income tax purposes.

Non-Investment Grade: Bonds rated below “BBB-” by **Standard & Poor's** or **Fitch Ratings** or below “Baa3” by **Moody's Investors Service** are generally deemed non-investment grade.

Non-refundable Fee: the portion of an **entrance fee** paid by a **CCRC (LPC)** resident that is not refundable.

Not-for-Profit: a corporation that is a charitable organization, exempt from taxes under Section 501(c) (3) of the Internal Revenue Code.

Obligated Group: one or more corporations (**borrowers**) that are jointly obligated for each other's debts; each member shares the responsibility for repayment of all of the other members' debts. Obligated groups are normally created under bond documents (including a **Master Trust Indenture**).

Official Statement (OS): a disclosure instrument published by an **underwriter** of securities (essentially mandated by federal and state securities laws) to provide full and fair disclosure of all facts and information that may be material to an investor's decision to invest in such securities. It includes a detailed overview of the borrower in order to equip potential investors with necessary and sufficient data to make an informed decision and a description of all bond mechanics. It may also include the **borrower's audited financial statements**, **feasibility study, bond counsel opinion** and other items necessary for the potential investor to make an informed purchase decision.

Operating Reserve Fund: typically utilized in connection with new campus or repositioning financings and are often funded with **Initial Entrance Fees**. A primary component of the **Entrance Fee Waterfall** and governed by financing documents, an Operating Reserve Fund represents cash set aside to stabilize a borrower's finances by providing a cushion against unexpected events (such as a late opening or slow fill-up period), losses of income and large unbudgeted expenses. Monies in an Operating Reserve Fund are usually permitted to be used to pay for: operating deficits including debt service, project costs, capital improvements, resident refunds, and restoration of funds on deposit in a related debt service reserve fund.

Participant or Participation: one or more parties, typically commercial banks, purchasing a share of LOC risk or a portion of bonds in a **bank direct purchase** from a **Fronting Bank**. The Participant commits to a pro-rata sharing of the financial obligation and shares ratably in collateral and security as well as LOC fees. The rights of the Participant are governed by a **Participation Agreement** by and among the **Fronting Bank** and Participant(s).

Participation Agreement: The document governing the voting rights, terms and conditions between a **Fronting Bank** and **Participant(s)**.

Paycheck Protection Program (PPP): Loan program that originated from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This was originally a $350-billion program intended to provide American small businesses with eight weeks of cash-flow assistance through 100 percent federally guaranteed loans. The proceeds must be spent on payroll, rent, interest on loans and utilities The program was designed for organizations of 500 employee or less but exceptions were made for organizations of more than 500 employees as they satisfy the existing statutory and regulatory definition of a “small business concern” under section 3 of the Small Business Act, 15 U.S.C. 632.. The loans are backed by the Small Business Administration (SBA). The program closed at the beginning of August 2020.

Permanent Debt: debt expected to be repaid from operating cash flow as opposed to initial **entrance fees** for new independent living units. Permanent debt is typically amortized or repaid over an extended time period, such as 30 or 35 years. Permanent Debt can consist of bonds or other types of conventional financing.

Placement Agent: A firm serving as an intermediary between those seeking to raise capital or equity through a private placement and potential investors.

Positive Arbitrage: see **Arbitrage.**

Preliminary Official Statement: an **Official Statement** in preliminary form circulated prior to the formal pricing of an offering of securities in order to gauge investor interest; often referred to as a "red herring" due to the legend printed on the cover page in red ink stating that the information contained therein is preliminary and subject to change.

Priority of Draws: typically relates to the **Entrance Fee Waterfall** as well as a borrower's **Liquidity Support Agreement**, if applicable. In drafting legal documentation for a new campus bond transaction, it is common for financing teams to create a diagram known as the "Priority of Draws" chart. The purpose of this chart is to show how the borrower will draw on the various funding sources available to it if a liquidity shortfall is experienced. In general, the borrower is supposed to draw on each bucket until fully depleted before drawing on the next bucket. A common sequence for the priority of draws is as follows:

- First, **working capital fund**;
- Second, **operating reserve fund**;
- Third, **liquidity support fund** (provided an LSA exists for the financing); and
- Fourth, **debt service reserve fund**.

The Priority of Draws provisions are highly structured, clearly stipulated in the applicable bond documents, and heavily tailored to each situation.

Private Activity Bonds (PABs): tax-exempt municipal bonds issued through a **conduit issuer** which more than 10% of the bond proceeds are used for the benefit of a private organization. Private Activity Bonds are used not only for hospitals and **CCRCs (LPCs)**, but also for student loans, airports, private universities, and some forms of affordable housing. PABs were nearly eliminated as part of the Tax Cuts and Jobs Act of 2017, but were ultimately saved.

Private Placement: term used to describe a **bank direct purchase** or a private offering to an **institutional investor** that are sold or placed directly with a financial institution or bank without a public marketing campaign.

Profitability Ratios: one of three types of ratios (Liquidity, Profitability, and Capital Structure ratios) used to evaluate the financial strength of senior living providers. Profitability ratios measure a provider's ability to generate surpluses. See **Liquidity Ratios** and **Capital Structure Ratios.** Summary of **Profitability Ratios** in Exhibit A.

Project Fund: sometimes referred to as "construction fund," governed by the bond indenture, or related governing document, into which bond proceeds and other available funds are deposited pending disbursement to pay for the costs of the financed project.

