FitchRatings

22 Feb 2019 | Affirmation

Fitch Affirms Church Home of Hartford, Inc. D/B/A Seabury (CT) Revs at 'BB'; Outlook Stable

Fitch Ratings-New York-22 February 2019: Fitch Ratings has affirmed the rating on the following revenue bonds issued by the State of Connecticut Health and Educational Facilities Authority on behalf of Church Home of Hartford, Inc. D/B/A Seabury (Seabury OG) at 'BB':

--$52.5 million healthcare facility expansion issue (Church Home of Hartford Incorporated Project), series 2016A fixed rate bonds;
--$3.7 million healthcare facility expansion issue (Church Home of Hartford Incorporated Project), series 2016B-1 tax exempt mandatory pay down securities (TEMPS-80SM).

Fitch has also affirmed the rating on the following parity bonds issued on behalf of Seabury OG at 'BB':

--$31.5 million Public Finance Authority healthcare facility expansion/refunding bonds (Church Home of Hartford Incorporated Project), series 2015A.

The Rating Outlook is Stable.

SECURITY
The bonds are secured by a pledge of gross revenues of the obligated group (OG), a mortgage and a debt service reserve fund.

KEY RATING DRIVERS
CAMPUS REPOSITIONING PROJECT LARGELY COMPLETE: Seabury OG has very nearly completed the last phase of its three-part, $75 million campus repositioning and independent living unit (ILU) expansion, with only minor items left to be done as part of its phase C health center renovation. Phase A, which included new and renovated dining venues and front entrance, opened in summer 2017. Phase B, which included construction of 68 new ILUs, opened in December 2017. About 66 or 96% of the phase B ILUs were occupied and all were presold as of the end of January.

ADEQUATE FINANCIAL PROFILE: Seabury OG's operating ratio improved to 109.8% in fiscal 2018 from 112.4% in fiscal 2017, still weaker than its five year average of 101.6%, but adequate for the rating level and in line with Fitch's expectations for operating stabilization at its last review. Due to Seabury OG's repayment of most of its temporary debt, liquidity deteriorated to about $17.7 million in unrestricted cash and investments, equating to 208 days cash on hand (DCOH) in fiscal 2018 (year-end Sept. 30), compared to about $18.2 million in unrestricted cash and investments and 240 DCOH in fiscal 2017, though cash-to-debt improved to 20.2% in fiscal 2018 from 16.8% in fiscal 2017.

HIGH LONG-TERM LIABILITY PROFILE: Seabury OG's debt metrics remain high, but are moderately improved following repayment of most of its short-term debt from initial ILU entrance fees in fiscal 2018. Debt-to-net available was a high 16.3x in fiscal 2018, but improved from about 30x in fiscal 2017. Maximum annual debt service (MADS) as a percentage of revenue in fiscal 2018 was 16.8%, compared to 19.6% in fiscal 2017. MADS coverage also improved to 1.0x in fiscal 2018 from a thin 0.6x in fiscal 2017 and Fitch expects Seabury's coverage ratios to continue to improve with additional monthly service revenues from the new ILUs. MADS will not be tested until 2021, after the new ILUs are filled and stabilized. Fitch expects Seabury to repay the rest of its short-term debt in fiscal 2019.

GOOD OPERATING PROFILE: There is competition in the service area. However, Seabury OG's long operating history and entrance fee pricing, which are in line with area housing prices and competitor pricing, have kept occupancy high. An average of approximately 88% of Seabury OG's total ILUs, 92% of its assisted living units (ALUs) and 90% of its skilled nursing facility (SNF) beds were occupied in fiscal 2018. Seabury OG markets itself as an active community, which has attracted younger seniors, resulting in average yearly turnover that is much lower than sector averages.

RATING SENSITIVITIES

OPERATING IMPROVEMENT EXPECTED: The rating and Outlook reflect Fitch's expectation that project stabilization of the expanded health center and new ILUs will be financially accretive and result in stabilization, if not further improvement of Church Home of Hartford, Inc. D/B/A Seabury's (Seabury OG's) profitability and liquidity metrics. Though not expected, a material deterioration in financial performance could have negative rating implications.

PROJECT STABILIZATION, MODERATING DEBT BURDEN: Fitch expects Seabury OG's long-term liability profile to improve as it reaps the financial benefits of its campus repositioning and ILU expansion. Project stabilization and a moderating debt burden could, over time, lead to positive rating action, though the rating is likely to remain stable over the one- to two-year Outlook period.

