CAPITAL MARKET UPDATE

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Senior Living New Issue Rates as of 3/13/18

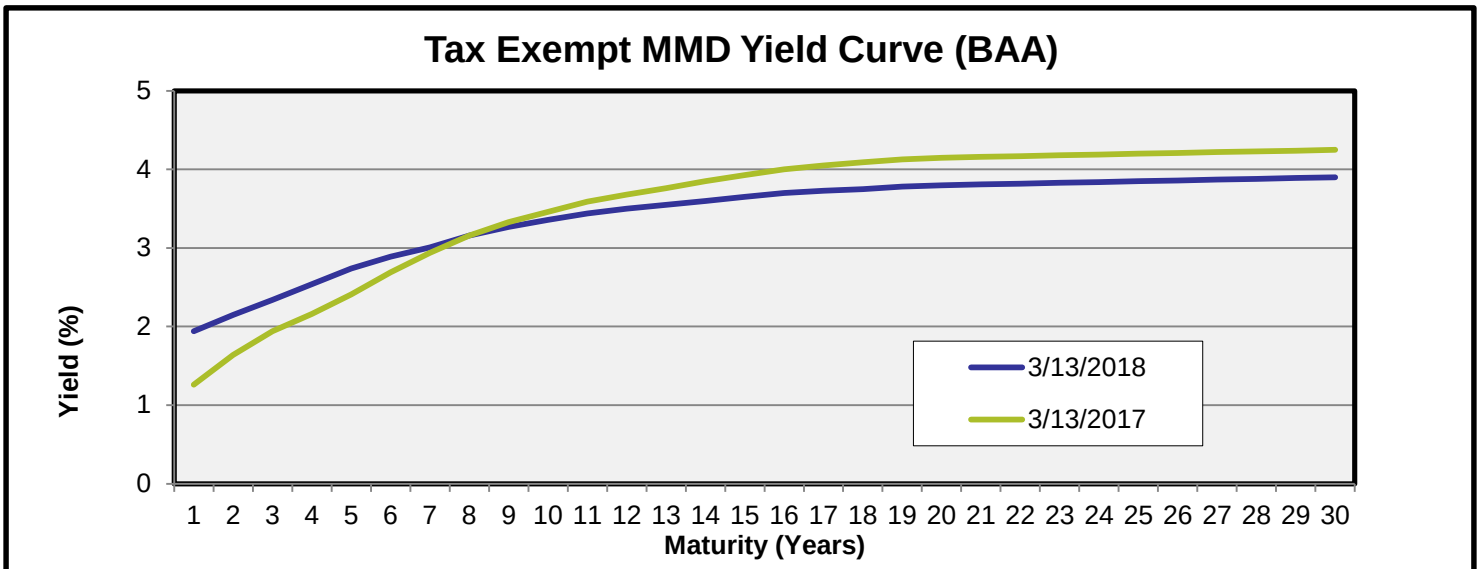
Maturity	Taxable Rates	Tax Free Rates					
	GNMA Taxable	FHA Tax-Exempt	A	BBB	BB	Refinancing & Expansion	Start-Up
5 yr.	NA	1.920%	2.650%	2.800%	3.05%	2.90-3.40%	4.10-4.60%
10 yr.	NA	2.770%	3.250%	3.550%	3.85%	3.65-4.50%	4.60-5.10%
20 yr.	NA	3.330%	3.800%	4.000%	4.30%	4.25-4.75%	5.35-6.10%
30 yr.	3.840%	3.570%	3.950%	4.150%	4.45%	4.40-4.90%	5.85-6.45%

Senior Living new issue rates for borrowers in specialty states are 20-30 basis points lower in yield.

