



Capital Markets

June 7, 2018



“If You Want to Change the World, Start Off by Making Your Bed.”

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Admiral (Ret.) William H. McRaven
US Navy SEAL

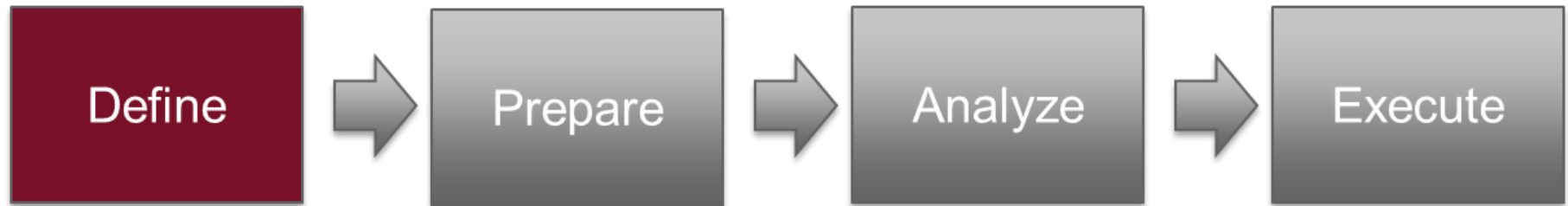
Want to change the world?
Start by making your bed everyday.

"If you make your bed every morning you will have accomplished the first task of the day. It will give you a small sense of pride, and it will encourage you to do another task and another and another.

By the end of the day, that one task completed will have turned into many tasks completed. Making your bed will also reinforce the fact that little things in life matter. If you can't do the little things right, you will never do the big things right.

And, if by chance you have a miserable day, you will come home to a bed that is made — that you made — and a made bed gives you encouragement that tomorrow will be better.

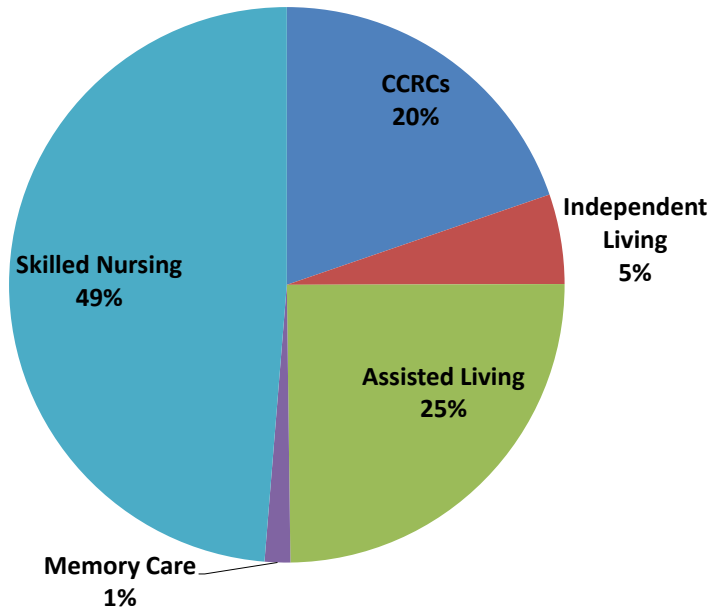
If you want to change the world, start off by making your bed."



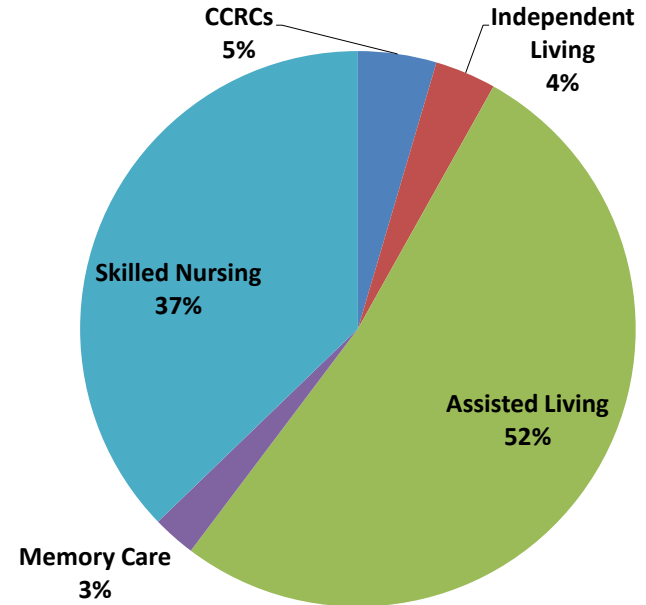
Define the Opportunity

Today's Retirement Options

By Number of Units



By Type of Community



	Communities	Units	NFP
CCRCs	1,926	676,000	81%
Independent Living	1,500	179,000	2%
Assisted Living	22,000	851,000	22%
Memory Care	1,060	51,000	21%
Skilled Nursing	15,700	1,669,100	31%
Total	42,186	3,426,100	

➤ **1,926 CCRCs nationally**

- 61% of CCRCs are part of systems
- 39% are single sites
- 51% are faith based

➤ **Size**

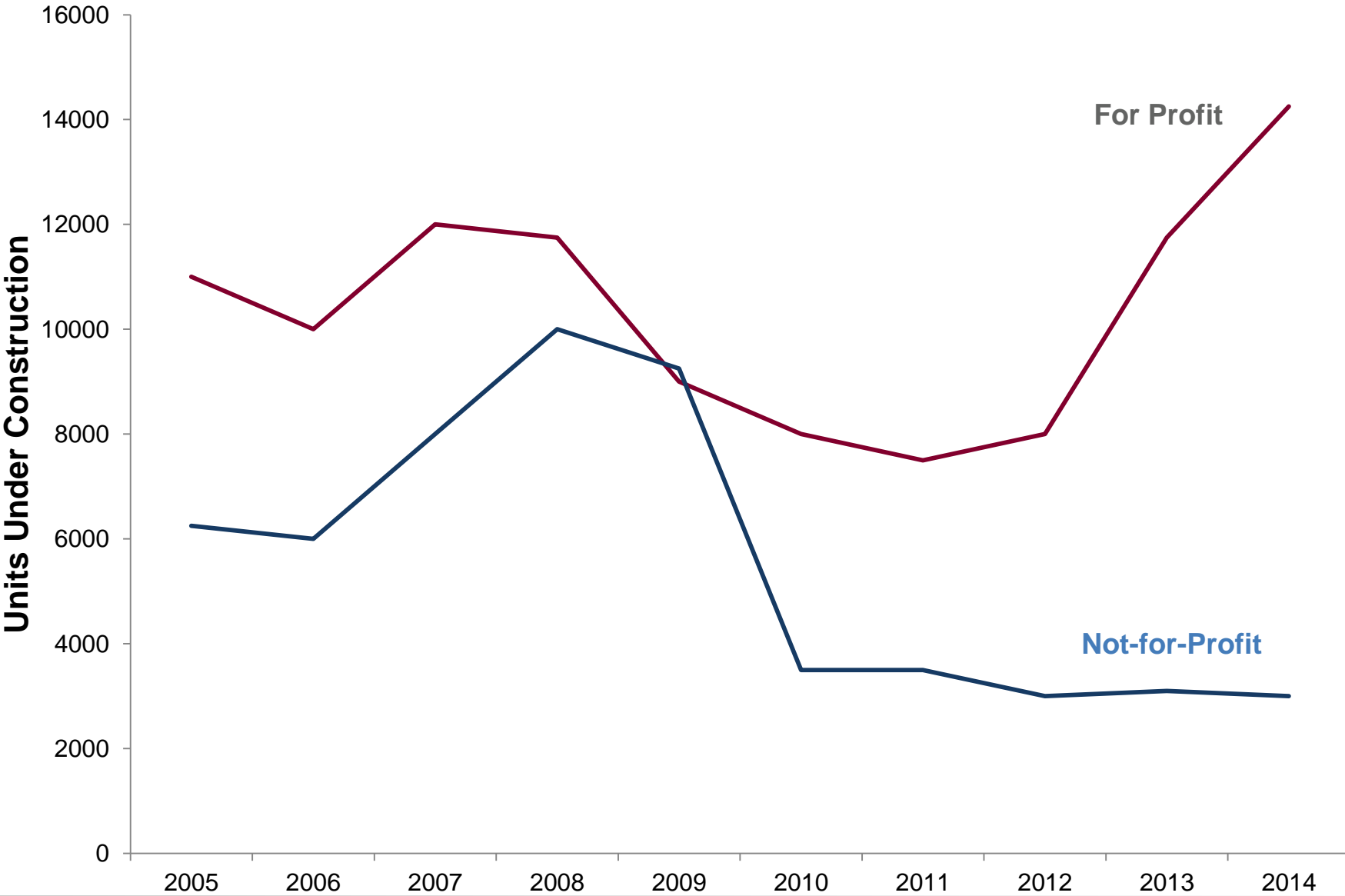
- More than 50% have < 250 units
- Average number of units is 280

➤ **Geography**

- Top 10 States: PA, OH, CA, IL, FL, TX, KS, IN, IA, and NC
- Most CCRCs located in Metropolitan areas

- Occupancy Improving
- Reinvestment in existing facilities
- More strategic planning
- Exploring other sources of revenue
- Continued need for “Performance Improvement”
- Increase in technology investments
- Consolidation continues
- For-profit pace of growth

NFP Growth Falling Behind



How is Senior Living Development like Dating?

Non-CCRC Communities

- 80% owned & operated by For Profits
- Median age is 14-17 years old
- 20% of Units > 20 years old

CCRC Communities

- 80% owned & operated by Not For Profits
- Median Age is 23 years old
- 40% of Units > 20 years old

Your Competition is Half Your AGE!!!

