

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

In a jam-packed earnings and political events week equities produced varied results. The S&P 500 Index continued its run of weekly gains to eight with its year-to-date return is approaching 16%. Late in the week, Apple, the largest firm by market capitalization, reported results that generally surpassed analysts' outlooks, providing a lift to the technology-focused Nasdaq Composite Index and pushing its year-to-date gains to 25%. The small-cap indexes sold off, continuing a trend of soft performance that has been in place since the end of the summer.

On the political front, in what market participants considered to be growth positive, Republican House leaders released their draft bill on Thursday, which contained an immediate cut in the top corporate rate to 20%. Less constructive for the market is the draft legislation also contained a tax on repatriated profits and restrictions on the deductibility of interest expenses. Lastly, the administration announced its nomination of Federal Reserve Governor Jerome Powell to become the next Chairman of the Central Bank. The consensus on Powell is that he is most likely to follow his predecessor's measured approach to rate hikes.

The fixed-income markets rallied on the week with Longer-term Treasury yields decreasing from multi-month highs in reaction to both Powell's nomination and mixed economic results. Consumer spending increased at a steady pace in September, and the Conference Board reported that its measurement of consumer confidence had reached its highest level since the turn of the century. Municipal bonds posted flat returns in a relatively quiet week.

The week's municipal market's price action was overshadowed by the House tax plan. The plan spared the asset class's tax exemption, but it did cut the sale of municipal bonds for private activity bonds and advance refundings (an important cost saving tool for local projects). If passed in its current form, by some estimations, this would shrink the municipal market by a third as hospitals, retirement communities, professional sports stadiums, charter schools and privately run infrastructure projects, such as toll roads and airports, would be ineligible to access the tax-exempt market.

In a reversal of the trend, investors in municipal bond funds pulled cash out in the latest week, according to Lipper data released late Thursday. The weekly reporters saw \$655 million of outflows in the week of Nov. 1, after inflows of \$262 million in the previous week.

ADAM J. BUCHANAN
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

WHAT SENIOR LIVING PROVIDERS NEED TO KNOW ABOUT THREATS TO TAX-EXEMPT DEBT

Not-for-profit senior living providers around the country have mobilized in response to advocacy alerts from Ziegler, LeadingAge, their respective state associations and others regarding the Tax Cuts and Jobs Act (the “Bill”) put forth last week by the House Ways & Means Committee. While the Bill addresses a wide range of issues—from individual tax deductions to corporate tax rates—it contains several specific items with potentially severe effects on the not-for-profit senior living sector, including the elimination of so-called “private activity” tax-exempt bonds (PABs), advance refundings (bond refinancings prior to a call date) and tax credit bonds. Applying to **all 501c3 bonds** effective **December 31, 2017**, the Bill’s effects will cut across all sectors in the not-for-profit realm, including senior housing, low-income housing, healthcare, higher education and more.

To further alert our readers to the potential impacts of the Bill, consider:

- PABs are the primary source of capital utilized by all 501c3 organizations (including not-for-profit senior living providers as well as colleges and universities, health systems and other not-for-profit organizations).
- PABs represented about 70% of the capital raised for not-for-profit senior living providers in 2016 and 2017.¹
- Based on historical differences between taxable and tax-exempt rates, it is estimated that the elimination of PABs would cost borrowers approximately an additional \$3 million for a 30-year bond issuance for every \$10 million in bonds.²
- For those with existing tax-exempt bonds, the Bill includes the elimination of advance refundings, a strategy that many providers use to refinance outstanding debt in order to lower the cost of capital.
- Non-Bank Qualified (NBQ) bonds will be eliminated as well, and all future bank debt for not-for-profit providers would have to be issued at taxable rates. Additionally, future interest rate resets of NBQ tax-exempt bonds could be in jeopardy of being pushed into higher taxable rates.
- Bank Direct Placement Agreements will be impacted as well if there is a change in the corporate tax rate. Read [here](#) for more details on the bank direct placement agreements and the “Increased Cost” provision relating to existing agreements.

We continue to encourage everyone to contact their respective Congressional and Senate representatives regarding the key issues that will specifically impact the not-for-profit senior living sector. Urge them to:

- Maintain PAB funding for not-for-profit, 501c3 organizations, including senior living providers
- Maintain the exemption for Multifamily Housing Bonds and the 4% Low-Income Housing Tax Credit
- Maintain the medical expense deduction
- Maintain the charitable deduction (currently retained in the Nov. 2 version of H.R. 1)

Please take time to reach out to your **elected officials**. If the Bill were to become law, the impact could be highly detrimental to the viability of the not-for-profit senior living sector, among others. If you have questions about your specific situation, you are welcome to reach out to your Ziegler banker.

Thank you for your immediate time and attention to this situation.