SIFMA Index	LIBOR
1.13%	1.70%

Revenue Bond Index (RBI)	10 Year Treasury	30 Year Treasury
4.37%	2.8430%	3.0950%

	1 Year	3 Year	5 Year	7 Year	10 Year
Weekly SIFMA Swap Rates	1.66%	1.97%	2.12%	2.24%	2.35%
Weekly LIBOR Swap Rates	2.36%	2.69%	2.79%	2.85%	2.91%



Source: Thomson-Reuters Municipal Markets Data as of 3/13/2018

Market Commentary

Godfather film fans will recall the moment when Mob boss Hyman Roth turned to his young partner and rival Michael Corleone and declared, "We're bigger than U.S. Steel!" The scene was set in 1960 when United States Steel (NYSE:X) was the yardstick for big. It was not only the world's largest steel producer but the largest company in the world, and the first to have a billion-dollar market capitalization. Captains of American industry including J.P Morgan, Charles Schwab, and Andrew Carnegie melded together a dozen enterprises to form the corporation in 1901. Its 117-year history is rich with unexpected acquisitions, frequent labor strife, clashes with U.S. presidents, massive tax breaks, hostile takeover attempts, pollution violations, and massive divestitures. Today, this company is now the third largest domestic producer, ranked 24th in the world, and no longer part of the S&P 500 Index. But the firm once simply known as "The Corporation" on Wall Street is still very much in the headlines.

The Trump Administration announced that it will soon begin imposing tariffs of 25% on imported steel, producing cheers from the United Steelworkers Union, a $200 million upward revision in U.S. Steel management's outlook for 2018 earnings, and a host of questions from traders, manufacturers and retailers on the possible impact on the cost of everything from a can of soup to a pickup truck to bridge repairs. Sudden fears of global trade wars, heavy jobs losses, and a spike in inflation as a result of this new tariff, as well as a related 10% tax on imports of aluminum, sparked immediate lobbying for exemptions for certain countries and products. Compromises ensued. Bond markets hovered, but stocks sold off Wednesday, primarily as a result of the policy-related resignation of the President's top economic adviser and the possibility of further protectionist plans in the works for industries that represent even larger proportions of U.S. imports. Panic quickly subsided, but that was just in time for the markets to be stunned by completely unrelated news – plans for a summit with the North Korean President and Friday's jobs numbers. The Dow ended with a 797 point rally on the week, the S&P 500 Index was up 95 points and the Nasdaq gained 302 points. Oil prices rose by 79 cents, and gold finished up by $1.18 an ounce. Almost lost in the coverage of the tariff, summit and jobs news: the $67 billion acquisition of Express Scripts by health insurer Cigna, another $2 billion of damages to be paid by Lehman Brothers to investors for its role in the mortgage crisis, and reports that Amazon is in talks with Capital One and JP Morgan Chase to offer some type of new checking account.

Municipal bonds ended weaker last week, mostly in line with Treasuries. The 10-year AAA general obligation municipal bond yield rose 4 basis points to close at 2.49%, as the 10-year Treasury yield gained 3 basis points to finish at 2.89%. The 30-year muni benchmark yield increased by 3 basis points to 3.07%, underperforming its Treasury counterpart, which rose 2 basis points to 3.15%. We saw another week of hefty offering lists, with quite a few coming from bank portfolios. The $6 billion primary market was dominated by three big deals and offered very little to high yield buyers. In addition to a handful of non-rated and sub-investment grade limited tax and special assessment deals, the Hawaii State Department of Budget and Finance issued $33.9 million of non-rated refunding bonds for Hawaii Pacific University due in 2028 that were priced at par to yield 6.00%. Investors added another $479 million of new money to municipal bond mutual funds, and the Federal Reserve released its latest Flow of Funds report showing that the total amount of outstanding municipal securities in the market rose by $42 billion in the fourth quarter of 2017 to close the year at $3.85 trillion.

This week, while Wall Street traders tune into the first round of the NCAA basketball tournament they are keeping at least every third screen plugged into live video from Washington where the Senate is voting on amendments to Dodd-Frank (S.2155) and holding hearings on The Retirement Enhancement and Savings Act of 2018 (S.2526), the House is analyzing the implications of the Pennsylvania 18th District race, more personnel shake-ups are being announced by the White House, and federal agencies are releasing key economic data: Consumer Price Index, Retail Sales, Producer Price Index, and Housing Starts. The $5.7 billion municipal calendar includes an $82.9 million BBB-minus rated Wisconsin Health and Educational Facilities Authority financing for St. John's Community in Milwaukee.