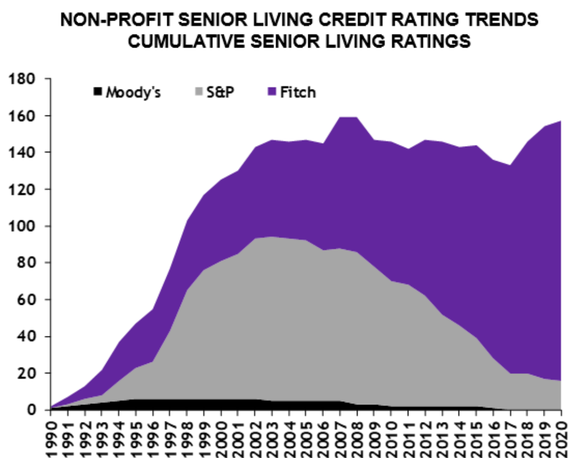
Purchaser's Counsel: represents institutional investors or bond purchasers, usually only on unenhanced and unrated issues that are to be considered by investors to be risky or complex. Purchaser's Counsel is responsible for reviewing all documents and sometimes negotiates terms, covenants and other items on behalf of the investors.

***R*BI:** see **Revenue Bond Index**.

Rated Bonds: can be rated **investment grade** or **non-investment grade** purely based upon the credit strength of the **borrower** or through **credit enhancement**. Prior to 1990, senior living borrowers had difficulty securing investment grade ratings but as of August 2019 there are approximately 157 bond ratings for tax-exempt senior living providers.

Rating Agency: makes an independent determination as to the likelihood that bond principal and interest will be repaid in accordance with its terms. There are three major rating agencies, but only two, **Standard & Poor's** and **Fitch Ratings**, actively rate senior living bonds (the third agency is **Moody's Investor Service**). Rating agency guidelines consider the market, management and finances of an organization.

Ratings fall into two general categories: **Investment Grade** and **non-investment grade**. In the bond world, this distinction is significant since many **institutional investors** can only purchase **Investment Grade** securities. That means that there is a broader market for a bond that has an **Investment Grade** rating which generally results in a lower interest rate.



Ratios: one or more of a group of calculations measuring the financial health of senior living organizations. See also **Capital Structure Ratios**, **Liquidity Ratios**, and **Profitability Ratios.** See Exhibit A for details on each of the ratios used in senior living within each category. There are several sources for benchmarking ratios. **Standard & Poor's**, **Fitch Ratings** and **CARF** each distribute financial ratios for the senior living providers whom they monitor.

Refundable Fees: the portion of a **CCRC (LPC)** resident's entrance fee that is refunded to the resident or resident's estate upon death or other such termination of the resident agreement. Typically refers to the *minimum* amount of entrance fee refundable. Some states (e.g. California) require repayment within a pre-determined period of time. Many **CCRCs (LPCs)** today offer contracts that are 0% ("Traditional Contract"), 50%, and/or 90% refundable.

Refunding: a synonym for a refinancing. There are generally two major reasons for refunding: (i) to reduce the **borrower**'s interest cost and lower debt service payments (economic refunding); or, (ii) to remove a restrictive covenant imposed by the terms of the bonds being refinanced or to reamortize the debt structure to provide level debt service payments (strategic refunding). The new bonds are referred to as refunding bonds, and the outstanding bonds being refinanced are referred to as the refunded bonds or the prior issue. See **Advance Refunding** and **Current Refunding**.

Reimbursement Agreement: Agreement between the **LOC Bank** and **borrower** traditionally used with **variable rate demand bonds**. This document typically contains the covenants, repayment terms (amortization schedule), and fees associated with the **letter of credit**.

Reimbursement Resolution: A resolution declaring a borrower's official intent to reimburse an original expenditure with the proceeds of a future debt obligation. Under federal tax laws, a **borrower** may reimburse itself with proceeds of tax-exempt bonds for certain expenditures made within 60 days prior or 18 months subsequent to the **borrower** adopting the reimbursement resolution.

Remarketing: the process of reselling to new investors securities that have been tendered for purchase. For example, both **variable rate demand bonds** and **EXTRAS** can be "put" by the bond holder to the **remarketing agent** who will resell the bonds to new investors at the then current interest rate.

Remarketing Agent: a broker-dealer responsible for reselling to new investors previously issued securities (such as **Variable Rate Demand Bonds, Adjustable Rate Bonds** and other tender option bonds) that have been tendered for purchase by their owners. The Remarketing Agent also typically resets the interest rate for a variable rate issue, and may act as tender agent as well.

Rental Contract: contract between a senior living provider and a resident that does not require the payment of an **entrance fee.** Resident monthly fees increase directly with the level of care provided. Typically, residents are assured some form of preferential access to health care services, if available. Referred to as a "Type D" contract.

Reportable Condition: a matter coming to an auditor's attention that, in the auditor's judgment, should be communicated to the audit committee of the organization because it could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reserves: one or more of a series of cash balances a borrower must maintain to comply with bond documents, state regulations or board designations. Reserves may be funded with bond proceeds (see **Debt Service Reserves**) or with corporate cash. Usually funds held to meet required reserves are considered **restricted** (other than board designated) and therefore are unavailable to meet **liquidity** covenant requirements.

