FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Presbyterian Retirement Communities OG (FL) at 'A-'; Outlook Stable

Fri 15 Dec, 2023 - 3:43 PM ET

Fitch Ratings - New York - 15 Dec 2023: Fitch Ratings has affirmed at 'A-' the Issuer Default Rating (IDR) for the Presbyterian Retirement Communities Obligated Group (PRC OG) and has also affirmed the rating on various series of revenue bonds issued by the St. Johns County Industrial Development Authority and the Orange County Health Facilities Authority on behalf of the PRC OG at 'A-'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Presbyterian Retirement Communities Obligated Group (FL)	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
Presbyterian Retirement Communities Obligated Group (FL) /General Revenues/1 LT	LT	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The 'A-' rating reflects the expected resilience of the PRC OG's financial profile through Fitch's forward-looking scenario analysis, given its robust business profile, which is characterized by very strong revenue defensibility as a multi-campus, regionally diverse life plan community (LPC), and sound operating and capital metrics.

The PRC OG has a mixed financial profile. Cash-to-adjusted debt falls outside Fitch's criteria's suggested rating category (it was approximately 51% at FYE 2023; March 31 YE), while maximum annual debt service (MADS) coverage is consistent with the 'A' category, historically at about 2.0x. The lower cash-to-adjusted debt reflects the high levels of capital spending (annually above depreciation) and more recently investment market volatility.

The rating also factors in PRC OG's growth strategy, which is generally pursued through independent living (IL) expansions on existing campuses or through acquisitions of other LPCs. While key leverage metrics can be stressed for periods of time, Fitch expects that these metrics will return to historical levels over a three to five-year period as IL expansions and acquisitions are absorbed. The PRC OG is currently moving forward on IL expansions on two of its campuses. Long-term bonds were issued for these expansions in 2020, and the PRC OG will replenish its balance sheet with new entrances fees as the expansion IL units fill.

SECURITY

The bonds are secured by a pledge of gross revenues of the PRC OG and a first mortgage lien on certain PRC OG properties.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

Sizable Multi-Market LPC Provider

The strong revenue defensibility is supported by good demand for services as indicated by historical occupancy of above 90% across all three levels of care, with more than 3,600 total units in service in FY23. For the first six months of FY24, IL, assisted living (AL), and skilled nursing facility (SNF) occupancies averaged 92%, 93%, and 93%, respectively. The PRC OG operates 10 OG campuses located across six distinct Florida markets -- Orlando, St. Augustine, Jacksonville, Tallahassee, St. Petersburg, and Bradenton. There is minimal overlap among the respective markets. Competition varies by community and Florida overall has many senior living providers as the product is very well accepted in the state.

Fitch views the market diversity as mitigating demand risk at any single site and supporting expectations for PRC to maintain its competitive position. Demographics in PRC's markets are mixed, but generally consistent with or better than state and national levels, and the PROC OG has been able to consistently raise its rates. Additionally, moderate IL pricing and competitive service offerings have helped the PRC OG maintain the steady occupancy levels, further offsetting competitive concerns.

Operating Risk - 'bbb'

Sizable, Growing System **with rebounding Operating Metrics**

The midrange assessment reflects operating metrics that are slightly light for a Type 'B' contract (operating ratios are above 100%), a steady level of capital spending that is consistent with a system of PRC's size, and capital metrics that are solidly midrange. Fitch expects operating metrics to improve slightly with the addition of St. Augustine into the OG. Net operating margin (NOM) and NOM-adjusted (NOMA) averaged -5.6% and 16%, respectively, between FY19 and FY23, including weaker results in FY22 (-4.4% NOM) and FY23 (-6.5% NOM). The weaker performance in FY23 was driven by macro staffing and inflationary pressures, which was offset by a strong year for entrance fees (NOMA improved from 12.7% in FY22 to 13.5% in FY23). Operations have shown good improvement in FY24, returning closer to historical levels, with 2.8% NOM and 20.4% NOMA through six months FY24.

The Capital spending ratio is expected to remain above 100%. Highlighted capex is focused on IL expansion, with additional supporting AL investments. The PRC OG's operational performance in FY23 was weaker driven by staffing and inflationary pressures being experienced across the sector. This was offset by a strong year for entrance fees. Operations have shown good improvement in FY24, returning closer to historical levels.

Capital-related metrics are consistent with the midrange operating risk assessment. MADS represented a moderate 8% of FY23 revenues and debt to net available has ranged from 6.7x to 8.2x in the last four years. Revenue-only coverage is weaker, consistently under 0.5x, reflecting the softer operating ratios. Fitch notes that despite the thinner FY23 performance, MADS coverage remained above 2.0x.

Financial Profile - 'a'

Financial Profile Stable Through a Moderate Stress Scenario

Fitch expects key leverage metrics to remain consistent with the current financial profile through the current economic and business cycle. At FYE 2023, the PRC OG had unrestricted cash and investments of approximately $154 million. This represents about 50% of total adjusted debt (with the addition of debt service reserve funds). Days cash on hand (DCOH) was 234 days.

Fitch's baseline scenario shows the PRC OG maintaining operating and financial metrics that are consistent with the current rating and slightly better than recent historical levels of performance (operating ratios closer to 100% and NOMAs above 15%), driven by the addition of new ILs, and the continued positive effect of St. Augustine in the OG, including the added net entrance fees from St. Augustine.

As part of the forward look, Fitch assumes an economic stress. Despite the stress, the PRC OG's cash-to-adjusted debt levels remain consistent with Fitch's expectations at the current rating level, with MADS coverage steady and cash-to-adjusted debt remaining outside the suggested rating category. DCOH remains above 200 days in the base case and is neutral to the rating outcome.

Asymmetric Additional Risk Considerations

No asymmetric risks informed the rating assessment outcomes.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Cash-to-adjusted debt that is expected to remain below 55%, particularly if coupled with reduced cash flow;

--Weakened cash flow such that debt service coverage is consistently below 2.0x and unrestricted liquidity growth flattens.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Key operating and capital metrics strengthen such that the PRC OG's operating risk profile moves to strong from midrange;

--Growth in unrestricted liquidity and stronger cash flow, such that cash-to-adjusted debt stabilizes above 110% and debt service coverage is consistently above 3.0x.

PROFILE

CREDIT PROFILE

Founded in 1954, PRC is a Florida not-for-profit organization focused on residential and healthcare communities for older adults. The PRC OG consists of seven members, five of whom own and operate 10 LPCs in Jacksonville, Orlando, Winter Park, Bradenton, St. Petersburg, St. Augustine and Tallahassee, FL. As of March 31, 2023, the OG consisted of 2,340 ILUs, 569 ALUs and memory care units, and 722 SNF beds. Total operating revenues in FY23 were approximately $252 million. Fitch's analysis and all figures cited in this press release are based on the OG's financial statements.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Gary Sokolow
Director
Primary Rating Analyst
+1 212 908 9186
gary.sokolow@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Leonard Siegel
Senior Analyst
Secondary Rating Analyst
+1 646 582 3492
leonard.siegel@fitchratings.com

Mark Pascaris
Senior Director
Committee Chairperson
+1 312 368 3135
mark.pascaris@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (pub. 05 Apr 2023) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v2.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

St. Johns County Industrial Development Authority (FL)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.