Source: ASHA's 2015 State of Seniors Housing.

Change is Constant

➤ Change Will Occur

- Create a governance structure that allows management team to focus on operations and Board on strategy

➤ ACOs are Here to Stay

- Create ability to articulate your value through measurable outcomes

➤ Face of Competition is Changing

- Maintain culture of collaboration and service



John Diffey, CEO of Kendal Corp.

How Will Change Impact Your Business?

➤ Consumerism

- The long-term effect of what we are doing now to create relevancy 5-10 years in the future

➤ The Boomers Are Coming (Harvard Study)

- The population aged 65 and over is expected to grow from 28 million to 79 million in the next 20 years

➤ The Pending Staffing Crisis

- What do we need to do?



Rick Stiffney, CEO of MHS Consulting

Relationships: Pathways to Future Success?



➤ Identify Strategic Partnerships

- Risk Sharing
- Learn best practices

➤ Invest in Staff Relationships

- Retention
- Staff happiness



Resident happiness

➤ 80-Year Harvard Study

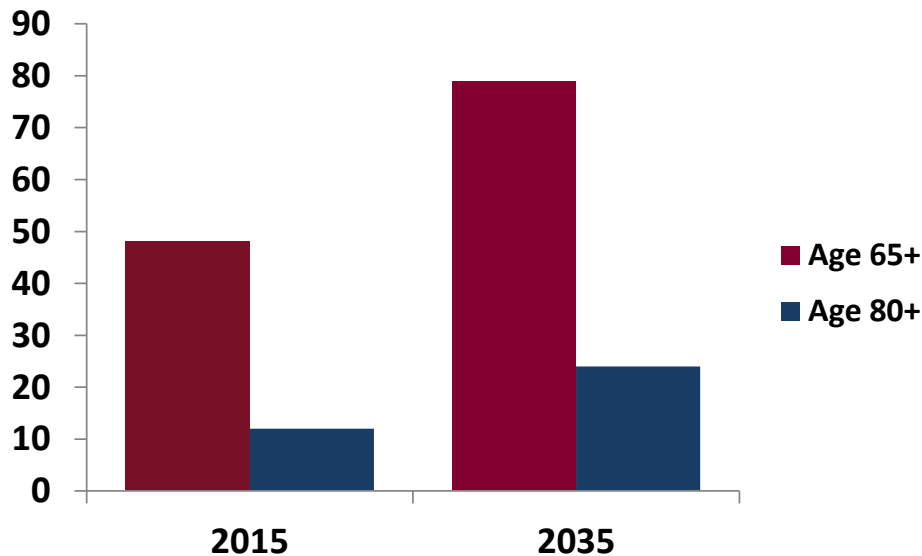
- People in strongest relationships were protected against chronic disease, mental illness and memory decline; even if those relationships had many ups and downs
- Quality of relationships were more important than quantity
- People who sought to replace old colleagues with new friends fared better

Findings from Recent Harvard Study

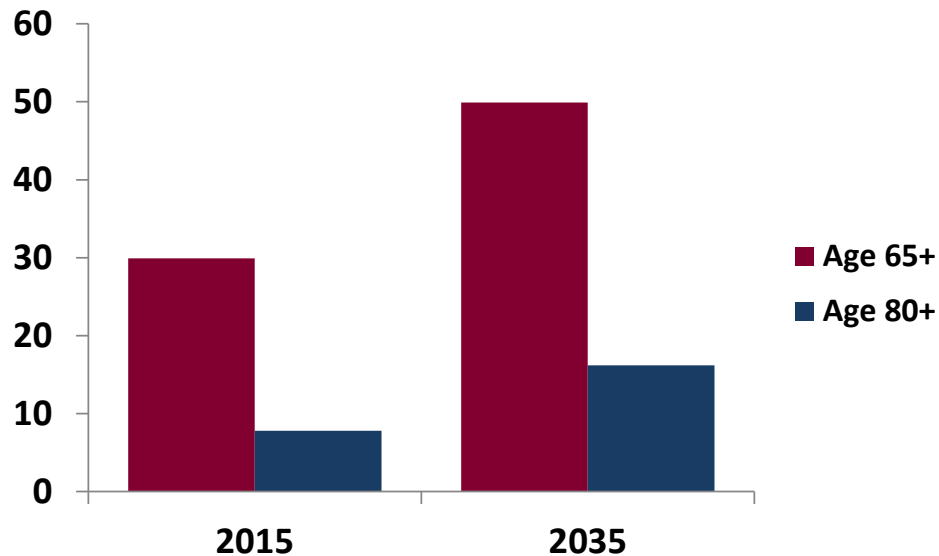
➤ Over the next 20 years,

- Population 65+ will grow from **48 million** to **79 million**
- Population 80+ will grow from **12 million** to **24 million**
- Number of 65+ Households will increase from **29.9 million** to **49.6 million**
- Number of 80+ Households will increase **7.8 million** to **16.2 million**

Population, In Millions



Households, In Millions

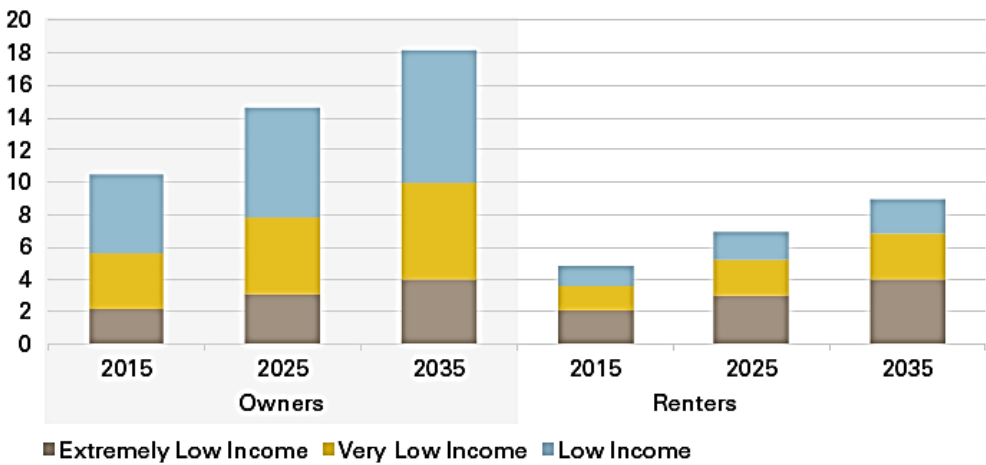


Source: Projections & Implications for Housing a Growing Problem: Older Households 2015-2035, released December 2016 by the Joint Center for Housing Studies of Harvard University

Financial Pressures are Real and Worsening

Figure 4.8: There Will Be Millions More Low-Income Older Households by 2035

Projected Low-Income Households Aged 65 and Over (Millions)



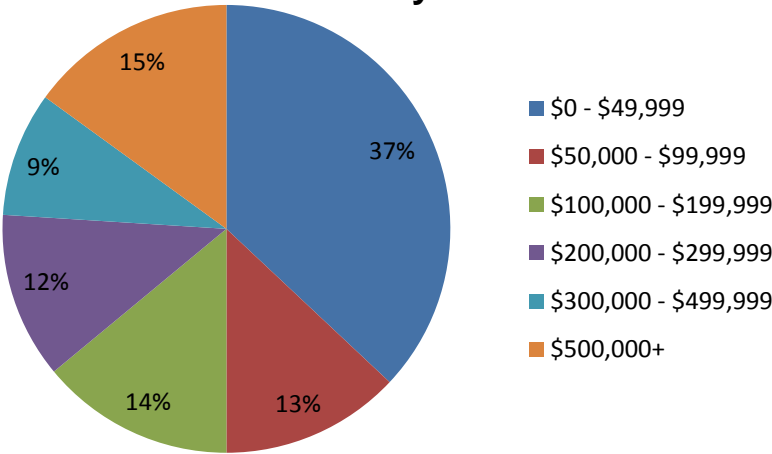
Notes: Extremely low income is defined as up to 30 percent of area median; very low income is more than 30 up to 50 percent of area median; and low income is more than 50 up to 80 percent of area median.

Source: JCHS tabulations of US Census Bureau, 2014 American Community Survey 1-Year Estimates and 2016 JCHS Household and Tenure Projections.

2014 HHs 65+	Median Assets
Home-owners	\$228,108
Renters	\$ 6,150

9 million older homeowners have less than \$50,000 in assets beyond their home.

