FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms HumanGood California Obligated Group's Rev Bonds at 'A-'; Outlook Stable

Mon 26 Jul, 2021 - 3:02 PM ET

Fitch Ratings - New York - 26 Jul 2021: Fitch Ratings has assigned an 'A-' Issuer Default Rating (IDR) to HumanGood California Obligated Group (HGCOG). Fitch has affirmed the 'A-' ratings on the $142 million revenue and refunding bonds, series 2019A issued by the California Municipal Finance Authority on behalf of HGCOG and the $23 million in series 2019B HGCOG taxable bonds. Additionally, Fitch has affirmed the 'A-' ratings on the $43 million revenue bonds series 2013A and series 2015 issued by California Statewide Communities Development Authority (CSCDA) on behalf of American Baptist Homes of the West (ABHOW), which is now known as HumanGood Norcal (NorCal).

The Rating Outlook is Stable.

SECURITY

The bonds are secured by HGCOG's gross revenues. Additionally, the NorCal series 2015 bonds are also guaranteed by the income earned on HumanGood Foundation West's unrestricted net assets. As of Dec. 31, 2020, HumanGood Foundation West had $59.2 million of unrestricted net assets.

ANALYTICAL CONCLUSION

The 'A-' ratings primarily reflects HGCOG's diverse operating platform with 14 life plan communities (LPCs) in operation across the state of California, solid historical demand indicators, consistent operational performance, and improving financial profile. Despite pressures from the pandemic, HGCOG further improved its unrestricted reserves in fiscal 2020 while maintaining core operations consistent with historical levels. The Stable Outlook reflects Fitch's expectation that HGCOG's diverse operating platform, solid financial profile, and strong historical demand indicators provide enough financial cushion at the current rating level to absorb any lingering short-term pressures from the coronavirus pandemic.

KEY RATING DRIVERS

Revenue Defensibility: 'aa'

Diverse Operating Platform; Solid Historical Census

Fitch assesses HGCOG's revenue defensibility at 'aa', primarily reflecting its diverse operating platform, solid historical census, and strong pricing flexibility. HGCOG remains a large and diversified senior living provider, with 14 LPCS in operation across the state of California and approximately 3,500 units in service. The geographic and revenue diversity reduces overall volatility and market risk, which leads to a more consistent operating performance.

HGCOG has maintained solid census levels across all of its campuses historically as evidenced by the average 91% occupancy in its independent living units (ILUs), 91% occupancy in its assisted living units (ALUs), 88% occupancy in its memory care units (MCUs), and 83% occupancy in its skilled nursing facility (SNF) beds over the last three fiscal years. HGCOG's various communities are located in strong service areas with favorable demographics and real estate trends, which afford the organization a strong degree of pricing flexibility.

Operating Risk: 'bbb'

Consistent Operations; Manageable Debt Burden

Fitch assesses HGCOG's operating risk at 'bbb', reflecting its manageable debt burden and very consistent operational performance driven by solid demand and diverse operating platform. Over the last three fiscal years, HGCOG has averaged a solid 98.5% operating ratio, 5.3% net operating margin (NOM), and 19.9% NOM-adjusted (NOMA). Additionally, maximum annual debt service (MADS) equated to a very manageable 7.3% of total fiscal 2020 revenues and debt to net available averaged a solid 5.1x over the last three fiscal years.

Financial Profile: 'a'

Stable Financial Profile Despite Stressed Environment.

In the context of its strong revenue defensibility and midrange operating risk assessments, Fitch assesses HGCOG's financial profile at 'a', reflecting its adequate liquidity position and robust coverage levels in recent years. In fiscal 2020, HGCOG had unrestricted cash and investments of $307.6 million, which translates into 432 days cash on hand (DCOH), 86.1% cash to adjusted debt, and 13.5x cushion ratio. HGCOG's MADS coverage levels have been robust at an average of 3.1x over the last three fiscal years. Through Fitch's forward-looking scenario analysis, HGCOG's solid financial metrics are expected to remain consistent with its current rating level through a moderate financial stress.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risk factors were applied in this rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Maintenance of historically solid census and strong coverage levels, coupled with cash growth such that cash to adjusted debt is at above 100%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A debt issuance to support strategic capex that results in cash to adjusted debt falling below 65% and/or MADS coverage below 2.5x.

