



Fitch Affirms Milwaukee Catholic Home (WI) at 'A-'; Outlook Stable

Fitch Ratings-New York-14 December 2015: Fitch Ratings has affirmed its 'A-' implied general revenue bond rating of Milwaukee Catholic Home (MCH), WI.

The Rating Outlook is Stable.

MCH has outstanding two series of private placements totaling \$15.3 million at Sept. 30, 2015, which Fitch does not rate.

KEY RATING DRIVERS

SOUND LIQUIDITY: The 'A-' rating is supported by sound liquidity, with unrestricted cash and investments totaling \$20.2 million at Sept. 30, 2015. While slightly lower than prior years due to weak investment performance, liquidity metrics remain mostly in line with Fitch's 'A' medians and are consistent with its operating profile.

CONSISTENT FINANCIAL PROFILE: MCH's overall credit profile is characterized by steady profitability that has generated adequate cash flows to support stable liquidity levels and good revenue-only debt service coverage. Consistent financial results in 2014 and year-to-date 2015 reflect recovered occupancy rates and modest revenue growth.

STRONG REVENUE-ONLY COVERAGE: Supported by consistent profitability, revenue-only coverage of maximum annual debt service (MADS) was good at 1.8x in the fiscal year ended Dec. 31, 2014 and 1.6x in the nine-month interim period ended Sept. 30, 2015 compared to the median of 1.5x. MCH does not rely on entrance fee receipts, and instead depends on effective management of its skilled nursing facility (SNF) in order to generate sufficient debt service coverage.

RATING SENSITIVITIES

STABLE FINANCIAL PERFORMANCE EXPECTED: MCH's Type B structure and mostly refundable entrance fee contracts lead to lower cash flow accumulation compared to peers with nonrefundable contracts. As a result, sustaining strong operating ratios and revenue-only MADS coverage in excess of the median is essential.

NO ADDITIONAL DEBT: Fitch believes there is little capacity for additional debt at the current rating level. MCH does not have any plans for new debt in the near term.

CREDIT PROFILE

Established in 1913, MCH is a type-B continuing care retirement community (CCRC) facility located just north of downtown Milwaukee, WI. The community includes 118 independent living units (ILUs), 24 assisted living units (ALUs), and a 122-bed SNF. In fiscal 2014, MCH generated \$18.2 million in total operating revenue.

Consistent Financial profile

MCH's historical core operating profitability is consistent with an 'A' category rating, although the bottom line has fluctuated somewhat based on investment returns. Driving its core operating results is sustained improvements in occupancy in 2014 and in the nine-month 2015 interim period at 92% (ILU), 87% (ALU),

and 85% (SNF). As a result, top-line revenue showed growth in 2014 and 2015, following years of stagnation.

Profitability metrics are stable but mixed. Operating ratios of 92.5% in 2014 and 91.1% in the interim period compare favorably against the 'A' category median of 94%. However, 2015 net operating margin and excess margin were relatively weak at 5.1% and 2.4%, respectively, compared to the 'A' medians of 7% and 5.4%. While cash flow metrics lag the medians, overall profitability is consistent with historical levels and reflect MCH's lack of reliance on entrance fees.

MCH is focused on adapting to the changing market needs by evaluating service offerings, geographical coverage, and strategic partnerships and collaborative needs. Effective management of the SNF is critical, as it generates over 60% of annual revenues. MCH's five-star nursing home score and location adjacent to Columbia-St. Mary's Hospital (part of Ascension Health, revenue bonds rated 'AA+') has generated steady referral volume of Medicare residents for its SNF. Fitch expects MCH to navigate pressure on reimbursement and length of stay and adapt to eventual shifts related to healthcare reform.

Adequate Liquidity

At Sept. 30, 2015, unrestricted cash and investments totaled \$20.2 million, slightly down from Fitch's last review, as a result of investment losses, but essentially flat over a five -year period. Days cash on hand of 452 and cushion ratio of 13.7x lag the respective 'A' median of 681 days and 18.5x, but cash-to-debt of 132.6% remains solid against the median of 125.1%. Overall balance sheet ratios are consistent with Fitch's expectations and adequate for the rating. Capital plans are projected to near depreciation in the near term and should continue to support stable liquidity levels.

Stable Regional Characteristics

The competitive landscape has been stable, despite Fitch's concerns around potential changes as Life Care Services (LCS) began providing management services to two communities within MCH's service area in 2012, Newcastle Place and Eastcastle Place. Management reports that there has been no material impact on MCH. Otherwise, competitive dynamics in the service area remain stable.

Sold Revenue-Only Coverage

Revenue-only MADS coverage was good at 1.8x at fiscal 2014 and 1.6x through the nine-month interim period compared to the median of 1.5x. MADS coverage; turnover entrance fees was only slightly higher at 1.9x in 2014, reflecting MCH's 90%-95% refundable entrance fee structure. Debt burden is moderate with MADS as a percentage of revenues of 7.7% in fiscal 2014 and 8% in the interim period against the median of 9.2%.

DEBT PROFILE

Long-term debt totaled \$15.3 million at Sept. 30, 2015, consisting of the series 2013 and 2012 bonds. The series 2013 bonds (\$9.9 million) are fixed rate, privately placed with Associated Bank, and carry a 13-year term to maturity. The series 2012 bonds (\$5.3 million) are variable rate, directly purchased by Town Bank, and have an initial term of 10 years. Life of bonds is relatively short, and MADS of \$1.5 million drops to \$1 million in 2026 and to \$393,000 in 2027. MCH's has entered into a swap with SMBC Capital Markets, Inc. to cap the maximum interest rate at 2.85% at current liquidity levels.

DISCLOSURE

MCH does not have public financial reporting requirements, as all bonds are privately held. Disclosure to Fitch has been timely and thorough.

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Applicable Criteria

Not-for-Profit Continuing Care Retirement Communities Rating Criteria (pub. 04 Aug 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=868824)
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=996675)
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