

ZIEGLER CREDIT SURVEILLANCE

COVID-19 DISCLOSURE RECOMMENDATIONS

SENIOR LIVING/CCRCS

SUMMARY

Ziegler Credit Surveillance is looking to facilitate better borrower disclosure for the benefit of investors in light of the COVID-19 pandemic, especially related to any financial impact that will appear with upcoming disclosure throughout the rest of 2020 (and probably further on).

Investors overall are satisfied with borrower disclosure related to COVID-19 so far. The sentiment from your bondholders is that the senior living sector, and Ziegler credits in particular, are doing a good job of disclosure on COVID-19 issues. Investors do appreciate and notice your efforts. The more transparency and information you provide, the more willing and able they will be to help solve problems such as covenant violations if they arise in the future.

The following is a list of recommendations for the upcoming 6/30 financial packages. This list may look intimidating, but it is not our intention to create additional burden for management teams. On the contrary, we hope to save time for both you and investors by providing data in a public forum before investors need to ask questions. Realistically, we only expect you to provide data that you already have for your own purposes, and answer the questions that will not take much time or effort on your part. For example, many borrowers have told us that they are tracking COVID expenses for PPP forgiveness. Including the data you've already gathered will help answer many of the financial questions. While financial packages nominally cover the period ending 6/30, in this case you should post more timely information as available, such as current number of cases and occupancy.

Going forward we would recommend that all borrowers include a Management Discussion & Analysis section. In the near-term, investors are most concerned about COVID cases and response, liquidity, and marketing. In a post-COVID world, they will appreciate insights into the issues that you feel are most important. The below list of questions can be answered in an MD&A, or feel free to copy/paste questions along with their answers directly into your EMMA posting.

We believe that, for now, borrowers should post current case counts to EMMA every two or three weeks, even if there are zero cases. We believe this cadence is not overly burdensome to you, while providing timely information to them.

Investors may request monthly financial packages in certain cases. Keep in mind that they will not necessarily need you to prepare a package as thorough as your normal quarterly package. Generally, an income statement, entrance fee collection data, and a current occupancy and liquidity position will satisfy these requests.

Finally, we understand that much of what we are asking here is forward looking. Please be direct with your opinions and assumptions. Investors understand that the future impact of COVID is impossible to accurately predict right now. However, your projections and estimates are very helpful when trying to understand the operating and financial implications.

RECOMMENDATIONS

COVID-19 CASE TIMELINE

- First case for residents and/or staff
- High point of active cases
- Last case cleared
- Restricted period start date/reopened visitations date
- Restricted period start date/reopened admissions date
- Cumulative case number and fatalities, for employees and staff, as well as active cases. Example follows:

	Cumulative Total Cases	Active Cases	Recovered	Fatalities
Residents				
Employees				

GENERAL OPERATIONS OVERVIEW

- What are your entrance fee refund policies? What is the mix of refund percentages?
- What is the actual number of units in each level of care?
- What is the split in nursing of LTC vs short-term/rehab units? What is the breakdown of private vs semi private rooms, and have you changed that mix recently?
- How reliant is SN occupancy on outside admissions?
- Do you provide therapy services in house? If not, to whom do you outsource?
- What are payor rates by source?
- Has PDPM had a positive/negative/neutral impact on Medicare rates?
- What is your current CMS star rating?

MARKETING

- How has your marketing message/tactics changed?
- Please show move-ins for each month as well as new deposits.
- How much of marketing recovery is prior demand that is coming back vs new demand?
- Have you resumed tours? Are potential residents participating?
- Has there been an impact on your reputation in the marketplace due to COVID-19?
- What does the pipeline look like, compared to normal?
- Has there been contact with wait-listers? Are they still willing to move in?
- Have existing depositors canceled?

LOCAL AREA OVERVIEW

- What admissions and testing guidelines have been issued by your local government?
- What phase of reopening is the local area in? What would need to happen to bring that forward or backward?
- Approximately how many cases have there been in the area, and what is the trend?
- How is the local real estate market performing?

OPERATIONS

- What is the current reopening plan/schedule, if any? If there are restrictions on new move-ins, what are they?
- How long were admissions impacted? If admissions halted, was that self-imposed or government mandated?
- Who are the referring hospitals for SN? What does their occupancy look like and have they resumed elective surgeries?
- Was a designated COVID-19 ward set up, and is it still operating?
- What are your policies regarding employees who treat COVID-19 patients?
- What quarantine measures have you enacted in the different levels of care, and have they loosened?
- What are your testing and screening procedures? What are the associated costs, and will there be any assistance in covering those costs?
- Are residents satisfied? How is morale among residents/staff? Have you conducted any surveys?
- What actions have you taken to keep resident and staff morale up?
- Are you considering changes to your business model going forward that you are willing to share?

FINANCIAL

- Expense items
 - Will additional expenses be passed on to residents in any way?
 - What expense items have increased due to COVID-19, and by how much? Do you anticipate any expenses remaining higher post COVID-19, such as PPE?
 - How will partial openings impact margins?
 - How are employees faring? Are you providing increased pay/flexibility? Have employees chosen to leave permanently for financial/family reasons?
- Loan/Grant items
 - Have you applied/received PPP, and what amount? If not, why (e.g. over 500 employees)?
 - Do you expect the grant to be fully forgiven? Is there uncertainty around any items pertaining to forgiveness, such as an affiliation?
 - Have you received HHS grant money, and in what amount?
 - If possible, please break out COVID-19 expenses from normal operating expenses on the income statement. Also, break out any amortization income of HHS/PPP funds.
- Do you have any supplemental liquidity sources, such as undrawn lines of credit or potential sponsor assistance?
- Please include detailed coverage calculations, not just the end figure
 - If you generally only provide trailing twelve month statements or calculations, please break out at least the last quarter.
 - Even if the covenant is not tested as of 6/30, it is helpful to see the calculation.
 - Please clearly show any impact that PPP/HHS grant funds have on calculations.
- Please provide information on entrance fee collection and refunds.
- What would the financial impact be of no new outside nursing admissions?
- For Borrowers with FYEs before 12/31, will your budgets or audits be delayed?
- If you think you may need to ask bondholders for concessions, such as waivers or amendments to the MTI, please describe the situation. The more advance warning provided, the easier that process will be.
- Are you current on your underlying monthly bond payments to the Trustee?

CONSTRUCTION/FILL UP

- If you were planning any major future projects, are those plans on hold or on track? Is routine cap ex progressing as planned?
- Are there any restrictions on construction due to the virus?
- Has getting licenses/inspections/permits been a challenge?
- Do you anticipate any remaining contingency funds to help cover interest during an extended fill up?
- When does capitalized interest run out?
- How far behind the feasibility forecast is construction and/or move ins
- Please separate initial entrance fee collection from turnover entrance fees, if applicable
- Keep in mind that, even if an expansion was financed with a bank placement, existing fixed rate holders should receive the same information on the project.

ZIEGLER CREDIT SURVEILLANCE AND ANALYTICS

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ANALYST CERTIFICATION

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COVID DISCLOSURE

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