Fitch Affirms United Methodist Retirement Communities (MI) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-30 July 2015: Fitch Ratings has affirmed the 'BBB+' rating on the following bonds issued on behalf United Methodist Retirement Communities, Inc. (UMRC).

--$11,000,000 Michigan Strategic Fund limited obligation revenue bonds (United Methodist Retirement Communities, Inc. Project) series 2013.

The Rating Outlook is Stable.

SECURITY

The bonds are supported by a pledge of gross revenues, a mortgage interest in property and a debt service reserve fund.

KEY RATING DRIVERS

SOLID FINANCIAL PROFILE: UMRC's key financial ratios are solid and largely consistent with the upper level of the 'BBB' category. UMRC's strong operating profile, as evidenced by its 84.8% operating ratio in 2014, and solid coverage, as evidenced by its revenue-only debt service coverage above 2.0x in fiscal 2013 and 2014, are strong relative to Fitch's 'BBB' category medians.

MODEST DEBT BURDEN: UMRC's debt burden is moderate, with maximum annual debt service (MADS) equal to a low 7.0% of 2014 total revenues as compared to the 'BBB' category median of 12.3%. Debt to net available is below the 'BBB' category median of 6.3x.

GOOD OVERALL OCCUPANCY: As of June 30, 2015, occupancy was good across all service lines reflecting strong demand and affordable rental and type C contracts. In 2014, occupancy in Chelsea Retirement Community's (CRC) independent living units (ILU) and assisted living units (AL) improved to 89.5% and 92.1%, respectively.

ADEQUATE LIQUIDITY METRICS: At March 31, 2015 UMRC had $26.2 million in unrestricted cash and investments equating to 346 days cash on hand and 84.7% cash to debt. Fitch views URMC's liquidity metrics as solid given its rental and type-C contract types.

AGGRESSIVE DEBT STRUCTURE: Approximately $21.0 million of URMC's outstanding debt (64%) is in a bank placed variable-rate mode which Fitch views as somewhat aggressive. The bank debt is subject to renewal in 2019 and 2024 and acceleration. UMRC has hedged half of its interest rate risk with swaps.

RATING SENSITIVITIES

POTENTIAL CAPITAL PLANS: United Methodist Retirement Communities' is reviewing various capital plans which could total up to $30 million. Timing as well as sources of funding has not been determined at this time. While Fitch believes UMRC has some debt capacity at the current rating, the impact on the rating will be determined once plans are finalized.

CREDIT PROFILE

UMRC consists of two facilities, Chelsea Retirement Community (CRC) and Cedars of Dexter. CRC is a rental-only CCRC, with 122 ILUs, 66 ALUs, 86 memory care beds, and 85 skilled nursing beds (SNF) located in Chelsea, MI, about nine miles west of Ann Arbor. Cedars is a 60-unit, type C, entrance fee ILU in Dexter, MI. Operating revenues in 2014 totaled $31.7 million. Fitch analysis is based on the financial statements of the Obligated Group.

SOLID FINANCIAL PROFILE

UMRC's overall financial performance remains consistent with the upper range of the 'BBB' category. Over the past four years, net operating margin (NOM) has been consistent ranging between 11.0% and 12.2%. In 2014 UMRC posted a 12% NOM compared to 12.2% in 2013. In 2014, URMC's revenue only debt service coverage improved to 3.4x from 2.4x and 1.8x in 2013 and respectively. The improvement in coverage in 2014 reflects the impact of $3.5 million in realized investment gains due to portfolio rebalancing. Fitch does not expected that such coverage will be sustained in and expects coverage to be at or above 2.0x going forward.

Reflecting its contract type, UMRC enjoys solid core operating profitability. URM's operating ratio declined to 84.4% in 2014 from 86.2% in 2013 and 89.5% in 2012. UMRC has demonstrated expenditure flexibility, negotiating employee benefit costs well below 2015 budgeted increases. Current year budget calls for an operating ratio of 89%, which Fitch believes is achievable given UMRC's conservative budgeting and solid operating profile. Fitch expects that UMRC's continued efforts to focus on identifying and amplifying efficiencies will help maintain highly efficient operating performance.

Liquidity metrics were adequate for rental-only and fee-for-service contract types. Absolute liquidity has declined slightly since 2013, to $26.2 million in unrestricted cash and investments at Mar 31, 2015 from $28.3 million at Dec 31, 2013. Fitch expects that anticipated capital spending may mute future liquidity growth. UMRC's liquidity metrics are adequate for the rating with 346 days cash, 10.9x cushion ratio and

84.7% cash to debt.

