



Fitch Assigns 'A-' IDR to Milwaukee Catholic Homes (WI); Outlook Stable

Fitch Ratings-New York-12 December 2017: Fitch Ratings has assigned an 'A-' Issuer Default Rating (IDR) to Milwaukee Catholic Homes (MCH), WI. Additionally, Fitch has withdrawn the 'A-' implied general revenue bond rating on MCH.

The Rating Outlook is Stable.

MCH has approximately \$13.9 million outstanding in privately placed debt, which Fitch does not rate.

KEY RATING DRIVERS

STRONG LIQUIDITY: The 'A-' rating reflects MCH's strong liquidity position as its unrestricted cash and investments of \$19.6 million in fiscal 2016 translate into a solid 400 days cash on hand (DCOH), 142.1% cash to debt, and 13.3x cushion ratio. While DCOH remains below the median, MCH's cash to debt and cushion ratio both remain above or on par with Fitch's 'A' category medians of 125.2% and 15.2x, respectively.

SOLID CENSUS: Despite operating in a somewhat competitive area, MCH's location and favorable reputation continued to translate into strong census levels across all three of its service lines. At the nine-month interim period (ending Sept. 30, 2017), MCH has averaged a solid 94% in its independent living units (ILUs), 93% in its assisted-living units (ALUs), and 87% in its skilled-nursing facility (SNF).

STRONG REVENUE-ONLY COVERAGE: MCH's consistent though declining profitability levels have continued to translate into robust revenue-only coverage levels which have averaged 1.7x over the last three fiscal years. Additionally, higher than normal cash flow in fiscal 2016 has improved MCH's maximum annual debt service coverage (MADS) coverage to 2.6x, which has historically been below 2.0x.

LIGHT DEBT BURDEN: MCH's MADS of \$1.5 million equates to a low 7.4% of total fiscal 2016 revenues, comparing favorably to Fitch's 'A' category median of 8.6%. Furthermore, MCH's debt-to-net available of 3.5x in fiscal 2016 also compares favorably to the median of 4.3x.

RELIANCE ON SNF REVENUES: MCH's revenue base is highly driven by its SNF, which accounts for a high 61% of its net fiscal 2016 resident revenues. Additionally, Medicaid comprises a high, and growing, 47% of MCH's total gross SNF revenues in fiscal 2016. MCH's high reliance on SNF revenues leaves it susceptible to ongoing changes in the long-term care landscape as well as governmental reimbursement pressures.

RATING SENSITIVITIES

OPERATIONAL/LIQUIDITY DETERIORATION: Any weakening in MCH's operational performance, which results in lower revenue-only coverage levels or deterioration in its liquidity position would put negative pressure on the rating.

CHANGES IN SNF LANDSCAPE: Given MCH's high exposure to SNF revenues and Medicaid reimbursement, any adverse changes to the skilled nursing care landscape or heightened government reimbursement pressure, could result in negative rating action.

CREDIT PROFILE

Established in 1913, MCH is a type-B continuing care retirement community located just north of downtown Milwaukee, WI. MCH's community consists of 117 ILUs, 24 ALUs, and a 117-bed SNF. Over the last year, MCH has downsized its SNF from 122 beds to 117 beds. MCH primarily offers 90% refundable modified (type-B) contracts to prospective residents, with the ability to choose from a higher entrance fee/lower monthly fee or a lower entrance fee/higher monthly fee option.

Additionally, MCH does offer rental contracts, which were chosen by approximately 16% of current residents. The modified contracts come with 30 lifetime free days in MCH's SNF and all refunds are provided within 60 days from move-out. MCH has two affiliated entities: Milwaukee Catholic Management Services, LLC, a company providing services to unrelated entities, and Clare Gardens, a company which leases farmland that is used for growing organic produce. MCH had total operating revenues of \$19 million in fiscal 2016.

