

Fitch Affirms Friendship Village of Chesterfield's (MO) Revs at 'BBB-'; Outlook Stable

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the 'BBB-' rating on the following St. Louis County Industrial Development Authority issued on behalf of Friendship Village of West County (d/b/a Friendship Village of Chesterfield, FVC):

--\$23.5 million series 2012;

--\$21.6 million series 2007A.

The Rating Outlook is Stable.

SECURITY

The bonds are supported by a pledge of revenues, mortgage, and debt service reserve.

KEY RATING DRIVERS

ILU EXPANSION PROJECT: A 30-unit independent living unit (ILU) expansion and campus renewal project is underway, which Fitch believes will help keep FVC competitive in its service area. As of Oct 1, 2013 FVC had 29 pre-sales and one unit on a priority hold for its 30 new ILUs. Construction is expected to be completed by February 2014 and the project is on time and within budget.

SIZEABLE DEBT BURDEN: FVC remains significantly leveraged, though no additional debt is expected and completion of its expansion project should help moderate this over time. FVC covered maximum annual debt service of \$3.2 million at 1.2 times (x) in fiscal 2013 (year ended June 30). FVC's covenant calculation, based on actual annual debt service, was approximately 2.1x for fiscal 2013.

OCCUPANCY REMAINS STABLE: Independent living unit (ILU) occupancy remains solid at 92% through the interim period, producing steady turnover entrance fee levels. However, health center occupancy dipped to 85% through the three month interim period ended Sept. 30, 2013, due in part to seasonal impacts and higher attrition. The drop in occupancy in the health center is less of a concern since FVC is a Type A CCRC.

ADEQUATE LIQUIDITY: Per Fitch's calculation, FVC's liquidity was steady at Sept. 30, 2013, with \$14.9 million in unrestricted cash and investments equating to 352.8 days of cash on hand (DCOH), and a 4.7x cushion ratio, and slightly below Fitch's 'BBB' category medians of 371.3 DCOH and 6.9x cushion ratio. Fitch expects FVC's capital plans will limit significant liquidity growth over the next few years; however material erosion is not anticipated.

RATING SENSITIVITIES

LIMITED FLEXIBILITY: FVC will need to maintain strong cash flow generation and robust turnover entrance fee receipts to cover its increased debt service requirements, as capitalized interest is depleted in fiscal 2014 following the completion of its ILU expansion project. Fitch believes FVC has limited flexibility at its current rating level for any negative variance to projected net turnover entrance fees, which is necessary to support debt service coverage.

CREDIT PROFILE

Friendship Village of West County (d/b/a Friendship Village of Chesterfield) is a Type-A continuing care retirement community with 246 ILUs, 36 villa apartment units, 22 residential care beds and 99 skilled nursing beds, with an additional 30 ILUs currently under construction. FVC is located on 34 acres of land in Chesterfield, MO, approximately 25 miles west of St. Louis. Total revenues in fiscal 2012 were \$15.6 million, as calculated by Fitch.

FVC covenants to provide both annual disclosure (within 150 days) and quarterly

disclosure (within 45 days) to bondholders, including both financial and occupancy data. FVC has consistently provided Fitch with routine disclosure and good access to management.

ILU PROJECT UNDERWAY

Through Sept. 30, 2013 FVC was \$7.5 million through its \$13.5 million expansion project, which remains on time and within budget. FVC has presold 29 out of the 30 new ILUs, with those depositors putting down a 5% (of entrance fee) deposit. The project remains on schedule for completion in February 2014, with move-ins slated for March 2014.

Fitch believes the ILU expansion and campus renovation will help FVC remain competitive within a service area which includes several communities, particularly as the 30-unit expansion will feature larger units with more modern fixtures than those currently available. Fitch also notes that FVC is one of only two true Type 'A' lifecare products within the St. Louis metro service area, which is a differentiating factor to residents. The other is Friendship Village of Sunset Hills (FVSC, revs rated 'A-'), an affiliated CCRC located approximately 18 miles to the south. FVC management has a robust marketing program in place focused on the financial advantages of the Type 'A' contract.

SIGNIFICANT LEVERAGE

Fitch believes FVC's debt burden is significant, allowing only minimal room for any operating volatility. As of Sept. 30, 2013 total debt equaled approximately \$45 million, which is 100% fixed rate. Maximum annual debt service is \$3.2 million (starting in 2014, once capitalized interest runs out), which FVC covered at 1.2 times (x) and which represent a high 28.1% of total revenues in fiscal 2013 (year ended June 30). FVC's debt service covenant test is based on actual annual debt service (AADS), and for fiscal 2013 FVC produced approximately 2.1x coverage ahead of the 1.2x requirement.

FVC has no swaps, and no plans for additional debt issuance at this time. Fitch does note that FVC is considering future phases of a campus restructuring which may include a new skilled nursing center, conversion of existing ILUs to assisted living, and additional

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ILUs. However, these plans are still very preliminary, will depend upon market conditions, and are not expected to become imminent until completion and stabilization of the current 30-unit expansion. These additional capital plans are not factored into the rating at this time. FVC's capital budget calls for approximately \$1.7 million in routine capital expenditures annually going forward, which should be manageable against its total net available, which has averaged \$3.4 million since fiscal 2010.

Additional information is available at 'www.fitchratings.com'

Applicable Criteria and Related Research:

--'Rating Guidelines for Nonprofit Continuing Care Retirement Communities' (July 12, 2012).

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http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=40171

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