

Fitch Affirms Nazareth Living Center's (MO) Revs at 'BB'; Outlook Stable

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the 'BB' rating on the following St. Louis County Industrial Development Authority (MO) bonds, issued on behalf of Nazareth Living Center (NLC):

--\$7.6 million series 1999 refunding revenue bonds.

The Rating Outlook is Stable.

NLC has an additional \$8 million in series 2012 fixed rate bonds which Fitch does not rate.

SECURITY

The bonds are secured by a pledge of gross revenues, a first mortgage lien, and a debt service reserve fund.

KEY RATING DRIVERS

ILU PROJECT COMPLETED: NLC successfully constructed and sold 50 new independent living units (ILUs) in 2013, which opened in July 2013. The Sisters of St. Joseph of Carondelet (CSJ) agreed to purchase and occupy 30 of those ILUs, and NLC was successful in marketing and selling the remaining 20 ahead of schedule. Fitch believes the project should preserve NLC's position in the very competitive St. Louis market, as well as bolster its revenue base over the near term.

BALANCE SHEET PRESSURE: The 'BB' rating reflects NLC's significant debt burden and stressed balance sheet. Total long-term debt was \$15.4 million at Sept. 30, 2013, equaling a high 10.8x debt to net available and 69% debt to capitalization. NLC used

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excess entrance fee proceeds to repay a \$1.9 million short-term note to CSJ, and its balance sheet remains light, providing only limited cushion against operating risk. Unrestricted cash and investments equaled \$3.3 million at Sept. 30, 2013, equating to 75 days of cash on hand (DCOH) and 21.5% cash to debt.

OCCUPANCY REMAINS MIXED: While the new ILUs filled to 100% ahead of schedule in November, total assisted living unit (ALU) occupancy remained low at 57.5% overall through the three-month interim period ended Sept. 30, 2013. Skilled nursing (SN) occupancy is steady at 86%. Occupancy in AL and SN remains pressured due in part to the competitive service area.

ADEQUATE OPERATING PERFORMANCE: NLC continues to produce sufficient operating cash flow to provide 1.1x coverage of maximum annual debt service (\$1.3 million) in the three-month interim period on a revenue only basis. Once NLC starts collecting turnover entrance fees and amortizing revenue in fiscal 2014, coverage is expected to improve accordingly.

RATING SENSITIVITIES

LIMITED FINANCIAL FLEXIBILITY: While not anticipated, operating volatility against NLC's limited liquidity and large debt burden would likely result in negative rating pressure. However, Fitch expects NLC to begin growing liquidity over the near term as its capital needs wane and it begins to accrue its new entrance fee revenue source.

FUTURE CAPITAL PLANS: Over the longer term, NLC may execute a additional campus repositioning or expansion as part of its overall strategic plan. Fitch does not anticipate this within the next 12-18 months, and will continue to monitor any plans as they become imminent, taking rating action as necessary.

CREDIT PROFILE

Located in St. Louis, MO, NLC operates 50 ILUs, 150 ALUs and 140 SNF beds,

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generating \$15.4 million in total revenue in fiscal 2013. Benedictine Health System (BHS) and the Sisters of St. Joseph of Carondelet (CSJ) are joint members of NLC.

NLC is required to disclose only annual financial statements, disseminated via the Municipal Securities Rulemaking Board's EMMA system. However, Fitch views NLC's consistent voluntary distribution of interim financials and occupancy statistics favorably.

ILU PROJECT COMPLETEDNLC completed its \$16 million 50-unit ILU expansion project on time and within budget, and reached 100% occupancy by November 2013 ahead of the forecast. Fitch expects this project will help diversify its revenue base, which has been heavily reliant on SNF revenues and CSJ occupancy. Further, the ILU product should help NLC maintain market relevance within a competitive service area, as it is the only religiously-affiliated type-C fee-for-service entrance fee model in the primary target market.

Still, Fitch notes NLC will be evaluating the future needs of its assisted living and memory care service lines as part of an ongoing strategic plan. Its ALU census continues to be light against competitors with comparatively newer physical plants.

SIGNIFICANT DEBT LEVELThe 'BB' rating reflects NLC's debt burden against a light balance sheet, which provides very limited room for operating volatility. Still, NLC has produced consistent coverage on a revenue-only basis since 2008, and its new ILU service line should help bolster revenues and coverage going forward. NLC has no current plans for additional debt, and annual capital expenditures are budgeted near \$400,000 through 2016.

STEADY CASH FLOWDespite somewhat mixed occupancy, NLC has generated relatively consistent profitability as its SNF revenues have remained steady. For fiscal 2013, NLC produced an 8.6% net operating margin and 93.4% operating ratio, which held steady through the three-month interim period at 7.2% and 98%, respectively. Fitch expects NLC will maintain steady to improving operating results, and NLC's fiscal 2014 budget calls for a 10.6% net operating margin and 1.5x maximum annual debt service (MADS) coverage as ILU revenues begin positively impacting cash flow.

Additional information is available at www.fitchratings.com .

Applicable Criteria and Related Research:--'Rating Guidelines for Nonprofit Continuing Care Retirement Communities' (July 10, 2013).

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