

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

ONE MONTH INTO THE NEW TAX BILL: ZIEGLER OBSERVATIONS FROM THE FIELD

As we all know, 2017 came to a close with the adoption of the Tax Cuts and Jobs Act, signed into law by the President on December 22. While the new tax bill brings forth a number of changes, there are specific items that impact not-for-profit senior living organizations. The summary below provides a recap of the changes, as well as an update on what is being observed in terms of pricing amendments due to increasing bank rates in particular.

Elimination of Advance Refundings

While private activity bonds (i.e., tax-exempt bonds) were preserved in the final bill, advance refundings of private activity bonds (which is a way to prepay higher cost debt) were eliminated. For many years, many not-for-profit organizations utilized this option to take advantage of lower-rate environments and refinance debt in advance of the call date (the date when a bond can be prepaid prior to its maturity). That is no longer an option with the new tax law and this translates into increased cost of capital. Many alternatives to advance refundings could include solutions such as “Cinderella bonds” or forward delivery bonds while bonds being structured for the future could utilize shorter calls periods and make whole calls to name a few.

It should be noted that on February 14, Representatives Randy Hutfreder (R-IL), Dutch Ruppersberger (D-MD) and Luke Messer (R-IN) introduced bipartisan legislation, H.R. 5003, that would fully reinstate municipal advance refundings including private activity bonds and qualified 501c (3) bonds. As reported by the Bond Dealers of America, “2018 will be pivotal in this effort as Congress is expected to produce multiple technical fix packages in response to the passage of the Tax Cuts and Jobs Act and is working towards a robust debate on infrastructure.” We encourage providers to continue to contact Members of Congress.

Impact of Change in Corporate Tax Rate

Bank direct purchase bonds have been very popular in recent years, particularly post-recession. Rates have been quite competitive and today, it's not uncommon for a bank commitment period to be 10 years or even longer, a timeframe not seen prior to the recession. While for-profit corporations are benefitting from a reduction in the corporate tax rate to 21%, the reduction diminishes the tax benefit to banks, and therefore their profitability, for holding tax-exempt loans. Banks, in turn, feel pressure to increase their rates to borrowers using the so called “increased cost provisions” of their lending document. Many organizations have already received notice from their lenders that rates are going up, with many working retroactively back to January 1. Bank financings were generally being priced at 67%-70% of LIBOR prior to the new tax bill. Today, those rates are closer to 79%-83% of LIBOR. While this, again, means a higher cost of capital, it is anticipated that bank debt will continue to be a popular option throughout 2018, particularly for those seeking variable interest rate capital. As the cost difference between short-term debt and long-term fixed interest rates continues to narrow, not-for-profit organizations are expected to give greater consideration to fixed-rate bond issuances over bank debt for longer-term capital needs.

In addition to the changes that may occur to the bank loan due to the tax reform, tax-exempt borrowers who have utilized an interest rate swap to manage interest rate risk related to the loan may also want to consider amending the hedge to bring it back in line with the new interest rate formula of the bank loan. The swap is an independent contract and will not automatically adjust so a voluntary amendment should be evaluated. If nothing is done to the swap, the borrower will be under-hedged relative to its original risk management objective. Ziegler will continue to work with its borrowers to navigate these potential changes to their bank and swap agreements. For new debt, we will explore alternative financing options and structures as the tax environment changes and will remain committed to helping individual organizations identify what options will best meet their needs.

If you have any questions related to this article and the changing tax law or any other issues, please contact the Ziegler banker in your region.

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CAPITAL :: INVESTMENTS :: ADVICE

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

FEBRUARY 5 - 12, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Montereau (OK)	Fitch	BBB-Stable	Affirmed Rating	2/8/18

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.