Median Retirement Savings: Baby Boomers



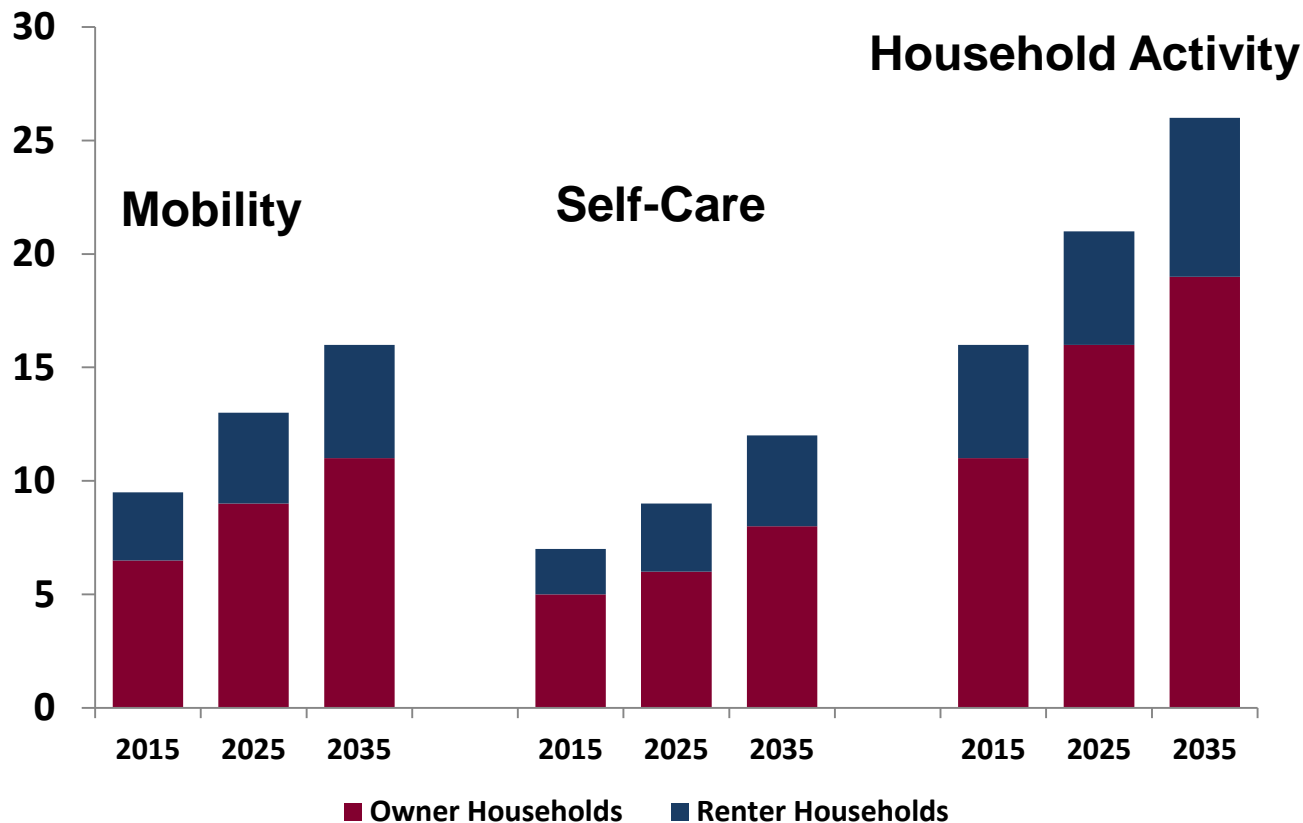
➤ **Rising Cost Burdens will Impact Both Owners and Renters**

- More owners with mortgages

➤ **Growth = Greater Number of Lower Income Adults**

- Top/Bottom 20% of market is being served – remaining 60% underserved
- By 2035 underserved population (# and %) will increase due to wealth/income pressure and aging

- By 2035, the number of older households with a disability will increase by 76% to reach 31.2 million:



Source: JCHS tabulations of University of Michigan, 2014 Health and Retirement Survey and 2016 JCHS Household and Tenure Projections

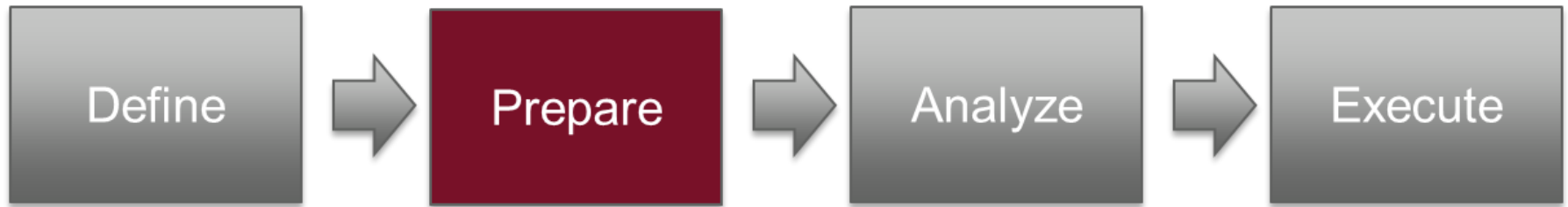
- **Demand for Accessible Housing will Increase**
 - Universal design elements needed

- **The Home will Increasingly be a Site of Long-Term Care**
 - 70% of older adults will need some form of long-term care

- **Loneliness and Isolation kill**

- Blue Zones by National Geographic
- Dr. Richard S. Schwartz-“The Lonely American: Drifting Apart in the Twenty-First Century”
 - “Loneliness has been linked to increased risk of cardiovascular disease, stroke and progression of Alzheimer’s.”
- “The Five Regrets of the Dying”
 - One of the five regrets was “I wish I had stayed in touch with my friends.”
- Several studies indicate that 50% of residents living in residential care homes suffer from some form of loneliness.

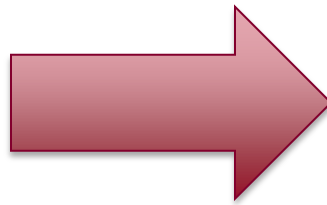
What will you do at your community?



Prepare your Organization

Change is Constant: Prepare Your Organization

- Must be Nimble
- Management & Board Alignment
- Board Education
- Enable Quick Decision-Making



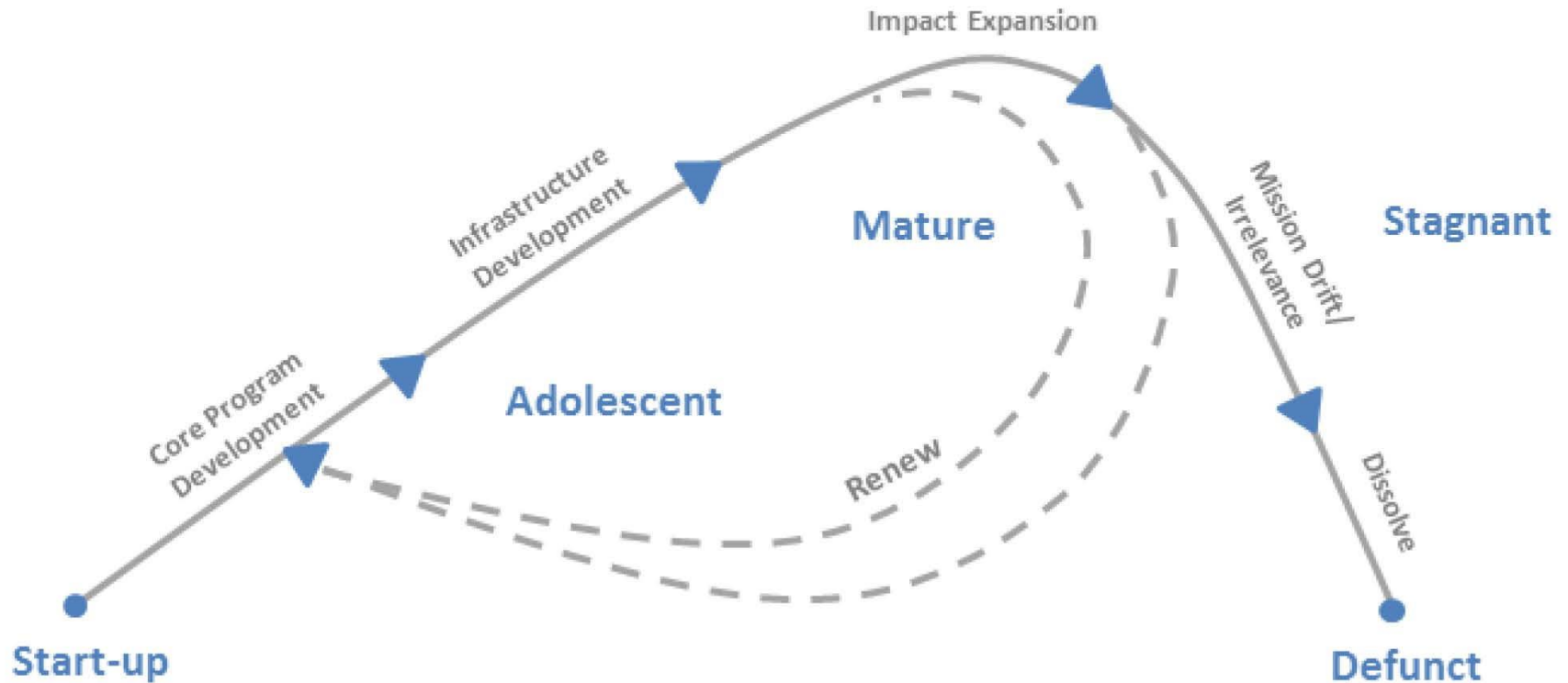


Roman Colosseum (80 AD)