--Unexpected deterioration in census or cash flow that consistently results in MADs coverage below 2.5x.

--Any unexpected transfers, advances, or other financial support to non-OG entities that deteriorates HGCOG's key leverage metrics.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Effective May 1, 2016, ABHOW (now known as HumanGood NorCal) and Southern California Presbyterian Homes (SCPH; now known as HumanGood SoCal) affiliated and the organizations created a common governance and management structure known as HumanGood. Prior to the affiliation, ABHOW's sole corporate parent was Cornerstone Affiliates. Also prior to the affiliation, SCPH was doing business as be.group and served as the controlling member of its senior living and care system. With the affiliation, the sole member of NorCal and SoCal is HumanGood. Cornerstone Affiliates, now known as HumanGood Cornerstone, became a subsidiary to HumanGood and is the sole corporate member of the HumanGood affiliates that are not members of HGCOG.

HumanGood's integration activities since its inception include one executive management team, common payroll and benefits, group purchasing, and a single financial data platform. Other items accomplished include corporate services consolidation, a combined affordable housing business, and the creation of another obligated group that includes two of HumanGood Cornerstone's four non-California retirement communities.

The California Obligated Group, HGCOG, which was formed in August 2019 concurrent with the date of the issuance of the series 2019 bonds, primarily includes HumanGood's California retirement communities operating within NorCal and SoCal, with NorCal serving as the obligated group representative. Additionally, HGCOG includes the corporate office of HumanGood and HumanGood Fresno (TSJG). The HumanGood corporate office provides management services and shares overhead expenses with HGCOG members and HumanGood Cornerstone's four retirement communities. The corporate office also provides certain functions through annual cost recoveries from other affiliates. TSJG was a member of NorCal's obligated group prior to 2012 but was removed in order to accommodate a repositioning project that included a substantial increase in debt. The campus stabilized in 2016 and is performing well.

NorCal consists of seven life LPCs that include Terraces at Los Altos in Los Altos, CA, Grand Lake Gardens in Oakland, CA, Piedmont Gardens in Oakland, CA, Plymouth Village in Redlands, CA, Valle Verde in Santa Barbara, CA, Rosewood in Bakersfield, CA, and Terraces of Los Gatos in Los Gatos, CA. SoCal includes six LPCs in southern California. Two of the LPCs are located in north central Los Angeles County (Westminster Gardens in Duarte and Royal Oaks in Bradbury), two in Orange County (Windsor in Glendale and Regents Points in Irvine), and two in San Diego County (White Sands in La Jolla and Redwood Terrace in Escondido).

Fitch's analysis is based upon the obligated group financial statements. In fiscal 2020, HGCOG reported total operating revenues of $310.3 million.

REVENUE DEFENSIBILITY

HGCOG's strong reputation, attractive locations, and favorable contract and amenity offerings have supported strong historical census across all campuses. In fiscal 2018 and 2019, HGCOG averaged a strong 92% in its ILUs, 92% in its ALUs, 89% in its MCUs, and 86% in its SNF beds. However, like most senior living providers, HGCOG has experienced some softening in census in fiscal 2020 and 2021 due to disruptions and pressures from the coronavirus pandemic. At the three-month interim period (ending March 31, 2021), HGCOG averaged 87% in its ILUs, 86% in its ALUs, 81% in its MCUs, and 68% in its SNF beds.

While Fitch expects census pressures to continue for the first half of fiscal 2021, it anticipates that HGCOG's census will begin to improve across all service lines and campuses in the second half of 2021 as vaccination rates increase, restrictions are lifted on campuses, and traditional marketing channels return.

HGCOG's strong revenue defensibility largely reflects its diverse operating platform that includes operating 14 LPC campuses (approximately 3,500 total units) across the state of California. Fitch views this strong degree of revenue and geographic diversity favorably as it mitigates concerns with underperformance or risks in any individual LPC/market and leads to more consistent operations and cash flow levels. Many of HGCOG's campuses are located in very favorable service areas within California that have income, wealth, employment, and real estate levels that exceed state and national averages.

HGCOG has demonstrated a solid degree of annual fee and rate increases across its various campuses that have ranged between 3%-5% on monthly fees and 0% - 5% on entrance fees in recent years. While it varies per campus, HGCOG's entrance fees remain in line or less than local housing prices. Due to operating in some very favorable markets, Fitch believes HGCOG has considerable pricing flexibility within certain campuses that also supports its strong 'aa' revenue defensibility assessment.