Restricted: describes reserves that cannot be used to pay operating expenses at the discretion of the board. In senior living, the two most common types of restricted funds are donor-restricted funds and trustee-held funds. Trustee-held funds relate to reserves funded by a tax-exempt bond financing (see **Debt Service Reserves**); these reserves are held by a trustee and are only available for use by the borrower under certain circumstances. Donor-restricted funds are funds restricted by the donor's stipulation as to

the purpose(s) for which the contribution may be used. See **Unrestricted.**

Retail Investor: a direct purchaser of securities, usually an individual person, as opposed to a mutual fund, bank, insurance company or other "**Institutional Investor**." Retail Investors typically purchase securities (such as tax-exempt bonds) in amounts anywhere from $5,000 to $100,000 (or higher), whereas Institutional Investors generally purchase a minimum of $250,000 of any one security (and often much higher amounts). **Conduit issuers** may limit the ability of **retail investors** to purchase **non-investment grade** bonds by setting higher bond denominations.

Revenue Bond Index (RBI): an index of 25 average yields of selected "A+"-rated revenue bonds with 30-year maturities consisting of bonds issued by a municipality to finance either a project or an enterprise in which the issuer pledges to the bondholders the revenues generated by the operation of the projects financed. The RBI is computed on Thursday of each week and posted on Friday in the ***Daily Bond Buyer***, a nationally recognized Municipal Finance publication. The RBI was formerly the standard index for pricing new bond issues, but currently the **MMD** index is more commonly used across the industry.

Ring-Fencing: a dynamic process for determining whether and to what extent a rated organization (such as a hospital system or **multi-facility** senior living system) may be sufficiently insulated ("ring-fenced") from credit risks arising from "off-balance sheet" debt of a related organization (such as a new campus **CCRC**) that is not otherwise part of the rated organization's "**Obligated Group**," with the result that the Obligated Group's rating may be higher than that of the consolidated enterprise. A "ring-fencing" analysis hinges on both legal and strategic factors, such as whether the non-obligated entity furthers the mission and strategic intent of the rated entity, physical location of the enterprises, co-branding activities, and historical and prospective financial commitments between the rated and non-obligated entities, all leading to a judgment by the **Rating Agency** as to whether or not the rated organization would allow the non-obligated community to fail in a worst-case scenario. **Standard & Poor's** is the rating agency most aggressively using ring-fencing criteria to limit **Obligated Group** credit ratings.

Securities Act of 1933: Federal securities legislation originally enacted in 1933 that provides for, among other things, the registration of securities with the Securities Exchange Commission and the preparation and distribution of prospectuses or official statements. Issuers of municipal securities are generally exempt from these requirements, although certain anti-fraud provisions under the Securities Act of 1933 apply to such issuers or borrowers.

Serial Bonds: bonds which pay interest periodically but principal only at maturity — there are no intermediate **sinking fund** principal payments. Serial bonds are most typically used on the shorter end of the **yield curve** to blend down the average interest rate of the bond issue and target short-duration investors, but lose their effectiveness once the yield curve flattens out and **term bonds** become more attractive.

Single-site (Senior Living Provider): a senior living provider that provides care at only one community (or campus). Single-sites are in contrast to **Multi-Sites** or **Systems** (providers).

Sinking Fund: a fund into which the Borrower is required to make intermediate principal payments of the bonds prior to their stated final maturity date in accordance with the mandatory redemption schedule in the **bond indenture**. This term is sometimes used interchangeably with the term "mandatory redemption fund."

Sinking Fund Payments: see **Term Bonds**.

Skilled Nursing: highest **level of care** within the **CCRC (LPC)**. Utilization of skilled nursing by residents may range from short-term rehabilitative care that follows a medical event to long-term non-recuperative care.

SLGS: State and Local Government securities are a special form of U.S. Government Treasury securities offered to state and local governments for investment of bond proceeds at restricted yield. The interest rates on SLGS are set by the state or local government purchaser at subscription, up to the SLGS' maximums that the Treasury sets daily at one **basis point** percent below current market rates for regular Treasury securities of comparable maturity. SLGS are primarily used in **advance refunding** transactions.

Sophisticated Investor: a type of investor who is deemed to have sufficient investing experience and knowledge to weigh the risks and merits of an investment opportunity. For certain purposes, net worth and income restrictions must be met before a person can be classified a sophisticated investor. The distinction makes an investor eligible to buy into certain investments that are considered "non-disclosure" or "non-prospectus" issues. Typically, a sophisticated investor must have either a net worth of $2.5 million or have earned more than $250,000 in the past two years to qualify.

Specialty State or Specialty State Pricing: one of several states in which interest on federally tax-exempt securities is also exempt from state income tax. This dual tax-exemption gives investors domiciled in the specialty state a higher effective yield on bond issues originating in that state. Specialty state bond issues theoretically should carry lower interest rates than comparable securities in the general (non-Specialty State) market because of the value of the double tax-exemption. Prime examples of Specialty States are California, Maryland, Minnesota, New Jersey, New York, North Carolina and Virginia. Typical characteristics of a Specialty State include significant population density, high per capita income and high state (and local) income taxes; these factors result, not surprisingly, in strong retail demand for in-state bonds that are double (or even triple) tax-exempt because of the higher after tax yield enjoyed by investors in such bonds.