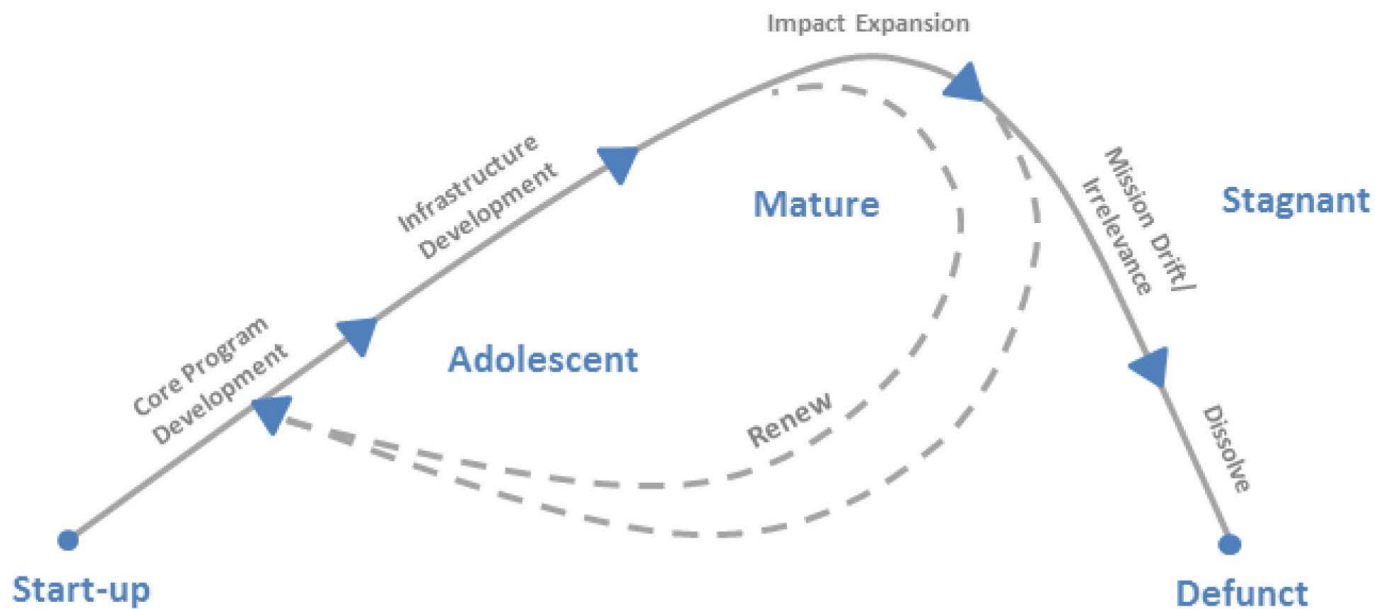


New York's Haughwout Building(1857)

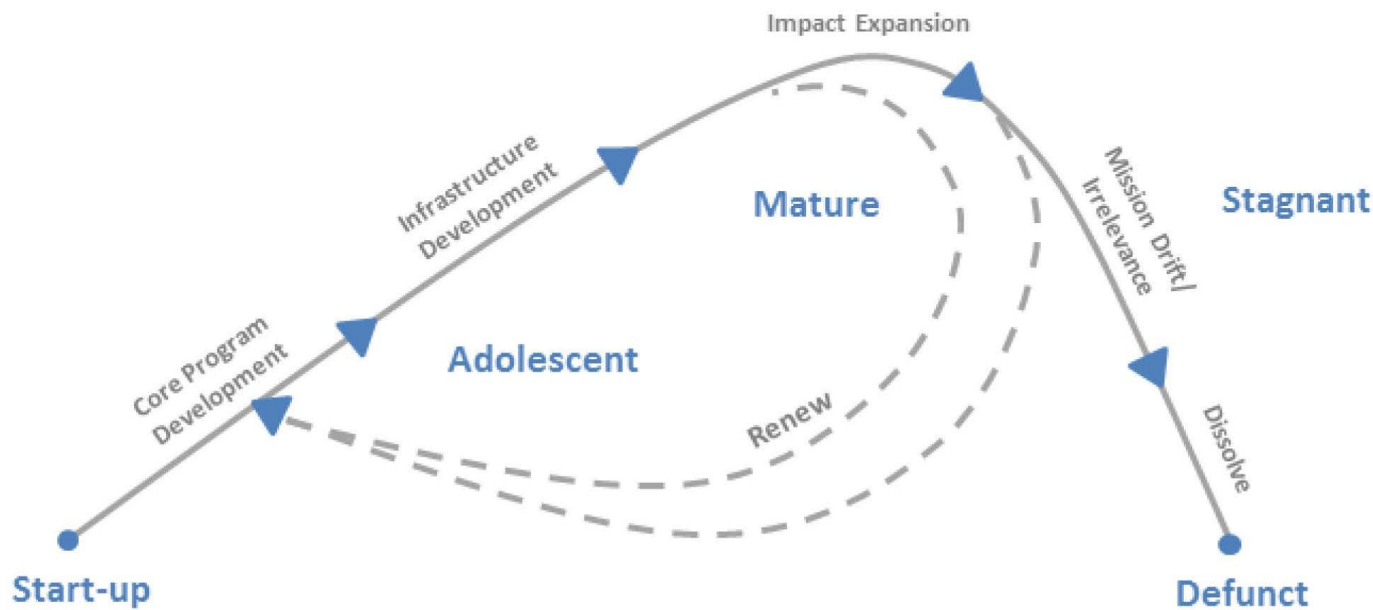
Organizational Lifecycle: How Nonprofits Evolve



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Excerpted from the book *Nonprofit Lifecycles: Stage-based Wisdom for Nonprofit Capacity*.



Lifecycle Stage	Key Questions to successfully navigate NFP Lifecycle
Idea	Is our dream feasible?
Start-up	How do we get started?
Growth	How can we build growth and be viable?
Maturity	How can we ensure this is sustainable?
Decline	How did we get here?
Turnaround	How do we get back to where we need to be?
Terminal	What can be done to preserve our mission and protect our residents? Affiliate?

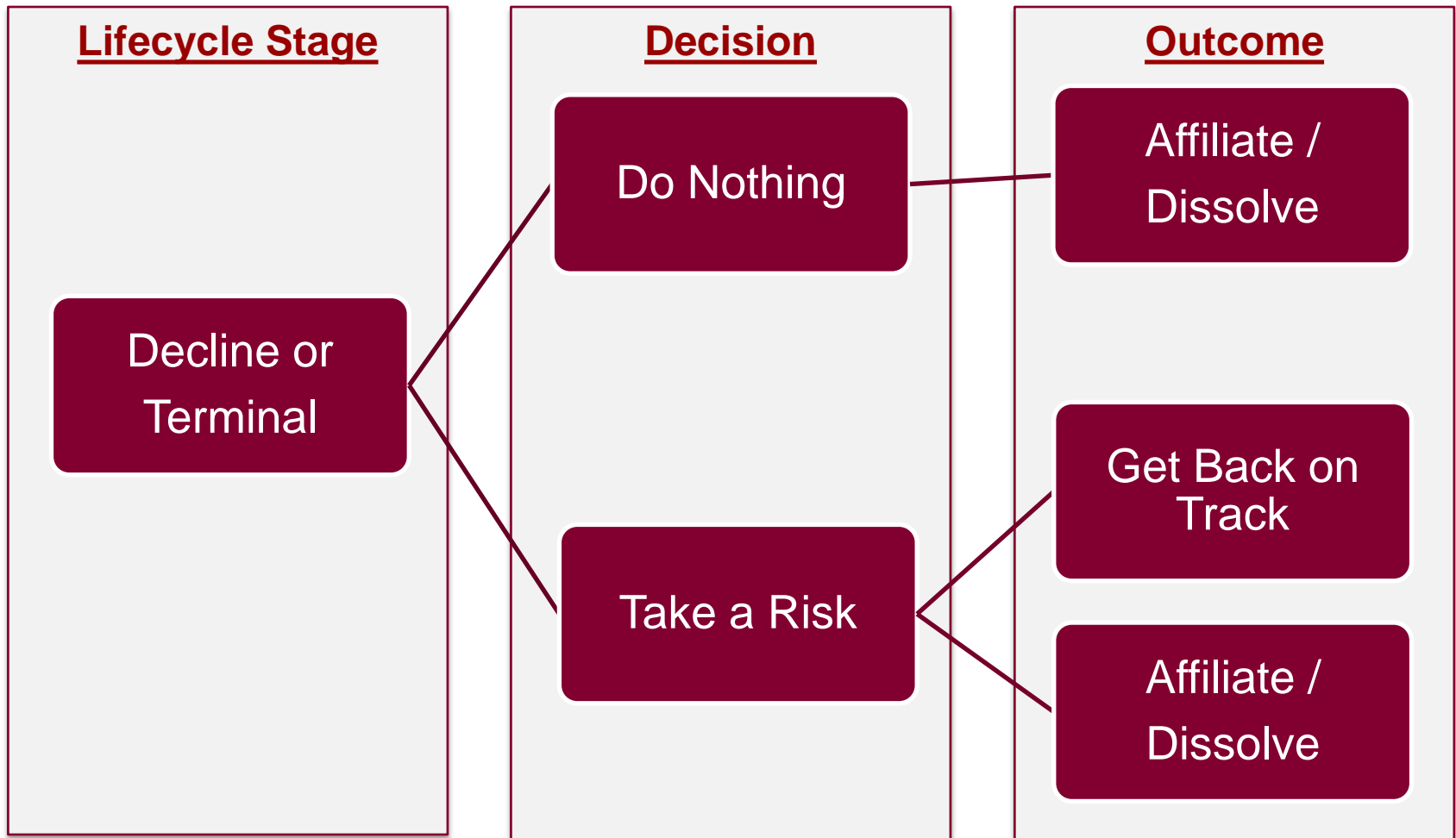


Lifecycle Stage	Key Questions to successfully navigate NFP Lifecycle	Statements putting organization at risk ... Have you heard any of these?
Idea	Is our dream feasible?	This is impossible.
Start-up	How do we get started?	No one will give us the money to do it.
Growth	How can we build growth and be viable?	Growth is too risky.
Maturity	How can we ensure this is sustainable?	We don't want to risk what we've built here.
Decline	How did we get here?	Let's keep doing what we've been doing.
Turnaround	How do we get back to where we need to be?	We tried everything, the market changed. It's not our fault.
Terminal	What can be done to preserve our mission and protect our residents? Affiliate?	We have to protect our reputation.