OPERATING RISK

HGCOG primarily offers traditional, 50% refundable, and 75% refundable modified (Type-B) contracts at its various campuses. Each of these contracts require an upfront entrance fee and ongoing monthly fees. The health benefits provided under HGCOG's modified contract offerings vary from campus to campus. HGCOG has minor exposure to rental contracts at its various campuses.

HGCOG's solid demand across multiple campuses and its diverse operating platform have translated into a very consistent and solid operational performance in recent years. Over that last three fiscal years, HGCOG has averaged a 98.5% operating ratio, 5.3% NOM, and 19.9% NOMA. While HGCOG's core operations remained consistent with historical performance in fiscal 2020 due to expense management and receipt of stimulus funding, its net entrance fee receipts remained lower than historical levels reflecting ongoing disruptions to move-ins from the coronavirus pandemic. HGCOG's NOMA of 16.5% in fiscal 2020 is weaker than its average 21.6% NOMA between fiscal 2018-2019.

Fitch expects HGCOG's census, operations, and net entrance fee receipts to remain somewhat pressured in the first half of fiscal 2021 due to lingering disruptions from the coronavirus pandemic. These pressures are somewhat evidenced in HGCOG's softer 99.6% operating ratio, negative 1.2% NOM, and 12.1% NOMA at the three-month interim period (ending March 31, 2021). However, Fitch expects HGCOG operations and total cash flow levels to rapidly improve in the second half of 2021 and during fiscal 2022 as vaccination rates increase, restrictions are lifted on campuses, and traditional marketing channels return, which should lead to improved census levels.

HGCOG's capex levels have averaged approximately $35 million over the last three fiscal years, or 85% of depreciation, which has translated into a solid 10 years average age of plant in fiscal 2020. Moving forward, Fitch expects HGCOG's capex to remain between 80-120% of depreciation given its strong average age of plant. HGCOG issued approximately $34 million in drawable taxable bank loans in fiscal 2020 that are expected to be drawn down over the next two years to fund capex.

HGCOG's debt burden remains light as evidenced by MADS equating to 7.3% of total fiscal 2020 revenues and debt to net available averaging a solid 5.1x over the last three fiscal years. Additionally, revenue-only MADS coverage have averaged a solid 1x over the last three fiscal years. Given its strong revenue base and diverse operating platform, Fitch expects HGCOG's debt burden to remain manageable and consistent with its midrange operating risk assessment.

FINANCIAL PROFILE

HGCOG's consistent operations and solid cash flows have driven steady growth in its unrestricted reserves in recent years. In fiscal 2020, HGCOG had approximately $307.6 million in unrestricted cash and investments, which translates into 432 DCOH, 86.1% cash to adjusted debt, and 13.5x cushion ratio. Fitch includes a 5x multiple to HGCOG's annual operating lease expense as a debt equivalent in its adjusted debt calculation. Additionally, HGCOG's consistently strong cash flows have produced a robust 3.1x average MADS coverage over the last three fiscal years.

Through Fitch's forward-looking scenario analysis, HGCOG is expected to maintain its solid leverage metrics even amidst a stressed environment. Fitch's stressed scenario incorporates both an investment portfolio and cash flow stress that are in line with current economic conditions and expectations. HGCOG's investment portfolio stress was moderate given its diversified investment allocation. Fitch assumes HGCOG's capex levels remain manageable over the next five years, near 100% of depreciation. Additionally, Fitch assumes HGCOG's revenue growth will exceed or meet its expense growth over the medium term as the organization improves census in a post-pandemic environment. Under these assumptions, HGCOG's key leverage metrics and coverage levels remain consistent with its 'a' financial profile assessment.

SOURCES OF INFORMATION

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
HumanGood California Obligated Group (CA)	LT IDR	A- Rating Outlook Stable	New Rating	
• American Baptist Homes of the West (CA) /General Revenues/1 LT	LT	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
• HumanGood California Obligated	LT	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 23 Feb 2021) (including rating assumption sensitivity)

U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (pub. 02 Mar 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

HumanGood California Obligated Group (CA)	EU Endorsed, UK Endorsed

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