Stable or **Stabilized Occupancy**: the percentage of occupied units in a facility at the level reflected as substantially at the sustainable capacity for which such facility was designed. Stable occupancy is often based on occupancy of a specific **level of care** as well as for the overall facility. This is a defined term in the **Master Trust Indenture** or **Bond Indenture** that varies by project.

Standard & Poor's: one of two rating agencies actively rating senior living debt. See **Rating Agency**.

Stub Period Financials: unaudited financial statements covering the interim period since the most recent audited financial statement for the **borrower**. Stub period financials are generally either compiled or reviewed by the auditor, and are typically published in official statements for the investors' benefit.

Subordinated Debt: a loan or other security interest that ranks below other loans or security interests with regard to claims on cash flows or assets. Creditors of subordinated debt do not get paid until the senior debt holders are paid in full, rendering subordinated debt to be more risky than senior debt.

Suitability: as defined by the U.S. Securities and Exchange Commission, when a broker recommends that an investor buy or sell a particular security, the broker must have a reasonable basis for believing that the recommendation is suitable. In making this assessment, the broker must consider the individual's income and net worth, investment objectives, risk tolerance and other security holdings. The major securities industry self-regulatory organizations have similar suitability requirements.

Synthetic Refunding: an agreement between a borrower and a counter-party entered into in connection with outstanding bonds that the borrower is not permitted to advance refund on a tax-exempt basis under the Internal Revenue Code. The agreement is designed to generate debt service savings that the borrower would realize if it were permitted to advance refund the outstanding bonds. Such agreements generally provide for a payment from the counter-party to the borrower upon execution in return for a specified action of the borrower or a right to take a specified action by the counter-party at a future date, typically a date on which the borrower can call the outstanding bonds and effect a current refunding. For example, on the call date, the counter-party may have the right to require the borrower to issue refunding bonds with certain specified terms for purchase by the counter-party. Alternatively, the borrower may issue variable rate refunding bonds and have the right to require the counter-party to enter into an interest rate swap on specified terms.

System (Provider): organization with more than one campus, in contrast to **single-site** providers. See **LeadingAge Ziegler 200** in the Senior Living section of this glossary. See **Multi-site** or **Multi-facility provider**.

Tax Cuts and Jobs Act of 2017: signed on December 22, 2017, the Act adversely affected the tax-exempt municipal bond markets by eliminating advance refundings and lowering the corporate tax rate to 21%. Tax-exempt bonds may no longer be used to fund advance refundings, and borrowers must now use taxable bonds or **Cinderella Bonds**, which increases the cost to refinance debt. Lowering the corporate tax rate from 35% to 21% increases the **taxable equivalent yield** on bank direct purchase bonds, resulting in higher interest rates on bank capital. Notably, the bill nearly eliminated all **Private Activity Bonds**, including those for senior living providers, but ultimately were saved in the final days before the vote.

Taxable Equivalent Yield: The interest rate that must be received on a taxable bond to provide the bondholder the same after-tax return as that earned on a tax-exempt bond. Because interest earned on municipal securities generally is not subject to federal income taxation, a tax-exempt bond does not have to yield to a bondholder as much as a taxable bond to produce an equivalent after-tax yield. This differential is attributable to the effect of the tax liability incurred by the bondholder if it held a taxable bond. The taxable equivalent yield varies according to the bondholder's marginal federal income tax bracket and, where applicable, any state or local tax liability as well. The formula for determining the taxable equivalent yield is:

$$\text{Taxable Equivalent Yield} = \frac{\text{Tax-Exempt Yield}}{100\% - \text{Marginal Tax Bracket}}$$

Taxable Exchangeable Bond: A bond (sometimes referred to as a "**Cinderella Bond**") initially issued on a taxable basis that may convert to tax-exempt status upon the occurrence of a specified condition precedent (e.g., volume cap allocation becoming available; receipt of 501(c)(3) determination letter). Tax-exempt rates may be stated at the time of initial offering when the taxable rates are established.

TEFRA: An acronym for "Tax Equity and Fiscal Responsibility Act" of 1982. TEFRA requires, among other things, that a bond issue be approved (a "TEFRA approval") either by an elected official or body of elected officials of the applicable governmental entity after a public hearing (a "TEFRA hearing") following reasonable public notice (a "TEFRA notice") or by voter referendum of such governmental entity.

Temporary Debt*:* debt expected to be repaid with a portion of the initial **entrance fees** received for new independent living units being financed. In the past, temporary debt typically consisted of **Variable Rate Demand Bonds**, Ziegler's proprietary **EXTRAS**SM, or a conventional loan from a commercial bank. As a result of a change in bank lending priorities subsequent to the 2008 and 2009 financial crisis, Ziegler is currently using **adjustable rate bonds** (**ARROS** SM) and fixed rate, short maturity term bonds (**TEMPS** SM) for temporary debt needs.

TEMPSSM **(Tax-Exempt Mandatory Pay down Securities** SM): underwritten exclusively by Ziegler, TEMPS are fixed rate term bonds carrying a short-term maturity, usually three to four years beyond the expected redemption date. TEMPS are structured as bullet repayments, with required optional redemptions as initial entrance fees are collected by the trustee. TEMPS are designated according to the project occupancy level at expected redemption based on the entrance fee pool: TEMPS-50, for example, are expected to be redeemed at receipt of 50% of the initial entrance fee pool; TEMPS-80 at 80%.

Term: length of time from bond closing to final maturity, most often ranging from one year to thirty or thirty-five years, depending on the **borrower**'s specific goals and constraints.