Digging Deeper

Stage	Duration	Obstacles	Opportunities
Grass Roots - Invention	0 - 5 years	<ul style="list-style-type: none"> • Resistance to forming • Lack of funding expertise • No outside support 	<ul style="list-style-type: none"> • Creativity • Energy for the dream • Excitement to join
Start-up - Incubation	1 - 2 years	<ul style="list-style-type: none"> • Fear of formalizing • Sustaining initial enthusiasm • Focusing the founder(s) and energy 	<ul style="list-style-type: none"> • Excitement of funders • Charismatic leader • People wanting to belong
Adolescent - Growing	2 - 5 years	<ul style="list-style-type: none"> • Absence of systems/accountability • Overwhelmed with change • Change may alienate funders, clients, staff & board • Danger of becoming isolated in the system 	<ul style="list-style-type: none"> • Sense of accomplishment • New faces, 'arms and legs' • Diversification in all areas of the organization
Mature - Sustainability	7 - 30 years	<ul style="list-style-type: none"> • Lack of, or too much, control • Lack of risk-taking • Board & Staff too 'operational' • Unable to transition to a governance board • Conflict between old and new 	<ul style="list-style-type: none"> • Feeling secure • Adequate resources • New staff/board - fresh ideas • Ability to try something new
Stagnation & Renewal	2 - 5 years	<ul style="list-style-type: none"> • Resistance to change • Inability to address key challenges • Declining excitement • Isolation of the agency 	<ul style="list-style-type: none"> • Wisdom from past • Strategic partnership opportunities • Chance to take risks again • Think 'out-of-the-box'
Decline & Shutdown	1 - 2 years	<ul style="list-style-type: none"> • Financial crises • Inappropriate leadership • Loss of staff and volunteers • Lack of any passion 	<ul style="list-style-type: none"> • Commitment to complete turnaround • Graceful 'sunset' or merger

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Excerpted from the book *Nonprofit Lifecycles: Stage-based Wisdom for Nonprofit Capacity*.



➤ Board Education

- What is happening in the SL Market
 - Partnerships

➤ Strategic Plan

- Honest view of yourself
- What is your vision for your future

➤ Board Tools to deliver on Plan

***Starts and
ends with
Board
education
&
discussions***

Sellers vs. Buyers

➤ No shame in being a Seller

- To be commended
- Selflessly looking out for best interest of the community
- Able to expand offering for existing residents
- Strengthen Mission



➤ Buyer

- Growth
- Spread overhead over a larger operational base
- Strengthen Mission

***Being
proactive
increases
flexibility
and
options***

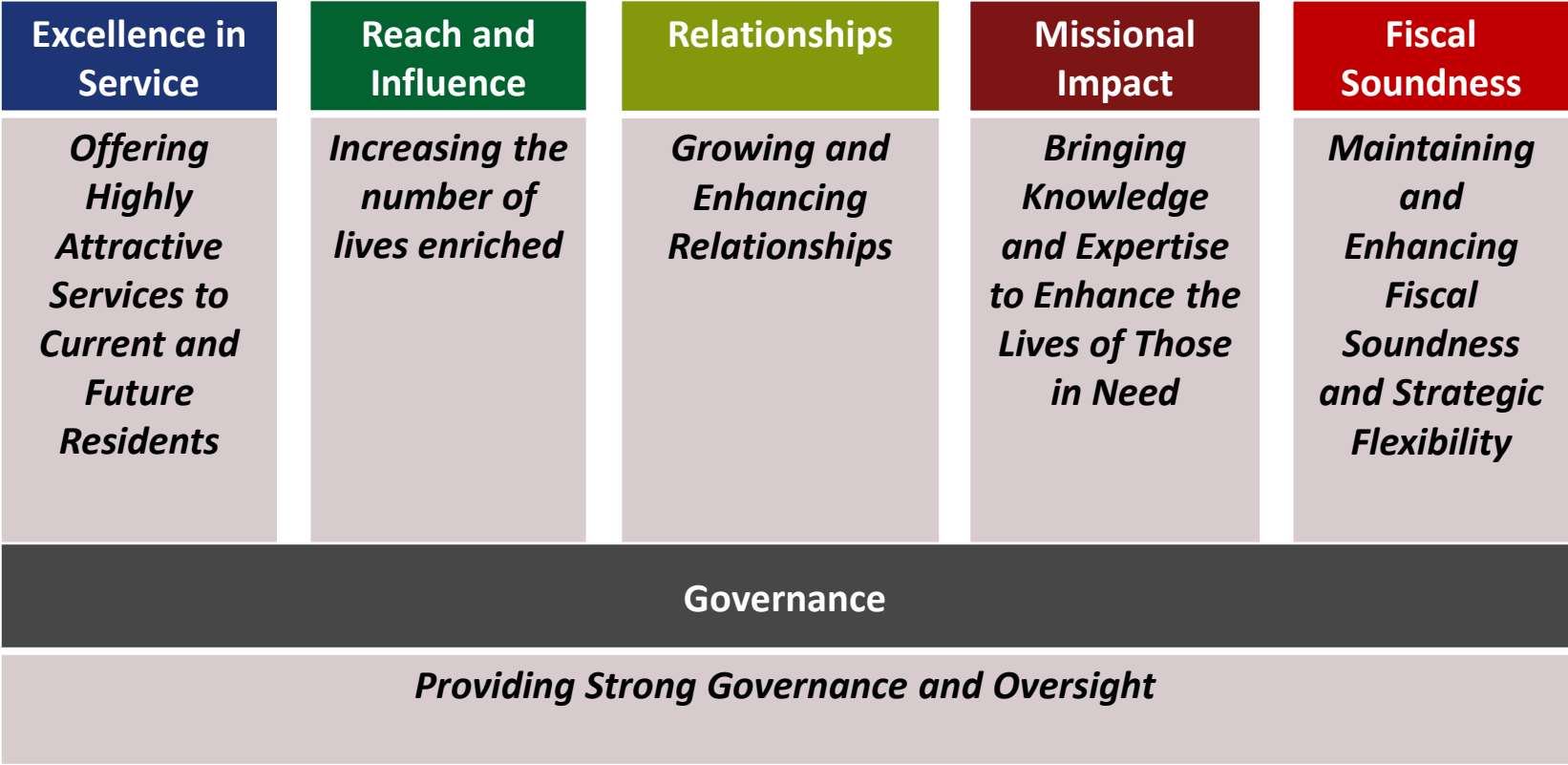


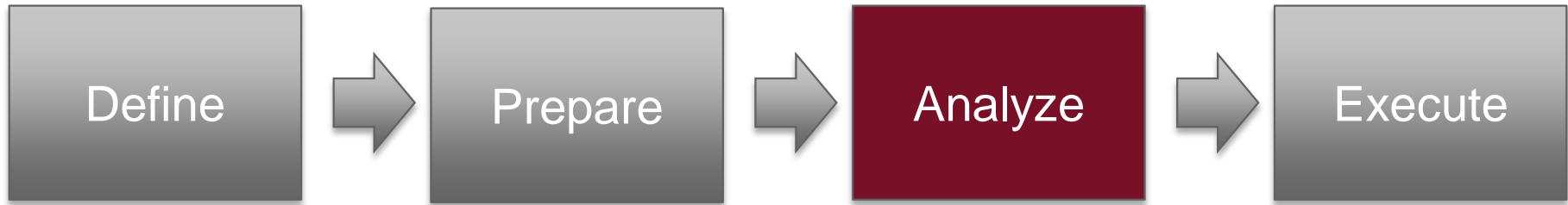
- As not for profit organizations have gotten more complex, the work of the executive has gotten more sophisticated.
- No longer a manager/doer; today's executive has to be a catalyst, strategist, visionary.
- We need boards and CEOs who know how to lead and add value.

In the future, there will be two types of providers:

1. The Excellent
2. The Extinct

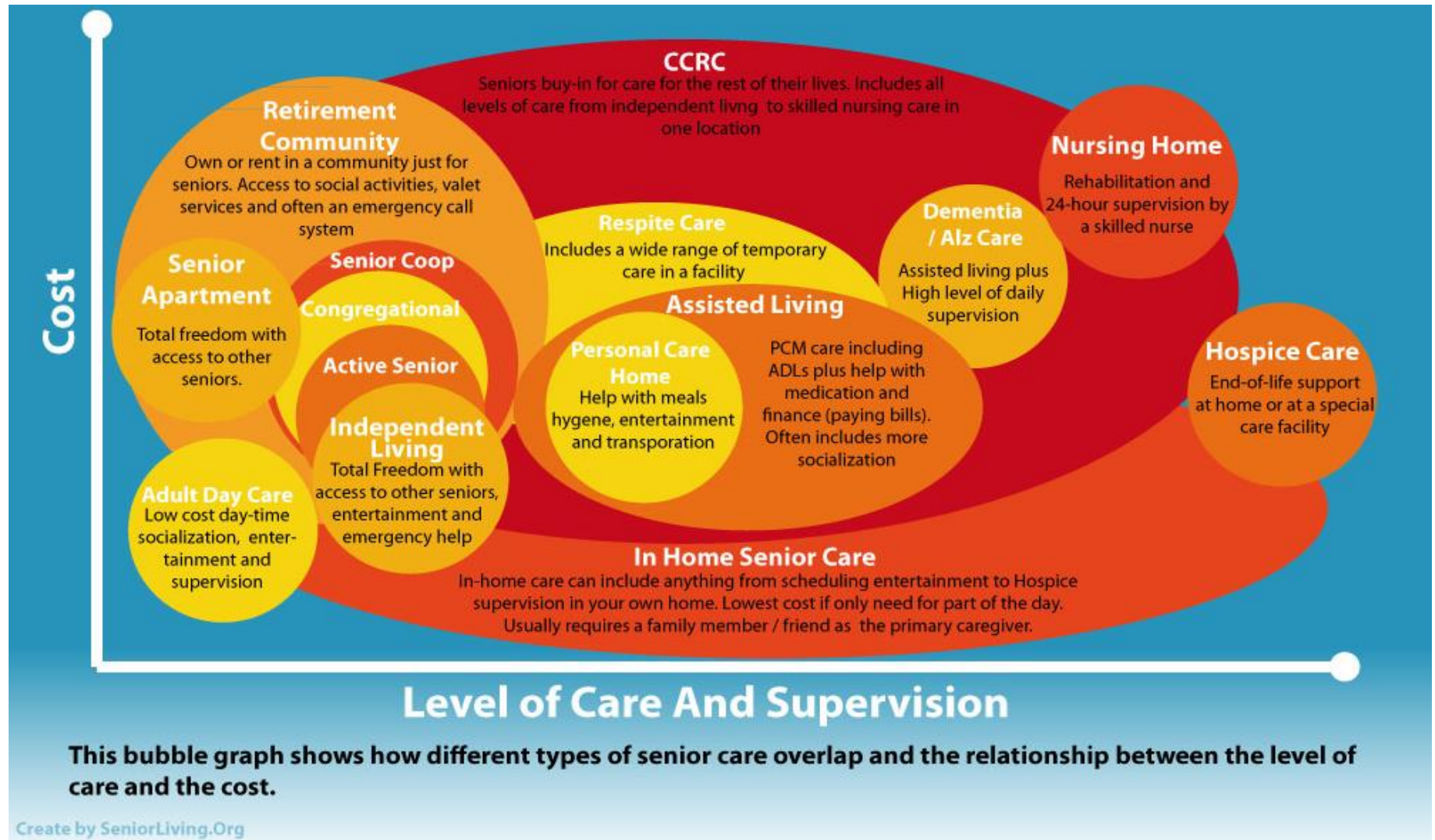
- Serve as guardians of vision, mission, values, resources
- Monitor operational performance against clearly defined performance targets
- Play a leading, proactive role in strategic decision making and setting strategic direction
- Ensure board members are fully engaged
- Take accountability for its own performance and CEO's performance

