

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Stock indexes ended the week with varying results. For the third consecutive week, the technology-heavy Nasdaq Composite Index performed well and reached a new all-time high to start the week. All major equity indexes are in positive territory year-to-date. The week brought some key economic data releases, but these also seemed to have little impact on overall sentiment. The Friday report on April payrolls, which showed a rebound in job gains following a slump the previous month. The strong jobs report reinforced expectations of a June rate hike.

The muni market showed strength while digesting a notable development in the market for bonds from Puerto Rico. The U.S. territory's financial oversight board filed a petition during the week with the U.S. District Court in Puerto Rico with the goal of U.S. assistance in restructuring approximately \$51 billion in debt issued directly by the island's government. It represents the largest restructuring of municipal debt in U.S. history. The choice to file a petition under Title III of PROMESA—the legislation that Congress passed a year ago to help Puerto Rico return to fiscal solvency—came after the Puerto Rico was not able to influence a voluntary repayment agreements with its creditors during a stay-on-litigation period that expired on This month. To avoid setting a negative precedent for the broader muni market, we advocate that the final recovery value for the several classes of securities holders adheres to the hierarchy of liens of the original debt.

As always, the Fed meeting had the bond markets attention – in the end the Fed meeting was a non-event as the fixed income market trend of mixed results continued. The 10-year Treasury Note yield finished the week four basis points higher at 2.35%. The 30-year Bond yield finishing the week two basis points lower at 2.98%. In the back drop of additional supply and the above discussed Puerto Rico filing, municipals traded off slightly for the week. 10-year MMD closed three basis points higher at 2.17% and 30-year MMD moved one basis points higher to finish at 3.03%. Tax-exempt bond funds reported inflows on the week of \$127 million. The four-week tax exempt fund flow moving average remains firmly positive at \$547 million.

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SENIOR VICE PRESIDENT

See pages 4-5 for current market rates

Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.

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FEATURED ARTICLE

THE EVOLVING PACE MARKETPLACE

The Program of All-Inclusive Care for the Elderly (“PACE”) began with On Lok Senior Health Services in 1938 and was then subsequently authorized by Congress as a permanent Medicare provider and Medicaid state option in the Balanced Budget Act of 1997. Since then, PACE has been a successful fully integrated Medicare and Medicaid program for nursing-home eligible seniors.

Today, PACE has 115 programs in 32 states serving 35,000 beneficiaries.¹ While existing PACE programs are growing and new PACE programs are being developed, this rate of growth will not fully support the more than 9 million dual-eligible individuals, many of whom have multiple chronic conditions and could benefit from PACE. The National PACE Association (NPA) has estimated that PACE programs could serve 182,000 beneficiaries if the current programs are granted appropriate access and achieve their target market penetration levels.

In June 2015, CMS (Centers for Medicare and Medicaid Services) found that there was no difference in costs and quality of care between not-for-profit and for-profit PACE programs. CMS sent these findings to Congress and has since allowed for the existence of for-profit PACE programs. This has led to increased investor enthusiasm on how to scale PACE including jumpstarting growth from an adult day care platform, seeking joint ventures to achieve economies of scale in back office operations, and analyzing market opportunities for multi-state PACE programs in urban and rural areas.

Headwinds to PACE Program Growth

In order to serve the dual eligible population, competing models of care to the traditional PACE model are developing. Current care models include Dual Eligible Plans, Independence at Home Practices, Accountable Care Organizations (ACOs), and others. In particular, the Independence at Home Demonstration of home-based primary care showed significant savings of approximately \$3,000 per year when caring for a population that is similar in frailty to PACE.² PACE programs must continue to communicate their value proposition to beneficiaries and payers in this evolving competitive landscape.

CMS has been actively testing new models of care for dual-eligible individuals and granting greater flexibilities, but has not yet adopted a similar approach to its regulation of PACE programs. The PACE community is waiting for CMS to publish a proposed rule to grant greater operational flexibility and reduce administrative burden. For example, PACE requires that waivers be requested for the utilization of nurse practitioners and community physicians, while other Medicare Advantage and Financial Alignment Demonstration programs do not have such parameters.

Opportunities to Achieve Growth and Scale

In order to achieve scale, PACE sponsors can aggressively pursue expansion where demand exists and fully utilize all available flexibilities such as the use of nurse practitioners, community physicians and alternative care settings. PACE sponsors can also actively explore business relationships with health plans, ACOs and employers, maximizing care management capabilities to serve broader populations in partnership with others payers serving this patient population.

In closing, PACE programs have been a growing resource for today’s seniors and it is anticipated that the future will provide an even greater expansion of PACE options for consumers. Ziegler will continue to follow changes in the PACE marketplace, new models of PACE oversight and innovative PACE partnerships.

For further information on Ziegler, or anything included in this article, please contact the Ziegler banker in your region.

CHRIS HENDRICKSON
MANAGING DIRECTOR
ZIEGLER HEALTHCARE CORPORATE FINANCE

Sources:

¹ National PACE Association

² Centers for Medicare and Medicaid Services

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

MAY 2 - 8, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
No Ratings Actions to Report This Week.				

This ratings table represents review of the reports released by Fitch Ratings, Standard & Poor's, and Moody's Investors Service and has been compiled by Ziegler Investment Banking.