MODEST DEBT BURDEN

UMRC's debt burden is low, with maximum annual debt service (MADS) equal to a low 7.0% of total revenues in comparison with 'BBB' category median of 12.3%. Debt to net available was solid at 3.7x in comparison to 'BBB' category median of 6.3x, buttressed by a strong year of realized gains, and still-strong at 2.0x in the three month interim through March 31, 2015.

MADS coverage by revenue only was strong at 3.4x as of Dec 31, 2014 reflecting the impact of $3.5 million in realized gains on investments. Revenue only coverage through March 31, 2015, was consistent with prior years at 2.0x.

CAPITAL PLANNING MAY RESULT IN ADDITIONAL DEBT

UMRC is currently contemplating three capital projects at its Chelsea campus, which are projected for board review in 2015 and which could total approximately $30 million. Management is reviewing an expansion and reconfiguration of the skilled nursing facility which would convert all rooms to privates and the construction of a wellness center. The total cost is estimated at $20 - $25 million of which up to $15 million could be bond financed. Management is also considering the replacement of 12 independent living cottages at a cost of $ 6 million. The cottage replacement may be partially funded from entrance fee receipts. Management expects development plans to be finalized over the next 24 months. Fitch will assess the impact to URC's ratings once those plans become final. Current year capital budget calls for $1.3 million in routine capital investment.

GOOD OVERALL OCCUPANCY & SERVICE AREA

The solid financial results have been driven by good occupancy at CRC, UMRC's main facility, which is a rental community. IL and AL occupancy have improved year on year as a result of positive marketing efforts and improved local economic factors, to 89.5% and 92.1%, respectively, as of 2Q15 from 85.3% and 86.9% in 2Q14. Skilled nursing occupancy at CRC remained solid at 92.7% through 2Q15.

Cedars, located about eight miles east of CRC and 10 miles northwest of Ann Arbor, MI, is at 99.4% occupancy as of June 30, 2015. Monthly service fees have positively affected Cedar's financial profile. Fitch believes as first generation residents begin to transition through the continuum of care and turnover entrance fees are generated, Cedar's may be accretive to UMRC's financial performance. The contract at Cedars requires a refund of the entrance fee regardless of re-occupancy of the vacated unit, which presents a mild credit concern should UMRC have slow refill of turned-over units. However, UMRC currently has a sufficient financial cushion and demand for services to mitigate this risk.

Cedars benefits from being located in a solid service area in Washtenaw County. Fitch rates the county's unlimited tax general obligation pledge at 'AAA' and notes that the local economy, which is anchored by the University of Michigan, has shown resiliency, with unemployment rates consistently below state and national averages. In addition, county wealth levels are strong, above both state and national averages.

ENHANCED FOUNDATION & NON-OG ACTIVITIES

Fitch views positively UMRC's enhanced foundation activities, which are positioning the foundation to support UMRC's strategic initiatives. Fundraising exceeded budget in 2014 ($1.8 million versus $1.2 million budgeted) and has exceeded $2.4 million so far in 2015.

Management reports that UMRC's local reputation and CRC marketing has been aided by numerous non-obligated entities, expanding their reach to less affluent elderly at at-home healthcare. UMRC expanded its services into home health with a 50% membership in Caring Partners Home Health, Inc., (CPHH) effective Jan. 1, 2015, providing home health services in Washtenaw County. UMRC budgeted $1.6 million of revenues for CPHH in 2015. Fitch does not view the non-OG activities as a material credit risk as Fitch believes management's willingness to subsidize non-OG entities is limited.

AGGRESSIVE DEBT STRUCTURE

Fitch views UMRC's capital structure as somewhat aggressive due the amount of direct bank placed debt (64%) relative to its total debt outstanding. With $31.2 million in total debt as of Dec. 31, 2014, URMC has a $10.0 million direct placed loan with FirstMerit Bank's which has Nov 1, 2019 expiration and an $11.5 million direct placement with Huntington Bank's that has a Dec 5, 2024 renewal date. Due to URMC's debt structure, Fitch believes URMC's asset allocation is aggressive with 66.8% invested in equities and 16.4% in alternatives.

UMRC entered into floating- to fixed-rate swaps with its bank partners that effectively hedges 50% of the notional amounts of the variable-rate debt

DISCLOSURE

UMRC provides annual and quarterly disclosure on EMMA.

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Applicable Criteria
Not-for-Profit Continuing Care Retirement Communities Rating Criteria (pub. 24 Jul 2014)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=752470)
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
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