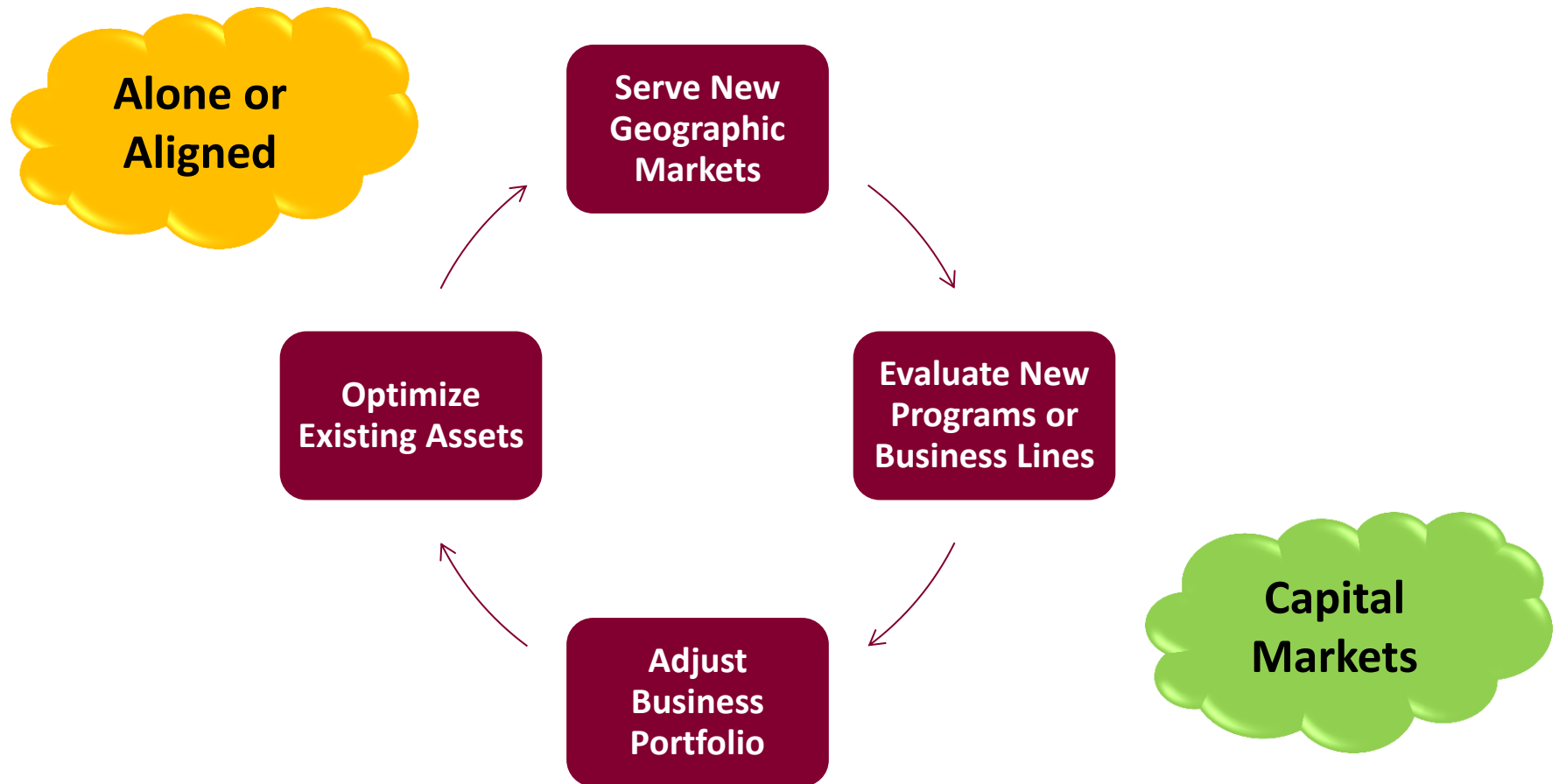




Analyze the Strategy

Too Many Opportunities?





Make sure the mother ship is doing well!

Success Requires Alignment

Success Requires the Board to Embrace the Strategy and Champion its Implementation

Set Strategic Imperatives...



...Turn them into Guiding Principles

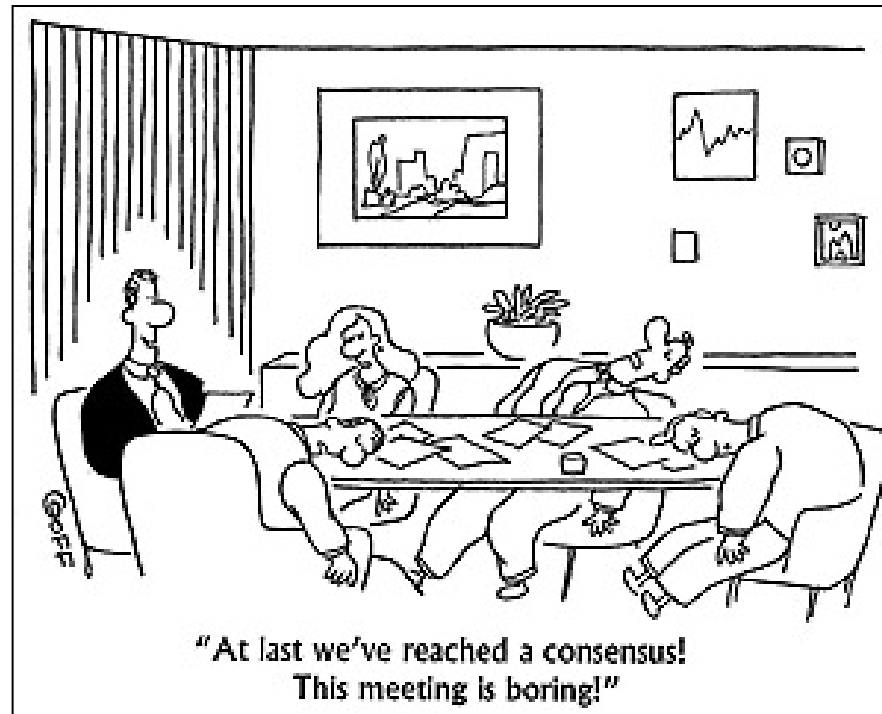
- Provides touchpoints going forward
- Project Team Consensus

What Does Consensus Mean?

Definition of CONSENSUS

- 1 a : general agreement : **UNANIMITY**
 - the *consensus* of their opinion, based on reports ... from the border —John Hersey
 - b : the judgment arrived at by most of those concerned • the *consensus* was to go ahead
- 2 : group **solidarity** in sentiment and belief

<https://www.merriam-webster.com/dictionary/consensus>



<https://funnytimes.com/19951122/>

➤ Mission

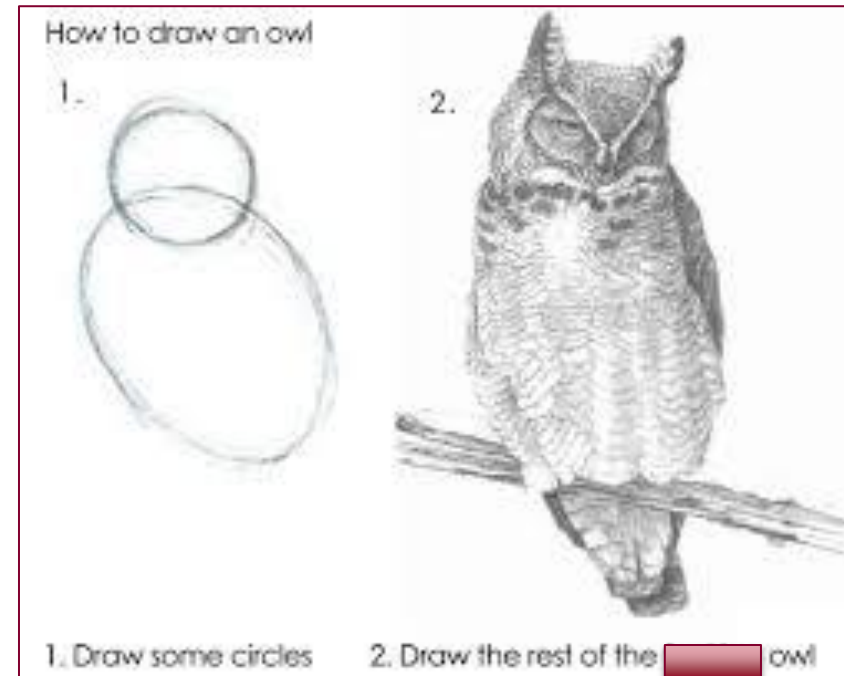
- Enhance Quality of Life for Existing Residents
- Improve Environment for Staff and Families
- Touch More Lives