Sims Quickly Finances Memory Care Expansion With Most Efficient Option

Presbyterian SeniorCare NETWORK™

"For a number years, Presbyterian SeniorCare Network and HJ Sims enjoyed collegial interactions, board education and small consultation projects. In 2017, Presbyterian SeniorCare Network engaged HJ Sims for the construction of a 36-bed Woodside Place Alzheimer's Care Assisted Living Community and Adult Day Living Center on our Washington, PA campus. In anticipation of the Tax Cuts and Jobs Act, the completion of this financing was achieved before the end of 2017. As in any collaboration of two organizations the cultures must align. We feel that we have found that alignment with HJ Sims."

-Joe Wenger, CPA, NHA - Senior Vice President & Chief Financial Officer

Partnered Right	• PSC is a not-for-profit, faith-based, multi-site network of living and care options, serving more than 6,500 older adults in 10 counties in Western Pennsylvania. • PSC-Obligated Group includes three stand-alone personal care and memory care facilities and identified an opportunity to expand memory care services at its Southminster Place facility. • HJ Sims engaged to assist in review of financing alternatives and ultimate financing for the new 36 bed facility "Woodside Place of Washington"
Structured Right	• PSC anticipated financing the project ($9.93 million total cost) from a combination of sources including a dedicated capital campaign ($2.5 million) and tax-exempt debt financing ($7.4 million). • Commercial bank financing was the primary option considered given the construction-related use of proceeds, the availability of capital campaign funding and relatively small size of total financing. • With capital campaign proceeds to be received over a three year period, to reduce the total borrowing amount, PSC opted to advance $2.5 million with the expectation of being reimbursed with capital campaign proceeds by 2021.
Executed Right	• Proposed Federal tax reform legislation created incentive to advance financing on expedited basis and close by year-end 2017 with project commencement expected in early 2018. • PSC-OG's existing bank partner, Citizens Bank, provided an attractive financing proposal including competitive interest rate and fees along with limited conditions precedent to financing enabling expedited financing – this supplemented $15 million of outstanding bank financing.
Financed Right®	• The financing was completed successfully on December 29, 2017, amidst a historic volume of tax-exempt borrowing resulting from the proposed tax reform. • PSC opted to close the financing with an underlying floating rate and evaluate interest rate hedging strategies post-closing as financing draw-down is commenced. • PSC achieved the next critical step in realizing its objective of expanding its memory care services to more fully serve seniors in its market area.

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Sims Quickly Finances Memory Care Expansion With Most Efficient Option

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Partnered Right

Presbyterian SeniorCare ("PSC") is a not-for-profit, faith-based, multi-site network of living and care options, serving more than 6,500 older adults in 10 counties in Western Pennsylvania. PSC offers a comprehensive continuum of care and service options for older adults through a combination of senior living communities, affordable housing facilities and at-home programs and services. PSC's three facilities, providing personal care and memory care services which, together with PSC's Central Office and Woodwell investment holding entity, comprise the Presbyterian SeniorCare Obligated Group ("PSC-OG").

Among PSC's multiple initiatives is the expansion of memory care services to populations that are underserved. Given this priority, PSC had previously developed the Woodside Place model and constructed Woodside Place at Oakmont in the early 1990s to address a gap in the elder care continuum and the lack of facilities designed and specially programmed for the unique needs of persons with dementia.

While PSC has had a longstanding presence in the Washington County market providing personal care services at its Southminster Place facility, it has not had a dedicated memory care facility. Sensing a need for memory care in this market, it commissioned a market study in 2016 which confirmed likely demand and this service expansion opportunity. With this validation, PSC advanced project planning, consisting of a 36 bed memory care facility to be known as "Woodside Place of Washington", located on property adjacent to its Southminster Place facility. PSC sought to begin construction in early 2018 and, in June 2017, engaged HJ Sims to assist in the review of financing alternatives and ultimate implementation of financing.