Term Bonds: bonds that are longer in duration than **serial bonds** and are retired through regular principal payments (called **sinking fund payments**) similar to a mortgage.

Tombstone : An advertisement placed by underwriters announcing the terms of a new issue of municipal securities, setting forth some or all of the following information: the name of the issuer/borrower, maturities, interest rate, reoffering scale, ratings and members of the underwriting syndicate.

Trustee: see **Bond Trustee.**

Turnover Entrance Fees: **entrance fees** received from the occupancy of any **Independent Living Unit** previously occupied. Net Turnover Entrance Fees is the difference between the entrance fee received on the re-occupancy of a unit and any refunds owed based on the terms of the entrance fee agreement. Typically, Net Turnover Entrance Fees have a positive cash impact for the senior living provider. See **Entrance Fees**.

Underlying Rating: In the case of a security for which **credit enhancement** has been obtained, the **rating** assigned by a **rating agency** to such security without regard to **credit enhancement** or assigned to other securities of the same **borrower** having the same features and security structure but without the **credit enhancement**.

Underwriter: see **Investment Bank**.

Underwriter's Counsel: represents the **underwriter**, drafts the **Official Statement** and drafts the **Bond Purchase Agreement**.

Underwriter's Discount: the fee earned by the investment banker for structuring and selling the bond issue. May also include the reimbursement of certain agreed upon expenses associated with the bonds. Also known as the underwriter's "spread."

Unrated Bonds: bonds issued to finance long-term care and senior housing projects that do not carry an **underlying rating** or **credit enhancement**. Unrated bonds are common in senior living and have been a much higher percentage of total issuance since 2010.

Unrestricted: typically used to describe an organization's cash and investment balances available for use at its discretion. Unrestricted cash and reserves are used in measurements (ratio calculations) of an organization's **liquidity**.

USDA: The United States Department of Agriculture which administers federal programs including the Community Facilities Direct Loan & Grant Program, the Community

Facilities Guaranteed Loan Program, and the Business and Industry Guarantee Loan Program. These provide either a direct loan to the borrower or a guarantee of their loan with a bank. The maximum loan amount, which rural markets qualify, and financing terms vary depending on the program and market. Additional information can be found at www.rd.usda.gov.

Variable Rate Demand Bonds (VRDBs): variable rate demand bonds differ from fixed rate bonds in that their interest rate fluctuates periodically (most frequently, weekly) and bondholders typically can tender or demand purchase of the bonds (referred to as "put") when the interest rate is reset (usually by a **Remarketing Agent**). If put bonds cannot be remarketed to new bondholders, most senior living borrowers have inadequate liquid reserves to purchase the bonds from the bondholders. To offset this liquidity risk to bondholders, borrowers frequently obtain a **Liquidity Facility** or **Letter of Credit**. See **Letter of Credit** and **Letter of Credit Bank.**

Prior to 2008, VRDBs were heavily deployed as **temporary debt** to bridge the collection of initial **entrance fees** for a **New Campus**. Occasionally, stronger senior living borrowers with significant cash reserves (to offset potential interest rate risks) would use VRDBs as a portion of their overall **permanent debt** structures. With the demise of **bond insurance** in the 2008 and 2009 financial crisis, combined with a decline in eligible **LOC Banks**, **variable rate demand bond** volume has been reduced to a trickle, and bank participation in the senior living and health care sectors has shifted to **NBQ Bonds** and **Bank Direct Purchase** or traditional taxable loans.

Verification Report: In a refunding, a report, prepared by a certified public accountant or other independent third party (a verification agent), that demonstrates that the cash flow from investments purchased with the proceeds of the refunding bonds and other funds are sufficient to pay the principal of, the interest on, and the call premium (if any) on the refunded bonds that are being defeased.

VRDBs: see **Variable Rate Demand Bonds**.

Working Capital: technically, the difference between current assets and current liabilities. As applied to senior living communities often it refers to operating expenses that must be funded prior to a **new campus** attaining sufficient occupancy such that it can pay the operating expenses from the receipt of monthly services fees and entrance fees. Tax-exempt bond proceeds may only be used for working capital in limited instances; more often, bond proceeds fund project costs or **capital expenditures,** while other sources of capital fund working capital needs. Borrowers should review all project capital needs for eligibility early in the bond issuance process.

Working Capital Fund: a fund established under a senior living borrower's bond documents that is typically funded with **Initial Entrance Fees** received in connection with a new campus or major repositioning. Because new senior living communities typically do not have a stable revenue source until they are constructed and have achieved **stabilized occupancy**, Working Capital Funds are created and generally used to pay operating expenses when needed during the construction and fill-up periods. Operating expenses eligible to be paid from the Working Capital Fund are varied and broad, including the cost of operating the community (staffing, food costs, utilities, insurance, etc.) as well as debt service. It should be noted that there are extensive federal and state limitations on the use of taxable and tax-exempt bond proceeds to fund working capital, and as a result, Working Capital Funds are typically funded with **Initial Entrance Fees** or other sources of cash as opposed to bonds. Under normal circumstances, Working Capital Funds are fully spent and thus are not viewed as a "reserve" fund. Financing and development teams are often involved in calculating the amount of working capital that is expected to be needed during a project's construction and fill-up period, until such time as it generates sufficient revenues to pay its operating expenses and debt service. See **Entrance Fee Waterfall** and **Priority of Draws**.