INTEREST RATES

FOR THE WEEK ENDING FEBRUARY 9, 2018

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.97%	2.93%	2.83%
Senior Living 30-Yr "A"	3.77%	3.73%	3.77%
Senior Living 30-Yr "BBB"	4.07%	4.03%	4.17%
Senior Living Unrated	4.77%	4.73%	4.81%
Senior Living New Campus	6.50%	6.50%	6.64%
SIFMA Muni Swap Index	0.98%	1.08%	0.91%

Source: Ziegler Capital Markets

IN YOUR CORNER
2018 ZIEGLER & LEADINGAGE MASSACHUSETTS SENIOR LIVING SYMPOSIUM

Crowne Plaza
Natick, MA
March 15, 2018

[*Click here for more information*](#)

LEADINGAGE PEAK LEADERSHIP SUMMIT

Marriott Wardman Park Hotel
Washington, D.C.
March 18-21, 2018

Ziegler Participants: Amy Castleberry & Keith Robertson
Tuesday, March 20 | 8:00 - 9:30 am
Session: 16-D: CFO Forum

Ziegler Participant: Dan Hermann
Tuesday, March 20 | 8:00 - 9:30 am
Session: 15-D: Technology Forum

Ziegler Participant: Tom Meyers
Tuesday, March 20 | 10:00 - 11:30 am
Session: 17-E: Panel of Pundits: New Partnership Opportunities

MARKET REVIEW

MONEY MARKET RATES

	2/09/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.50	4.50	4.50	3.75
Federal Funds (weekly average)	1.41	1.39	1.41	0.66
90 Day T-Bills	1.55	1.48	1.41	0.53
30-Day Commercial Paper (taxable)	1.50	1.49	1.51	0.61
Libor (30-day)	1.57	1.57	1.55	0.77
7 Day Tax-Exempt VRDB	0.98	1.08	1.31	0.65
Daily Rate Average	0.89	1.01	1.26	0.56

COMPARATIVE YIELDS
TAXABLE REVENUE

	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	1.87	2.00	2.37	1 Year	1.33	2.58	2.54	2.48	2.08	1.78	1.58
5 Year	2.54	4.25	3.44	5 Year	1.92	3.32	3.55	3.17	2.87	2.57	2.32
7 Year	2.75	4.75	3.90	7 Year	2.15	3.80	3.88	3.55	3.25	2.95	2.65
10 Year	2.85	5.00	4.20	10 Year	2.42	4.22	4.30	3.92	3.52	3.22	2.92
30 Year	3.16	6.25	4.76	30 Year	2.97	4.77	4.87	4.47	4.07	3.77	3.47

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	2018 HIGH	LOW
Bond Buyer					
20 Bond Index	3.73	3.72	+01	3.73	3.44
11 Bond Index	3.23	3.22	+01	3.23	2.94
Revenue Bond Index	4.22	4.21	+01	4.22	2.92
30 Year MMD	2.97	2.93	+04	2.93	2.56
Weekly Tax-Exempt Volume (Bil)	2.59	5.08	-2.49	5.56	0.71
30 Day T/E Visible Supply (Bil)	2.98	4.36	-1.38	7.16	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	119.68	121.89	-2.21	124.02%	120.43%

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)		
02/09/18	0.98	4.50	1.41	1.55	1.50	1.57	3.77	-	3.47
02/02/18	1.08	4.50	1.39	1.48	1.49	1.57	3.73	-	3.43
01/26/18	1.16	4.50	1.41	1.42	1.50	1.56	3.58	-	3.28
01/19/18	1.23	4.50	1.41	1.42	1.51	1.55	3.51	-	3.21
01/12/18	1.31	4.50	1.41	1.41	1.51	1.55	3.51	-	3.21
01/05/18	1.47	4.50	1.41	1.40	1.50	1.55	3.36	-	3.06
12/29/17	1.71	4.50	1.38	1.35	1.49	1.56	3.35	-	3.05
12/22/17	1.40	4.50	1.41	1.34	1.65	1.53	3.50	-	3.20
12/15/17	1.11	4.50	1.15	1.29	1.40	1.49	3.37	-	3.07
12/08/17	1.00	4.25	1.16	1.27	1.30	1.43	3.29	-	2.99
12/01/17	0.97	4.25	1.13	1.26	1.18	1.37	3.59	-	3.29
11/24/17	0.96	4.25	1.16	1.26	1.15	1.32	3.61	-	3.26
11/03/17	0.92	4.25	1.14	1.17	1.13	1.24	3.65	-	3.30
10/06/17	0.92	4.25	1.16	1.04	1.10	1.23	3.73	-	3.43
09/01/17	0.79	4.25	1.14	0.99	1.11	1.23	3.60	-	3.30
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

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