Structured Right

PSC anticipated financing the project ($9.93 million total cost) from a combination of sources. Reflecting the anticipated demand for the planned memory care services and PSC's (and constituents') commitment to this service line, foundational capital was expected to be provided through a capital campaign with a $2.5 million goal to be raised over a three year period. The balance of financing ($7.43 million) was to be provided through tax-exempt debt financing. PSC and Sims envisioned commercial bank debt to be the likely source of financing given the construction-related use of proceeds, the combination with capital campaign funding and the relatively small size of the debt capital need. This would also complement PSC-OG's $15 million of outstanding bank financing.

While capital campaign proceeds were to be an integral component of financing, they would not be available at the time of financing closing and initial project construction; rather, they were anticipated to be received in installments through 2021. Therefore, addressing this phased timing for receipt was among the structuring options for the financing. In this regard, PSC considered two options: 1) Borrowing the full amount of the project cost and related uses of funds and subsequently applying capital campaign proceeds to repay a portion of the debt, as received or 2) Reducing the borrowing amount through PSC-OG's advance of funds equaling the amount of anticipated capital campaign proceeds and then applying the campaign proceeds to repay PSC-OG. Sims assisted PSC in analyzing these alternatives, among others. Key considerations included assessment of projected financial results for the Woodside Place at Washington project along with the PSC-OG overall as well as the additional debt incurrence test provisions associated with its outstanding debt. Other financing structuring options were considered including debt maturity and amortization, with phasing of principal repayment, funding of interest during the construction and fill-up period and the interest rate mode (floating vs fixed rate debt). Based on the foregoing analysis, PSC opted to pursue the second option, advancing funds to reduce the loan commitment, with the expectation of being reimbursed with capital campaign proceeds by 2021.

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Sims Quickly Finances Memory Care Expansion With Most Efficient Option

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Executed Right

PSC originally planned on completing the financing in the first quarter of 2018, matching the anticipated start of construction. However, in November 2017, the U.S. House of Representatives released their initial tax-reform bill, which proposed the elimination of tax-exempt private activity bond financing for not-for-profit organizations along with other potentially unfavorable provisions. While the Senate soon followed with a bill that preserved the tax-exemption for private activity bonds, the differing treatment of tax-exemption for private activity bonds in the two bills created heightened uncertainty in the tax-exempt borrowing markets and financing dilemmas for tax-exempt borrowers. Elimination of tax-exempt financing would have precluded PSC from financing the project on a tax-exempt basis, likely forcing a borrowing at higher taxable rates, and possibly eliminating the financial feasibility of the project. Given the lead time necessary to draft legal documents and complete a financing, and looming tax reform effective January 1, 2018, the financing proceeded on a fast-track. Among other decisions, this prompted PSC's decision to pursue the financing with Citizens Bank, its existing bank partner, rather than undertaking a wider bank solicitation. Citizens provided an attractive financing proposal including competitive interest rate and fees along with limited conditions precedent to financing enabling expedited financing.

Financed Right®

The financing was completed successfully on December 29, 2017, amidst a historic volume of tax-exempt borrowing resulting from the proposed tax reform. PSC-OG finalized $8.095 million of financing to be drawn following application of PSC-OG's equity contribution over the anticipated 16 month construction period. PSC-OG opted to close the financing assuming an underlying floating rate on the loan, with interest accruing, as the loan is drawn and to evaluate the potential strategies for hedging interest rate risk early in 2018, following fuller consideration of potential interest rate increases as well as the impact of the reduction in the corporate tax rate on its future interest rates. With Sims leadership and collaborative work of PSC Management, Citizens Bank and the full financing working group, PSC achieved the next critical step in realizing its objective of expanding its memory care services offering to more fully serve seniors in its market area.

For more information on how Presbyterian SeniorCare was Financed Right® by HJ Sims, please contact Jim Bodine at (215) 854-6428 or jbodine@hjsims.com.

For more information, please contact an HJ Sims banker.

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