➤ Market

- Create reasons for Consumer to change Traffic Patterns
- Meet the Needs of Key Health Care Referral Sources
- Become a Change Agent for the Surrounding Community

➤ Financial

- Leverage Areas of Excellence
- Expand Front Doors
- Establish a Sustainable Business Model



➤ Produce Specific Market Analysis

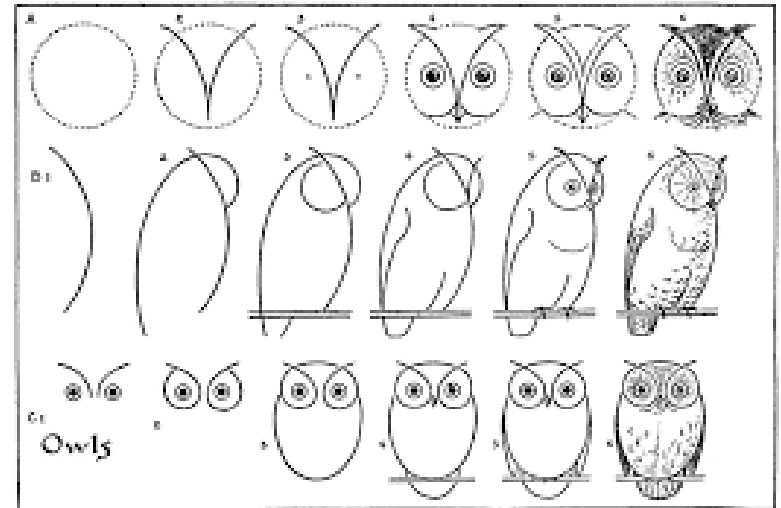
- What does the market want?
- Where are our current weaknesses?
- How do we differentiate from others?

➤ Complete Design Charette

- How do we create the vision on the site?
- What is ability to expand?

➤ Develop Project Costs

- Construction is the big dog
- But granularity critical on the other costs
- Establish appropriate contingencies
- Timeline with all of above equally critical piece



➤ **Develop Operating Envelope**

- SPONSOR ENGAGEMENT!!!!
- Based on REAL proven results
- Adjust for THIS consumer

➤ **Layer on Financial Structure**

- Leave room if capital markets move in wrong direction

➤ **REVISIT ALL ASSUMPTIONS!**

- Iterative process

When challenges arise, address with ALL levers

Act and Adapt

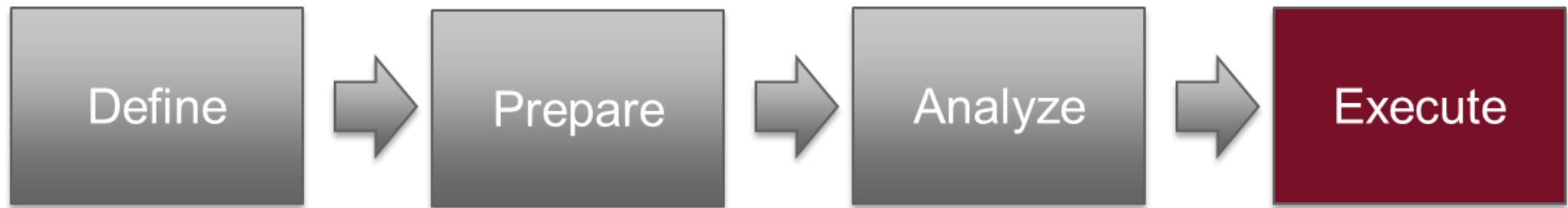
- Procrastination is the grave in which opportunity is buried
 - Speed to Market
- Nothing good happens over time
 - Jump the Market
- Make others play catch up
- Sponsor is in this for 30+ years, not to flip at year 5
 - Flexibility
- The world will be different in 10 years



- **Bigger Does Not Necessarily Mean Better**
 - Getting to market quickly saves money and reduces risk
 - Second phases benefit from learning how people “voted with their feet”
- **Health Care is a Part of the Equation**
 - But it doesn't have to be on the same campus
- **Transparency is CRITICAL Among the Project Team**
- **Earlier Is Better**
 - If you want them on the team, they should be on from the beginning

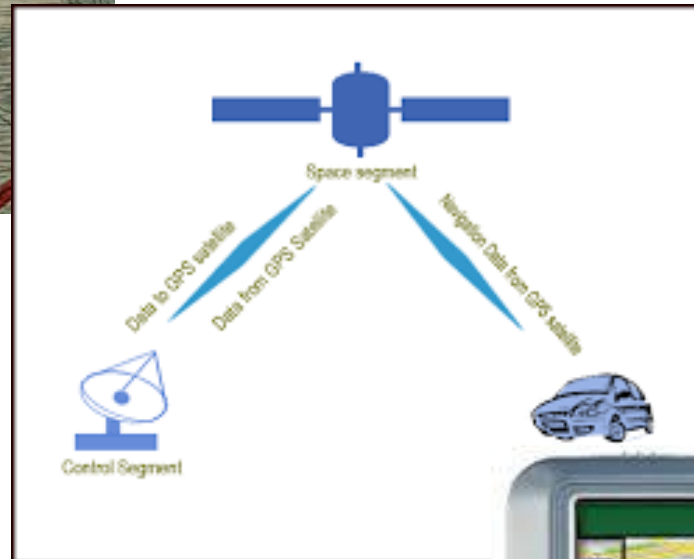
Don't Assume the Impossible is Impossible





Execute the Plan

A Good Business Plan is Your Roadmap, NOT Your GPS



Marketing

- Commence Priority program
- Commence Conversions
- 50% and 70% pre-sales

Building

- Land: zoning, entitlements, etc.
- Architect: Concept, SDs, DDs, CDs
- GMP

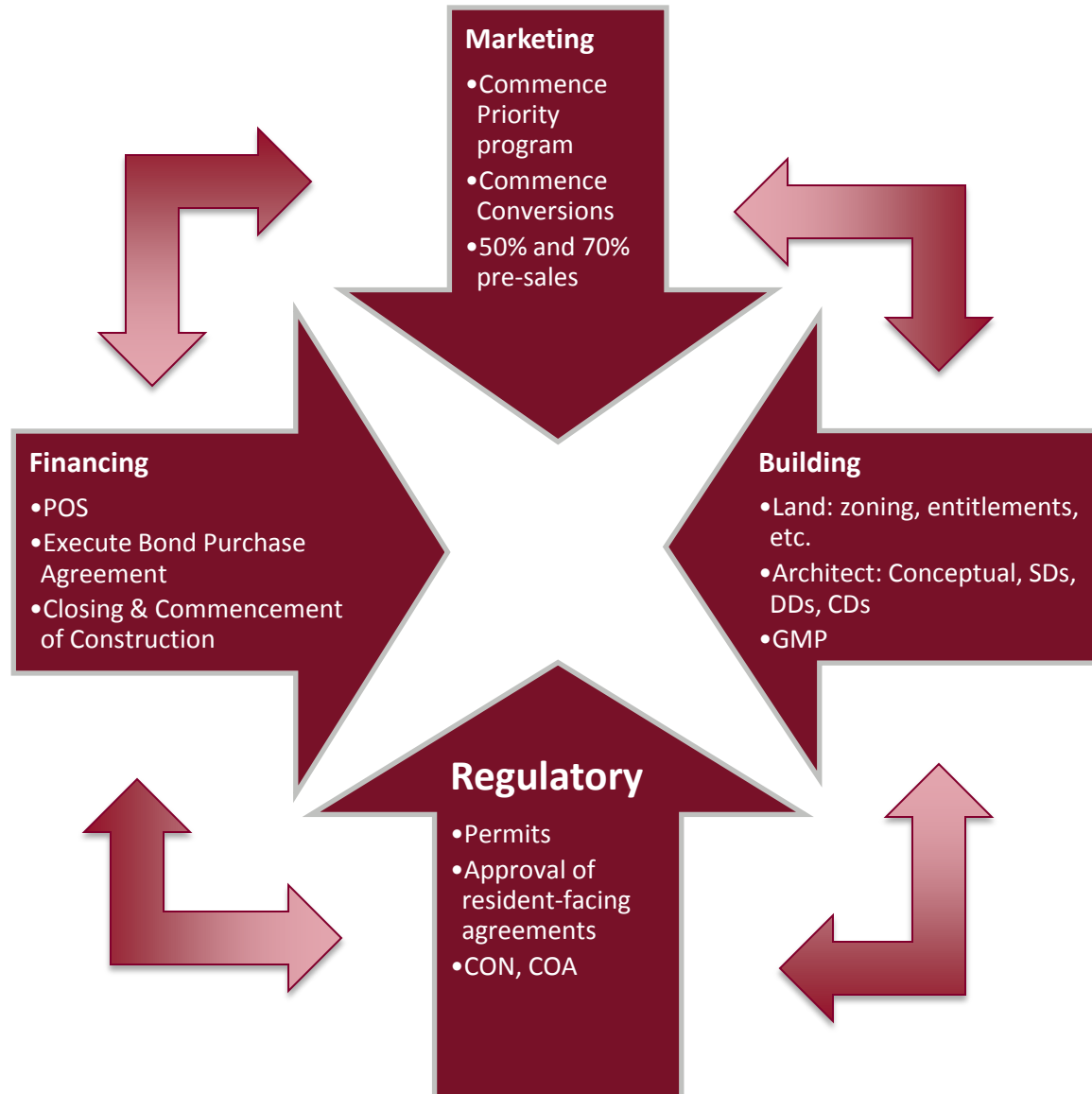
Regulatory

- Permits
- Approval of resident-facing agreements
- CON, COA

Financing

- POS
- Execute Bond Purchase Agmt
- Closing & Commencement of Construction

Mutual Dependency Creates Complexity



Challenges to Managing Complexity

- **Manage Team** (Grows in Size, People Come and Go)
- **Finite Resources**
- **Interpreting the Market**
- **Long-lived Process**