IN YOUR CORNER

LEADINGAGE ARIZONA ANNUAL CONFERENCE & EXPO

We-Koo-Pa Resort & Conference Center
 Scottsdale, Arizona
 May 31 – June 2, 2017

Session 10

The Uncertain Future of Skilled Nursing
 Thursday, June 1, 2017 | 10:15 am - 11:45 am
 Ziegler Participants: Mary Muñoz & Daren Bell

INTEREST RATES

FOR THE WEEK ENDING MAY 5, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.03%	3.01%	2.66%
Senior Living 30-Yr "A"	4.08%	4.06%	3.67%
Senior Living 30-Yr "BBB"	4.53%	4.51%	4.04%
Senior Living Unrated	5.28%	5.26%	4.79%
Senior Living New Campus	6.75%	6.75%	6.48%
SIFMA Muni Swap Index	0.85%	0.90%	0.62%

Source: Ziegler Capital Markets

FEATURED FINANCING



Montgomery Place
 Engaged Living

\$31,085,000

Illinois Finance Authority
 Revenue Refunding Bonds, Series 2017

MONTGOMERY PLACE

Chicago, Illinois

MARKET REVIEW

MONEY MARKET RATES

	5/05/17	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.00	4.00	4.00	3.50
Federal Funds (weekly average)	0.91	0.90	0.90	0.37
90 Day T-Bills	0.88	0.79	0.81	0.18
30-Day Commercial Paper (taxable)	0.83	0.84	0.86	0.34
Libor (30-day)	0.99	0.99	0.98	0.43
7 Day Tax-Exempt VRDB	0.85	0.90	0.88	0.39
Daily Rate Average	0.75	0.90	0.85	0.24

COMPARATIVE YIELDS

TAXABLE REVENUE				TAX-EXEMPT REVENUE							
	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.09	2.25	1.57	1 Year	0.86	2.61	2.25	2.36	1.76	1.36	1.11
5 Year	1.88	4.25	2.73	5 Year	1.41	3.41	3.25	3.06	2.56	2.16	1.81
7 Year	2.16	4.75	3.36	7 Year	1.71	3.81	3.80	3.61	3.11	2.71	2.31
10 Year	2.34	5.00	3.55	10 Year	2.17	4.42	4.40	4.12	3.67	3.22	2.77
30 Year	2.98	6.25	4.45	30 Year	3.03	5.28	5.15	4.98	4.53	4.08	3.63
				5 year ADJ RATE	4.25						

(* Representative of recent non-rated issues underwritten by Ziegler retail sales); (** Representative of institutional sales.)

TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE	2017 HIGH	LOW
Bond Buyer					
20 Bond Index	3.82	3.82	.00	4.02	3.72
11 Bond Index	3.33	3.33	.00	3.53	3.22
Revenue Bond Index	4.03	4.02	+.01	4.17	3.83
30 Year MMD	3.03	3.01	+.02	3.24	2.88
Weekly Tax-Exempt Volume (Bil)	5.95	6.51	-.56	7.68	2.23
30 Day T/E Visible Supply (Bil)	11.18	9.09	+2.09	13.37	5.50
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	136.91	135.78	+1.13	147.05%	120.39%

INTEREST RATE COMPARISON

DATE	7-DAY T/E VRDB	PRIME RATE	FED FUNDS WEEKLY AVG.	13-WEEK T-BILL RATE	C.P.RATE TAXABLE	LIBOR (30-DAY)	30-YEAR T/E BONDS (A-AAA)		
05/05/17	0.85	4.00	0.91	0.88	0.83	0.99	4.08	-	3.63
04/28/17	0.90	4.00	0.90	0.79	0.84	0.99	4.06	-	3.61
04/21/17	0.92	4.00	0.90	0.78	0.83	0.98	3.95	-	3.50
04/14/17	0.89	4.00	0.90	0.79	0.81	0.99	4.01	-	3.51
04/07/17	0.88	4.00	0.90	0.81	0.86	0.98	4.09	-	3.59
03/31/17	0.91	4.00	0.88	0.76	0.80	0.98	4.13	-	3.63
03/24/17	0.79	4.00	0.90	0.76	0.82	0.98	4.17	-	3.67
03/17/17	0.71	4.00	0.75	0.73	0.82	0.94	4.30	-	3.80
03/10/17	0.62	3.75	0.66	0.72	0.79	0.85	4.34	-	3.84
03/03/17	0.62	3.75	0.64	0.69	0.65	0.83	4.26	-	3.76
02/24/17	0.65	3.75	0.66	0.49	0.60	0.78	4.09	-	3.69
02/17/17	0.65	3.75	0.66	0.52	0.59	0.77	4.23	-	3.73
02/03/17	0.65	3.75	0.64	0.49	0.61	0.78	4.35	-	3.55
01/06/17	0.68	3.75	0.62	0.51	0.62	0.76	4.40	-	3.55
12/02/16	0.56	3.50	0.38	0.47	0.50	0.62	4.80	-	3.85
11/04/16	0.56	3.50	0.38	0.37	0.40	0.53	3.55	-	2.85
10/07/16	0.87	3.50	0.40	0.31	0.39	0.52	3.30	-	2.75
09/02/16	0.56	3.50	0.38	0.32	0.39	0.52	2.75	-	2.40
08/05/16	0.44	3.50	0.40	0.26	0.36	0.49	2.90	-	2.45
07/01/06	0.41	3.50	0.39	0.25	0.37	0.46	2.85	-	2.35
06/03/16	0.39	3.50	0.35	0.27	0.38	0.46	3.20	-	2.70
05/06/16	0.39	3.50	0.37	0.18	0.34	0.43	3.30	-	2.90

Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.