Yield Curve: graphic representation of debt interest rates starting from maturities of one year or less to maturities of 30 years or more. The slope of the graph is generally upward, reflecting an investor demand in normal market conditions for higher yields when investments carry longer maturities and therefore, in theory, more risk of credit deterioration. The most common yield curve depicts rates on U.S. Government securities, as they are considered essentially risk-free. See **Inverted Yield Curve**

Ziegler: nation's leading investment bank for tax-exempt senior living financings.

ZieglerResearch.com: a free website created to catalogue disclosure information about bonds sold to finance senior living and hospital projects. Designed specifically with the needs of **Institutional Investors** and **borrowers** in mind, the secure site provides authorized users with **Official Statements** and other original offering documents, as well as **continuing disclosure** on occupancy/utilization,

audited and interim financial statements and other credit-related information.

Interest Rate Management & Derivatives

Additional Termination Event: the occurrence of an event (i.e. rating downgrade below a specified level, failure to meet certain liquidity covenants) at any time with respect to a party of an **Interest Rate Swap** which causes early termination of the transaction.

Authorizing Resolution: a corporate document which authorizes a party to borrow or to execute **derivative** transactions.

Basis Risk: the risk of a mismatch between a **borrower**'s floating rate receipt (or payment) on a **swap** and its floating rate payment (or receipt) on the underlying debt (or asset) as a result of different indices or terms being used to determine payments and receipts.

Basis Spread: the difference in interest rates between a borrower's floating rate received (or paid) on a **swap** and its floating rate paid (or received) on the underlying debt (or asset), which results from different indices or terms being used to determine payments and receipts.

Basis Swap: a floating-to-floating swap in which one variable rate index is swapped for another; commonly used to modify **basis** and **tax risk.**

Bid Date: in a competitive bid transaction, the date on which swap **Provider**s submit bids and the swap entered into with the winning Provider is priced.

Bid Package: documentation package distributed by or on behalf of a **borrower** to qualified **providers**, detailing the terms and structure of the swap desired by the borrower, which the Providers will use to formulate their bid on the scheduled bid date.

Cap (Interest Rate Cap): an agreement entered into by the **borrower** or obligor of variable rate debt in which the **provider** or **counter-party** agrees to pay any portion of the interest to be paid on the debt that exceeds a specified interest rate. A cap creates an upper limit on the interest rate cost to the borrower or obligor of variable rate debt without establishing a maximum interest rate payable to the holders of the debt.

Collar: an agreement entered into by the borrower or obligor of variable rate debt combining an interest rate **cap** and an interest rate **floor**.

Collateralization Risk: risk that the circumstances under which a borrower would have to post collateral pursuant to certain swap agreement provisions will arise in the future.

Competitive Bid: process of entering into a **swap** agreement where interested swap **Providers** submit bids to the borrower on a specified date, and the swap is entered into with the winning Provider; usually the Provider offering the interest rate terms most favorable to the borrower.

Confirmation: document governed by the **ISDA Master Agreement** that is executed for an individual transaction, itemizing the specific terms and conditions for that particular transaction.

Cost of Funds Swap: a swap under which the **Floating Leg** receipts match the interest payments due on the underlying debt exactly.

Counterparty: organization or financial institution that provides capital markets or financial products access to end-users (typically **borrowers**) of financial contracts or agreements. Also known as "the other side" of a financial contract. See **Provider**.

Counterparty Credit Risk: the risk that a party will not be able to meet all of its financial obligations under the **swap**.

Credit Support: collateral that can be in the form of cash and/or marketable securities posted by one party to another which is designed to reduce the credit exposure.

Credit Support Annex: document governed by the **ISDA Master Agreement** which states the provisions and circumstances under which posting of collateral is required.

Credit Support Document: agreement or instrument that is executed by either counterparty to a swap or a third party (on a party's behalf) that supports or otherwise provides credit enhancement with respect to the obligations of such party to the **ISDA Master Agreement**.

Derivative: a product, whose value is derived from an underlying security, structured to deliver varying benefits to different market segments and participants. The term encompasses a wide range of products offered in the marketplace including **interest rate swaps**, **caps**, **floors**, **collars** and other products.

Effective Date: the first date on which swap payment obligations begin to accrue, including the date any upfront payment is exchanged. In the case of a **forward swap**, payment accruals may not begin for months or even years into the future. When a **swap** is entered into in connection with an issue of bonds, the Effective Date is often set to coincide with the issue date of the bonds.

Enforceability Opinion: a legal opinion validating that the execution of an **Interest Rate Swap** is within the borrower's corporate power and has been duly authorized by the borrower's board of directors.

Exercise Period: in an option contract, the period of time in which a party has the right to exercise its option.

Fixed Leg: in a swap transaction, the payments made by one party to another based on a pre-determined fixed interest rate.

Fixed Rate Swap: a **swap**, under which a borrower pays a Provider a fixed rate in exchange for receiving a floating rate; most commonly used to convert **variable rate bonds** into synthetically fixed rate obligations.

Fixed-to-Floating Rate Swap: see **Floating Rate Swap**.

Floating Leg: in a swap transaction, the payments made by one party to another based upon a pre-determined floating (variable) rate index.

Floating Rate Swap: a **swap**, under which a **borrower** pays a **provider** a variable rate and receives a fixed interest rate; usually associated with an issue of fixed rate bonds that a **borrower** wishes to convert to a synthetic floating rate.