LISA McCRACKEN
DIRECTOR
SENIOR LIVING RESEARCH & DEVELOPMENT

Sources:

¹ Thomson Financial Securities; Ziegler Investment Banking, 2017

² GilmoreBell, 11/6/17

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

OCTOBER 31 - NOVEMBER 6, 2017

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Life Enriching Communities (OH)	S&P	BBB- Stable	Downgraded Rating	11/1/17
Carpenter's Home Estates (FL)	Fitch	BBB- Stable	Affirmed Rating	11/2/17
Lutheran Social Ministries at Crane's Mill (NJ)	Fitch	BBB+ Stable	Upgraded Rating Revised Outlook	11/6/17

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 PENNSYLVANIA FALL FINANCE CONFERENCE

Masonic Village at Elizabethtown Freemasons Cultural Center
 Elizabethtown, PA
 November 16, 2017

A Focus on Finance in 2017 & the Year Ahead

Breakout 2 | Thursday, November 16 | 1:30 -2:45 pm
 Ziegler Participant: Chad Himel

INTEREST RATES

FOR THE WEEK ENDING NOVEMBER 3, 2017

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.80%	2.84%	2.91%
Senior Living 30-Yr "A"	3.65%	3.74%	4.00%
Senior Living 30-Yr "BBB"	3.90%	3.99%	4.42%
Senior Living Unrated	4.60%	4.64%	5.04%
Senior Living New Campus	6.50%	6.50%	6.72%
SIFMA Muni Swap Index	0.92%	0.92%	0.76%

Source: Ziegler Capital Markets

FEATURED FINANCINGS

\$44,140,000

California Municipal Finance Authority,
 Insured Revenue Bonds, Series 2017B

CHANNING HOUSE

Palo Alto, California


\$53,587,764

Refunding
 Bank Direct Purchase

PASSAVANT RETIREMENT AND HEALTH CENTER dba LUTHERAN SENIORLIFE PASSAVANT COMMUNITY

Zelienople, Pennsylvania

MARKET REVIEW

MONEY MARKET RATES

	11/03/17	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.25	4.25	4.25	3.50
Federal Funds (weekly average)	1.14	1.16	1.16	0.38
90 Day T-Bills	1.17	1.09	1.04	0.37
30-Day Commercial Paper (taxable)	1.13	1.14	1.10	0.40
Libor (30-day)	1.24	1.23	1.23	0.53
7 Day Tax-Exempt VRDB	0.92	0.92	0.92	0.56
Daily Rate Average	0.91	0.93	0.83	0.51

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.46	2.00	2.06	1 Year	1.03	2.28	2.35	2.18	1.78	1.48	1.28
5 Year	2.00	4.25	3.00	5 Year	1.43	2.83	3.30	2.68	2.43	2.08	1.83
7 Year	2.19	4.75	3.54	7 Year	1.67	3.32	3.75	3.07	2.77	2.47	2.17
10 Year	2.34	5.00	3.74	10 Year	2.00	3.80	4.20	3.50	3.10	2.85	2.50
30 Year	2.82	6.25	4.47	30 Year	2.80	4.60	4.87	4.30	3.90	3.65	3.30
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	3.67	3.65	+0.02	4.02	3.49
11 Bond Index	3.17	3.16	+0.01	3.53	3.00
Revenue Bond Index	4.04	3.98	+0.06	4.17	3.70
30 Year MMD	2.80	2.84	+0.04	3.24	2.66
Weekly Tax-Exempt Volume (Bil)	4.56	8.32	-3.76	8.32	0.46
30 Day T/E Visible Supply (Bil)	7.36	5.30	+2.06	13.37	3.67
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	129.43	127.64	+1.79	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)		
11/03/17	0.92	4.25	1.14	1.17	1.13	1.24	3.65	-	3.30
10/27/17	0.92	4.25	1.16	1.09	1.14	1.23	3.74	-	3.44
10/20/17	0.91	4.25	1.16	1.09	1.15	1.23	3.59	-	3.29
10/13/17	0.91	4.25	1.16	1.07	1.13	1.23	3.68	-	3.38
10/06/17	0.92	4.25	1.16	1.04	1.10	1.23	3.73	-	3.43
09/29/17	0.94	4.25	1.16	1.05	1.09	1.23	3.75	-	3.45
09/22/17	.0.88	4.25	1.16	1.02	1.10	1.23	3.70	-	3.40
09/15/17	0.82	4.25	1.16	1.03	1.11	1.23	3.66	-	3.36
09/08/17	0.78	4.25	1.16	1.03	1.11	1.23	3.56	-	3.26
09/01/17	0.79	4.25	1.14	0.99	1.11	1.23	3.60	-	3.30
08/25/17	0.78	4.25	1.16	1.01	1.10	1.23	3.63	-	3.33
08/18/17	0.77	4.25	1.16	0.99	1.07	1.22	3.67	-	3.37
08/04/17	0.79	4.25	1.14	1.07	1.12	1.23	3.61	-	3.31
07/07/17	0.86	4.25	1.16	1.03	1.08	1.22	3.82	-	3.42
06/02/17	0.76	4.00	0.89	0.95	0.86	1.08	3.75	-	3.35
05/05/17	0.85	4.00	0.91	0.88	0.83	0.99	4.08	-	3.63
04/07/17	0.88	4.00	0.90	0.81	0.86	0.98	4.09	-	3.59
03/03/17	0.62	3.75	0.64	0.69	0.65	0.83	4.26	-	3.76
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

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