CREDIT PROFILE

Seabury OG is a Type 'A' life plan community (LPC) located in Bloomfield, CT, just northwest of Hartford. Following the recent opening of phase B and C units, Seabury now includes 257 ILUs, 51 ALUs and 72 SNF beds. Seabury OG offers 67% and 80% refundable plans and a non-refundable plan.

Fitch bases its financial analysis on the results of the OG, which consists of Seabury, the senior living campus, and Seabury Meadows, which operates 58 memory support beds and is located adjacent to the senior living campus. Total OG operating revenues were $30.8 million in fiscal 2018.

Seabury also has two non-OG affiliated organizations, the Seabury Charitable Foundation and Seabury At Home, which is a LPC without walls. The financial performance of the affiliates is not included in Fitch's analysis.

CAPITAL PLAN LARGELY COMPLETED

In 2015, Seabury issued debt to fund a variety of projects as part of phase A of a large master facilities plan. The projects included a new front entrance and new bistro area, renovation of the kitchen and main dining space, art studio, salon and day spa, and renovation of administrative offices. These projects were completed in summer 2017.

With a second, $75 million debt issuance in fiscal 2016, Seabury moved forward with phases B and C of its master facilities plan. These phases included a large repositioning project that added 68 new ILUs and a renovation and expansion of AL and SNF areas, including a new, dedicated short-term rehab unit (net addition of two new ALUs and 12 new SNF beds) and additional parking. The construction also features a new chapel that seats up to 225 people, which was funded by Seabury from internal cash.

The phase B ILUs opened in December 2017. About 96% of the new units (66) were occupied and 100% were presold as of the end of January, which is well ahead of feasibility projections.

The phase C health center additions, including the new AL and SNF units, were completed in November 2017. Additional renovations to the health center are mostly complete and the outfitting of the new primary care space is about to begin.

The project was funded by three series of debt, two of which were short-term bonds, approximately $23 million, payable from initial entrance fees received on the new ILUs. As of fiscal year-end 2018, Seabury had repaid all $13.5 million of its series 2016B-2 bonds and approximately $5.5 million of its series 2016B-1 bonds. As of the end of January, Seabury had deposited sufficient entrance fees with the trustee to repay all but about $1.5 million of its remaining series 2016B-1 bonds, with final repayment expected imminently from the entrance fees collected on the last of the presold ILUs.

With the master facilities plan now largely complete, Fitch does not expect Seabury OG to issue additional debt in the near term.

Fitch generally views the projects positively, believing that they will be financially accretive to Seabury, enabling the campus to remain competitive over the longer term. Seabury's high occupancy and low turnover have historically limited revenue growth. The project increases the number of Seabury's ILUs by 36% and the total unit increase is approximately 22%, or 80 units, when including the additional ALUs and SNF beds.

STEADY HISTORICAL PERFORMANCE, IMPROVED FISCAL 2018
Historically, Seabury OG maintained a steady financial profile, with an operating ratio that was particularly strong for a type 'A' contract community. Operating performance weakened in fiscal 2017, with Seabury OG's operating ratio rising to 112.4%, due mainly to higher than average attrition in the ALUs and memory care units; however, performance improved in fiscal 2018 with an operating ratio of 109.8%, in line with Fitch's expectations for operating stabilization at its last review.

Fitch expects Seabury OG's financial profile to continue to stabilize, if not improve, in fiscal 2019 as more elements of the capital project come on line and are financially accretive to the community. Performance through the first quarter of 2019 shows further moderate improvement, with an operating ratio of 105.7% and liquidity of 228 DCOH. Though not expected, a deterioration in operating performance could be cause for negative rating action, especially if its results in deterioration of liquidity or coverage metrics.

LONG-TERM LIABILITY PROFILE
As of Sept. 30, 2018, Seabury OG had approximately $87.8 million of long-term debt outstanding, which is down from $107.9 million at Sept. 30, 2017, due to the repayment of most of its short-term debt. Following full repayment of the series 2016B-1 bonds, Seabury OG will have approximately $84.1 million of long-term debt outstanding. The Seabury OG has no swap exposure.

Seabury OG's long-term liability profile improved, but remained high in fiscal 2018, with MADS to revenue of 16.8% and debt-to-net available of 16.3x. These ratios are expected to moderate as the campus repositioning project stabilizes.

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Applicable Criteria

Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)

U.S. Public Finance Not-For-Profit Continuing Care Retirement Community Rating Criteria (pub. 30 Mar 2018)

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