Floating-to-Fixed Rate Swap: see **Fixed Rate Swap.**

Floor: a financial contract under which a borrower will make a payment to the **Provider** when the **index** falls below the pre-determined strike rate, or floor rate.

Forward Delivery Agreement ("FDA"): is a contractual agreement between a borrower, the trustee and a financial institution where the financial institution agrees to deliver permitted investment securities at a guaranteed agreed upon yield.

Forward Rate Curve: the yield curve, as of a future (or forward) date, constructed using currently prevailing rates on instruments settling in the future; commonly used to price many interest rate derivative instruments.

Forward Swap: an **Interest Rate Swap** under which the accrual and exchange of cash flows commences at a later date, rather than the current date.

Guaranteed Investment Contract ("GIC") or Investment Agreement: is a contractual agreement between a borrower, the trustee and a financial institution where the financial institution agrees to pay a fixed guaranteed yield in exchange for receiving the bond fund proceeds.

Hedge: a financial product used to limit potential losses or gains associated with an existing financial position, asset or liability. See **Perfect Hedge**.

Index: floating rate reference—typically **SIFMA** (tax-exempt) or **LIBOR** (taxable).

In the Money: refers to a party's financial position if it would be owed a payment by the other party if the contract were terminated at the prevailing market price.

Integration: for tax law purposes, the ability of an issuer of bonds to take into account (or "integrate") payments made or received on a swap in the determination of bond yield.

Interest Rate Swap: a contractual agreement between two parties to exchange future net cash flows based on a fixed rate and a predetermined **index** calculated on an agreed notional amount. The **swap** is not a debt instrument between the **borrower** and the **counterparty**, and there is no exchange of principal.

ISDA: International Swaps and Derivatives Association, Inc., the global trade association representing leading participants in the derivatives industry.

ISDA Master Agreement: the standardized master legal agreement for all derivative transactions between a borrower and a Provider that states standardized definitions, terms, and representations governing the swap transactions.

LIBOR: London Inter-Bank Offered Rate (LIBOR) is the interest rate banks charge each other for short-term money, for terms of one day to one year. LIBOR may be used as the underlying rate for the **Floating Leg** of a swap. See **Swap Index.**

Mark-to-Market: calculation of the value of a financial instrument (e.g., an **interest rate swap**) or security based on the current market rates or prices of the **underlying** instrument or security.

Minimum Transfer Amount: In the event a party to the **Interest Rate Swap Agreement** is required to post collateral, a minimum amount is set to reduce the number of transfers.

Natural Hedge: the concept that cash and the return of investable assets 'naturally' hedge the interest rate risk related to long-term indebtedness.

Negotiated Bid: method of entering into a **swap** agreement where the terms, including the rates, are negotiated between a borrower and the Provider.

Notional Amount: used to determine the amount of the cash flows exchanged (rate x notional amount = payment) based on a contract; most commonly used with **swap** contracts.

Off-Market Swap: a variation of an interest rate swap in which one or both of the referenced rates are priced above or below the market, usually resulting in an upfront payment from one party to the other.

Option Premium: the amount paid by a party in exchange for an option.

Optional Termination: the right of a party to terminate a **swap** at any time at the prevailing market price. In most swap agreements only the **borrower** has this right.

Out of the Money: refers to a party's financial position if it would "owe" a payment to the other party if the contract were terminated at the prevailing market price.

Pledgor: The party which posts collateral under the terms of an **Interest Rate Swap Agreement**.

Provider: the financial institution that enters into a **swap** agreement with a **borrower**, usually a commercial bank, investment bank, or insurance company

Qualified Hedge (relating to the Treasury Reg 1.148(h)(2))**:** An **Interest Rate Swap** jointly executed with a tax-exempt bond issuance allowing the borrower to take into account the payments made or received on the **swap** in the determination of the bond yield for purposes of the arbitrage rules of Code Section 148. Treatment of a qualified hedge under Sections 1.148 (h)(2) is commonly referred to as "simple" integration. *Section 1.148-4(h)(5) contains several additional requirements to be met when the hedge is entered into prior to the issue date of the hedged bond.*

Repurchase Agreement ("Repo"): is a contractual agreement between a borrower, the trustee and a financial institution where the financial institution agrees to pay a fixed guaranteed yield in exchange for receiving the bond fund proceeds. Unlike the GIC, this agreement is collateralized by the provider typically with United States Government Securities.

Safe Harbor: for establishing fair market value for investment contracts and investments purchased for a yield restricted defeasance escrow. The purchase price of an investment contract and the purchase price of an investment purchased for a yield restricted defeasance escrow will be treated as the fair market value of the investment on the purchase date if certain requirements are satisfied.

Schedule to the Master Agreement: schedule amending or supplementing the **ISDA Master Agreement** which sets out the specific business terms and conditions governing the transactions executed under the agreement.

Secured Party: The party which benefits from the collateral posted by the **Pledgor** under the terms of an **Interest Rate Swap Agreement**.

SIFMA: Securities Industry and Financial Markets Association.: a reference to the "Securities Industry and Financial Markets Association Municipal Swap Index" or “SIFMA Index,” which serves as the primary benchmark interest rate for seven-day tax-exempt variable rate demand bonds (VRDB's). SIFMA is a national rate based on a market basket of approximately 200 high-grade, seven-day tax-exempt VRDB issues of $10 million or more.