SOLID CENSUS DESPITE COMPETITIVE ENVIRONMENT

Fitch views MCH's primary service area as fairly competitive with Saint John's Communities (BBB/Stable), the Jewish Home/Chai Point Senior Living, and Eastcastle Place, all located within a few miles of MCH's campus. However, the market is somewhat segmented, as all the communities tend to differentiate themselves by contract type, sponsorship, and targeted resident population. MCH's favorable location, strong reputation, and Catholic affiliation support demand for its services.

Over the last three fiscal years, MCH has averaged a strong 95% in its ILUs, 90% in its ALUs, and 88% in its SNF. Additionally, solid census has been maintained through the nine-month interim period as evidenced by MCH's 94% occupancy in its ILUs, 93% in its ALUs, and 87% in its SNF. MCH's ability to maintain strong census and adapt to the changing SNF environment will be key to its rating, as approximately 61% of MCH's net resident revenues are derived from its SNF. However, MCH's relationship and location adjacent to Columbia-St. Mary's Hospital (part of Ascension Health; AA+/Stable) should continue to support solid SNF demand and has previously yielded strong referral volumes.

SUFFICIENT FINANCIAL PROFILE

MCH's strong census levels have translated into a consistent financial profile in recent years. In fiscal 2016, MCH had a 95% operating ratio and 5.1% net operating margin (NOM), which are both consistent with Fitch's 'A' category medians of 94.4% and 7.9%, respectively. Furthermore, this performance has been maintained through the nine-month interim as evidenced by MCH's 95.3% operating ratio and 7.6% NOM. However, while sufficient for its current rating level, these metrics are slightly lower than historical norms as MCH averaged a 91.8% operating ratio and 6.3% NOM through fiscals 2013-2015.

The solid profitability has produced strong revenue-only coverage of 1.6x in fiscal 2016, 1.7x in fiscal 2015, and 1.8x in fiscal 2014, all of which compare favorably to Fitch's 'A' category median of 1.2x. With little reliance on cash flow from entrance fees from turnover units, MCH's ability to maintain solid profitability and revenue-only coverage will continue to be an important factor in the rating. When including net entrance fees, MCH has averaged 2x MADS coverage and 7.7% NOM-adjusted over the last three fiscal years, which both trail the 'A' category medians of 1.2x and 25.2%, respectively.

Despite being 12% lower than 2013 levels, MCH's \$19.5 million in unrestricted cash and investments at the nine-month interim translate into a solid 418 DCOH, 148.6% cash to debt, and 13.3x cushion ratio. While the 418 days trail the 'A' category median of 753, MCH's cash to debt and cushion ratio both remain better or on par with the 'A' category medians of 125.2% and 15.2x, respectively. Overall, MCH's balance sheet metrics remain consistent with Fitch's expectations and are sufficient for its rating level.

DEBT PROFILE

As of fiscal 2016, MCH had approximately \$13.9 million in outstanding long-term debt, consisting of series 2013 and 2012 bonds. The \$9 million in series 2013 bonds are fixed-rate, privately placed with Associated Bank, and carry a 13-year term to maturity. The \$4.9 million in series 2012 bonds are variable-rate, directly purchased by Town Bank, and have an initial term of 10 years. Additionally, MCH has entered into a swap with SMBC Capital Markets, Inc. to cap the maximum interest rate of the series 2012 bonds at 2.8%. As of fiscal 2016, the current market value of the interest rate cap was \$69,592.

MCH's bonds have a MADS of approximately \$1.5 million, which drops to \$1 million in 2026 and \$393,000 in 2027. Overall, MCH's debt burden remains light and very manageable as MADS equates to a low 7.4% of total fiscal 2016 revenues, which compares favorably to Fitch's 'A' category median of 8.6%. Additionally, MCH's adjusted debt to capitalization of 45.3% and debt to net available of 3.5x in fiscal 2016 both compare favorably to the respective 'A' medians of 45.3% and 4.3x.

DISCLOSURE

MCH does not have public financial reporting requirements, as all bonds are privately held. However, MCH's 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/site/re/868824>)

Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017) (<https://www.fitchratings.com/site/re/898969>)

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