**Early Communication and Understanding
are the Only Way Forward**

➤ Reporting & Oversight

- Weekly marketing report
- Regular (bi-weekly) project team calls
- Monthly project status reporting

➤ Project Management

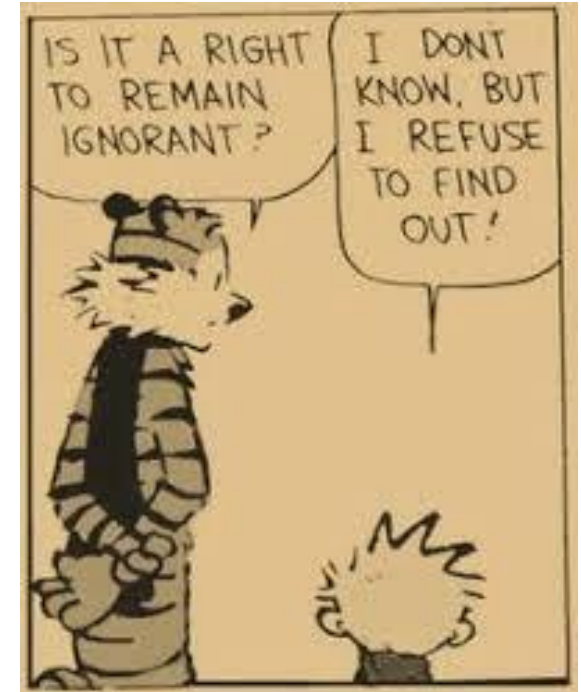
- Detailed pre-finance budget, managed and monitored from Day 1
- Timeline – actual vs. plan
- Action Log: Who is going to do What by When

➤ Confirm and reaffirm understanding

➤ Be Prepared

➤ Board of Directors

- Material changes made with Board's understanding and approval



➤ Technology

- SMART Homes
- Wireless is a must
- Social Apps

➤ Physical Plant

- Dining- variety, choices outside the campus, alfresco, rooftop, fire pits
- Wellness
- Convertible Spaces

➤ Types

- Satellite Campuses
- Urban Settings
- Rental Retirement Communities

Learn, Educate, Act, Repeat

BB&T Capital Markets

Developing sophisticated systems for success

How CARF accreditation exposes organizations to the systems they need to thrive

INTRODUCTION

One of the best ways for various professional organizations to improve is by learning from others.

My recent visit to very quickly has become an essential part of my life. I am excited to see how CARF accreditation is important to the success of our organization.

BACKGROUND

Early in my career, I was part of a team that was responsible for the merger and acquisition of two companies. The process was very challenging, but it was also very rewarding. I learned a lot about the importance of communication and collaboration in a complex environment.

ADDITIONAL

In 2011, after the merger, I was asked to lead a team that was responsible for the integration of the two companies. This was a challenging task, but I was determined to succeed. I focused on communication and collaboration, and we were able to successfully integrate the two companies.

A CHALLENGE

In 2011, after the merger, I was asked to lead a team that was responsible for the integration of the two companies. This was a challenging task, but I was determined to succeed. I focused on communication and collaboration, and we were able to successfully integrate the two companies.

BB&T Capital Markets

A Case Study

Successful Execution of Strategic Plan: Being Adaptive is Key

By John Franklin, Managing Director/Group Head, BB&T Capital Markets Healthcare Finance Group

SUMMARY

As life plan communities expand, Aldergate is facing a new challenge: how to adapt to the changing needs of the market. This paper will explore the challenges Aldergate is facing and how it is adapting to the market.

BACKGROUND

Aldergate is a life plan community that has been successful for many years. However, the market is changing, and Aldergate is facing new challenges. This paper will explore the challenges Aldergate is facing and how it is adapting to the market.

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BB&T Capital Markets

Leadership Lessons From The Battle Of Gettysburg

By John Franklin, Managing Director/Group Head, BB&T Capital Markets Healthcare Finance Group

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BB&T Capital Markets

Embracing the Risks of Senior Living Development

INTRODUCTION

Not-for-profit senior living organizations are at a crossroads. The organizations who choose to lead the change in their markets will continue to deliver on the promise of their mission, but those who choose to do nothing risk becoming irrelevant.

If Organizations can no longer rest on their laurels, how should providers act on the opportunities available to them with confidence? Challenges and risk define senior living development. In fact, a well-known senior living community posts the "Six Phases of a Project Financing," shown in the image below. Anyone familiar with securing a home mortgage or financing a project can likely relate to some or all of the phases:

1. Enthusiasm
2. Disillusionment
3. Panic
4. Search for the Guilty
5. Punishment of the Innocent
6. Praise and Honors for the Non-Participants

The stages are (meant to be) tongue-in-cheek, but when a project does not go as planned, initial enthusiasm can quickly dissolve into panic and a search for someone to blame. The process can be difficult, however, choosing to do nothing may prove an even riskier strategy.

The Senior Living Spectrum

The sheer breadth of opportunities available to senior living providers (independent living, assisted living, nursing care, home health, hospice, PACE, etc.) makes the complexity of senior living nearly endless. This choice creates a seemingly unenviable list of possibilities to evaluate (whether choosing to enter or exit a particular business line). Each of these opportunities has its own set of quantitative and qualitative means of analysis. There simply is not enough space to address each one, so this paper will focus on the specifics of senior living community development (new communities, expansions, and repositionings).

BB&T Capital Markets

Ready to Ride the Wave?

By Roger Randall, Senior Vice President, BB&T Capital Markets

So much has been made of the coming age wave, the so-called "Silver Tsunami." What does this really mean for providers? If a rising tide lifts all boats, will this population wave buoy the fortunes of senior living providers nationwide? Or will it carry providers out to sea with no hope of return?

First, some data to frame the situation. According to the report from the Joint Center for Housing Studies of Harvard University entitled *Projections for Housing a Growing Population: Older Households 2015-2035*, as of 2015 there were 12.1 million seniors (7.8 million households) age 60 or older. This population is expected to increase 30 percent to 15.7 million (10.5 million households) by 2035. In fact, by 2035, one out of every nine households will be headed by someone 60 years of age or older. These people will put enormous demands on our resources, forever changing the senior living landscape.

As the population ages, the prevalence of disease and disability increases as well. There are 100,000 assisted living units dedicated to memory care across the country. It is projected there will be 4.8 million people age 65 and older with dementia in 2025, increasing to 6 million by 2035. These figures are based on the assumption the prevalence of dementia will actually decrease over this time period (as it has each decade since 1975). If this decrease does not happen or is slower than projected, the number of people with dementia could grow by millions more. Assuming as of 2015 there were 4.8 million people with dementia and national occupancy of 90 percent, that indicates 3.2 percent of the population with dementia aged 65 and older lived in an assisted living unit dedicated to memory support. Assuming this ratio remains unchanged, by 2035 a further 23,400 people will require assisted living memory support accommodations. In less than 20 years, that's another 65,000 units of memory care assisted living in need of replacing right now. All told, by the time today's newborns graduate from high school, the industry will need to construct at least 88,000 memory support assisted living units to meet the need.

Providers should necessarily be cautious about building units to address the need for memory care. The population with dementia is growing, but the population demand from the generation immediately following (Gen X) is not. This is not the case. Gen X did not start out smaller than the Boomers, but immigration and lower mortality rates have allowed it to grow to similar size. There is a projected slow-down between 2040 and 2045, but once the population becomes seniors in 2050, the older population

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Possible Elimination Of Labor Could Impact Senior Living Communities

Regulators Look To Possibly Replace Key Financial Benchmark

SUMMARY

As life plan communities continue to explore strategies to remain relevant, Aldergate Retirement Community, Inc. (Aldergate) illustrates how proper organizational alignment, effective corporate governance and excellent executive leadership can create a successful outcome. Aldergate has been successful in creating a successful outcome by creating best practices and sophisticated systems (see related BB&T White Paper, *How to Create a Successful Outcome*).

At that point, Suzanne and her board began to embark on a very intentional strategic planning process that eventually led to a major repositioning of the campus, including:

- Clearing CAHF (Commission on Accreditation of Rehabilitation Facilities) accreditation, which benefited the organization as much by creating best practices and sophisticated systems (see related BB&T White Paper, *How to Create a Successful Outcome*).

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Implications of Recent Tax Reform

What Tax-exempt Borrowers Should Know

By Lynn Daily, Managing Director, BB&T Capital Markets Healthcare Finance Group

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Admiral (Ret.) William H. McRaven: Interesting Facts

- Attended University of Texas on track scholarship
- Naval Postgraduate School Master's Degree Thesis: *"The Theory of Special Operations"*
- Organized *"Operation Neptune Spear"* against Osama bin Laden
- Before retiring from the Navy, attained *"Bull Frog"* distinction as longest-serving Navy SEAL still on duty at the time
- Former Chancellor for University of Texas System (2015-2018)



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