Strike Rate: in an interest rate **cap** or interest rate **floor**, the pre-determined interest rate that, when reached in the market, automatically triggers a payment under contract.

Super Integration: In contrast to simple **integration** which calls for the inclusion of payments made or received on a swap in the determination of bond yield, *super integration* simply includes the stated fixed rate of the swap.

Swap Counterparty: other side of the **swap**; typically a larger financial services organization that runs a proprietary “swap book.” See **Swap**.

Swap (Interest Rate Swap): a contract between a borrower and a financial institution in which each agrees to make regular payments to the other, based on either fixed or variable interest rates. In a fixed payor swap, the senior living borrower agrees to make regular payments to the financial institution (or **Swap Counterparty**) based on a fixed interest rate in exchange for receiving payments from the swap counterparty based on variable rates, normally measured by **SIFMA** or **LIBOR**. The variable payments received from the Swap Counterparty offset the variable interest rate costs of the borrower’s variable rate debt. See **Fixed Rate Swap** and **Floating Rate Swap**.

Swap Index: floating rate reference—typically **SIFMA** when swapping against tax-exempt bonds and **LIBOR** when swapping against taxable bonds.

Swap Insurance: insurance policy purchased to guarantee obligations on a **swap**, which can be underwritten to insure only the regular scheduled payments under the swap, or also any termination payment that may be required under the swap.

Swaption: a type of **swap** in which the terms of the swap are agreed to in advance and where one party has the right, but not the obligation, to enter into that swap on a future date or during a specified period.

Synthetic Fixed Rate: the resulting rate a borrower will pay on an issue of variable rate obligations after entering into a **fixed rate swap**.

Synthetic Floating Rate: the resulting rate a borrower will pay on an issue of fixed rate obligations after entering into a **floating interest rate swap**.

T**ax Risk:** the risk that the relationship between taxable and tax-exempt rates will change as a result of changes in income tax laws or other conditions.

Termination Date: the scheduled maturity date of the **swap**, when the final payment obligation is made (barring an early termination of the swap).

Termination Risk: the risk that a **swap** will be terminated by the counterparty before maturity, possibly requiring the **borrower** to make a cash termination payment to the counterparty.

Threshold Amount: The amount that the Interest Rate Swap market value must reach before collateral is posted is referred to as the Threshold Amount.

Trade Date: the date on which swap terms are set and the agreement is priced; formal documents are sometimes exchanged some time later.

U**nderlying:** the variable interest rate or index on which the **derivative’s** payments are based. A derivative’s payment is based on the interaction of the **Underlying** and the **Notional Amount**.

Exhibit A

LIQUIDITY RATIOS

Days Cash on Hand	*Unrestricted Cash and Investments / [(Operating Expenses – Depreciation – Amortization) divided by 365]*
Days in Accounts Receivable	*Resident Receivables / (Operating Expenses divided by 365)*
Cushion Ratio	*Unrestricted Cash and Investments / Max Annual Debt Service*

CAPITAL STRUCTURE RATIOS

Debt Service Coverage Ratio	*(Net Operating Income + Depreciation + Amortization + Interest Expense – Earned Entrance Fees + Net Entrance Fee Receipts) / Maximum Annual Debt Service*
Debt Service Coverage Ratio-Adjusted	*(Net Operating Income + Depreciation + Amortization + Interest Expense – Earned Entrance Fees) / Annual Debt Service*
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio	*Annual Debt Service /(Total Operating Revenues + Net Nonoperating Gains and Losses)*
Unrestricted Cash and Investments to Debt	*(Unrestricted Cash and Investments + Unrestricted Non-current Cash and Investments) / (Long-term Debt, less Current Portion)*
Long-term Debt as a Percentage of Total Capital Ratio	*(Long-term Debt, less Current Portion) /(Long-term Debt, less Current Portion + Unrestricted Net Assets)*
Long-term Debt as a Percentage of Total Capital Ratio-Adjusted	*(Long-term Debt, less Current Portion)/(Long-term Debt, less Current Portion + Unrestricted Net Assets + Deferred Revenue from Entrance Fees) note: Nonrefundable Entry Fees Only*
Long Term Debt to Total Assets	*(Long Term Debt, less Current Portion) / Total Assets*
Average Age of Facility	*Accumulated Depreciation / Depreciation Expense*
Capital Expenditures as a Percentage of Depreciation	*Purchases of Property, Plant & Equipment/Depreciation Expense*

PROFITABILITY RATIOS

Operating Margin	*(Income or Loss from Operations − Contributions) / Total Operating Revenues*
Operating Ratio	*(Total Operating Expenses − Depreciation Expense − Amortization) /(Total Operating Revenues − Earned Entrance Fees)*
Total Excess Margin Ratio	*Total Excess of Revenues over Expenses / Total Operating Revenue and Net Nonoperating Gains and Losses*
Net Operating Ratio Margin Ratio	*(Resident Revenue − Resident Operating Expenses + Interest, Depreciation, Taxes, and Amortization Expenses) / Resident Revenue*
Net Operating Margin Ratio-Adjusted	*(Resident Revenue + Net Proceeds from Entry Fees − Operating Expenses + Interest, Depreciation, Taxes, and Amortization Expenses) / (Resident Revenue + Net Proceeds from Entry Fees)*

END NOTES