

RATING ACTION COMMENTARY

Fitch Affirms Philadelphia Presbytery Homes, PA's IDR and Revenue Bonds at 'BBB'

Fri 21 Jun, 2024 - 3:32 PM ET

Fitch Ratings - Austin - 21 Jun 2024: Fitch Ratings has affirmed at 'BBB' \$80.6 million revenue refunding bonds, series 2017, issued by Montgomery County Higher Education and Health Authority on behalf of Philadelphia Presbytery Homes, Inc. (PPHI) obligated group (OG), dba HumanGood Pennsylvania (HGPA). Fitch has also affirmed HGPA's Issuer Default Rating (IDR) at 'BBB'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Philadelphia Presbytery Homes, Inc. (PA)	LT IDR BBB Affirmed	BBB
Philadelphia Presbytery Homes, Inc. (PA) /General Revenues/1 LT	LT BBB Affirmed	BBB

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The 'BBB' and Stable Outlook are supported by HGPA's stable profitability and incremental improvement in occupancy and liquidity from 2022 to 2023. Management continues to invest in high demand/margin generating services. This includes the conversion of 23 personal care and residential swing units into 17 memory care units (MCUs) at Mansion at Rosemont and the conversion of office space at Spring Mill Pointe into five new residential living apartments. The converted units were all completed and filled in 2023.

In 2024, HGPA completed construction on six additional cottages that were added to the recently completed Rydal Waters expansion. The units have all sold and residents have moved in. Fitch believes HGPA's recent successes are attributable to its affiliation with HumanGood, a large senior living and affordable housing provider with communities in California and eight other states.

HGPA also benefits from ongoing support from the Bala Foundation, a non-OG affiliate. While the Bala Foundation remains outside of the OG, it had approximately \$46 million in investments as of Dec. 31, 2023 and has consistently provided \$1 million-\$2 million in annual support to the OG in recent years, including funding the aforementioned Spring Mill Pointe office space conversion.

SECURITY

The bonds are secured by a pledge of gross revenues, first lien mortgage and security interest in OG facilities and property, and a debt service reserve fund (DSRF). PPHI's affiliation with HumanGood in June 2019 has not affected the composition of the OG or the bonds' security under the master trust indenture.

KEY RATING DRIVERS

Revenue Defensibility - 'bbb'

Improved Occupancy

HGPA's ILU occupancy improved to 91.5% in 2023 from 90.2% in 2022. Fitch believes that HGPA's occupancy has stabilized at a higher level, after averaging only 82% from 2019 to 2021 as a result of the successful fill-up of the Rydal Waters expansion project and enhanced sales and marketing efforts supported by the HumanGood affiliation.

Occupancies in HGPA's personal care units (PCUs), MCUs and skilled nursing facility (SNF) beds were generally stable or improved averaging 93.8%, 90.5% and 82.7%, respectively in

2023 compared with 87%, 87.5% and 82.8%, respectively in 2022. This led to 12.3% yoy growth in combined personal care, health center and memory support revenue generation.

While HGPA has competition at each of its three OG campuses, Fitch believes its overall demand indicators, including a favorable local reputation enhanced by its HumanGood affiliation, remain solid. HGPA's three OG campuses are located in demographically strong service areas that are characterized by population growth and wealth/income levels that exceed state and national averages.

Over the past few years, HGPA has benefitted from its affiliation with HumanGood through access to resources of a large sophisticated senior living enterprise. The affiliation has provided ongoing strategic execution support for the Rydal Waters expansion project (including six additional cottages completed in 2024) and unit conversion projects at the Mansion at Rosemont and Spring Mill Pointe that have all successfully filled.

HGPA has a track record of annual increases in both its monthly service fees and entrance fees in recent years. Entrance fees are generally lower than local housing prices, which affords the organization pricing flexibility that is consistent with its midrange revenue defensibility assessment. To maintain competitive pricing, management implemented entrance fee increases ranging from 0-5% and 4.75% average increases to ILU, PCU and MCU service fees and skilled nursing private pay rates in 2024.

Operating Risk - 'bbb'

Solid Cash Flow; Low Debt Burden

HGPA offers traditional (non-refundable) and refundable lifecare (Type-A) and fee-for-service (Type-C) contracts at its campuses. Each residency contract requires an upfront entrance fee and ongoing monthly fees. The breakdown between Type-A and Type-C contracts has shifted towards a higher share of Type-C contracts.

Core operating profitability remained stable from 2022 to 2023 as favorable revenue generation growth (8.4%), particularly from health centers, residential living and home care service lines offset the removal of one-time PPP loan forgiveness revenue recognition and a 9% yoy increase in salaries, wages and benefits. Though labor remains a major challenge, management continues to work recruitment, retention and efficiency efforts that should help personnel expense growth to be more modest in upcoming years.

HGPA ended FY23 with a 104% operating ratio and negative 0.9% net operating margin (NOM). NOM-adjusted declined significantly to 6.7% in FY23 from 18.3% in FY22 due to typical variations in the timing of refund payments as well as the fact that HGPA's contracts sold in FY23 shifted more towards non-refundable contracts. While this results in lesser upfront payments, Fitch believes this will benefit HGPA positively over time by providing increased balance sheet stability through more stable cash flows.

HGPA's capital outlays have been elevated in recent years, reflecting its completed Rydal Waters expansion project, which entailed adding 75 new cottages to a 33-acre property contiguous to its Rydal Park campus. HGPA used \$5.5 million from the initial Rydal Waters ILUs to build six additional cottages that generated \$2.2 million in entrance fees through March 31, 2024. Recent projects also include the aforementioned unit conversions at Mansion at Rosemont and Spring Mill Pointe, that have completed and filled successfully. Over the past five years, HGPA has averaged nearly \$21.5 million in annual capex, or 180.7% of depreciation, translating into a healthy 10 years average age of plant as of Dec. 31, 2023.

HGPA's capital related metrics are consistent with a 'bbb' operating risk assessment, as evidenced by revenue-only coverage of 1.1x in 2023. Maximum annual debt services (MADS) represented a moderate 9.8% of 2023 revenues and debt to net available is expected to be in the 5x to 8x range going forward (it was 7.8x in FY23).

Financial Profile - 'bbb'

Midrange Balance Sheet and Debt Service Coverage

HGPA had unrestricted cash and investments of approximately \$86.6 million (as of March 31, 2024), which translates into 81.3% cash-to-adjusted debt. Fitch includes HGPA's \$5.5 million DSRF in its calculation of cash-to-adjusted debt. HGPA's MADS coverage was very adequate for the rating at 1.8x in 2023. Fitch's \$8.2 million MADS includes the series 2019 bonds and subordinate Bala loans. HGPA's strong coverage of its all-in MADS is viewed favorably as this amount is higher than the \$7.7 million MADS that the organization will be tested on in 2024 after excluding the subordinate Bala loan.

Given the current expectation of stable profitability and capex funded from operating cash-flow below depreciation over the next few years, Fitch expects cash-to-adjusted debt and MADS coverage to show gradual improvement over time. Fitch's stress scenario incorporates an investment portfolio and cash flow stress that are in line with current economic conditions and expectations. HGPA's investment portfolio stress was moderate

given its current investment allocation. By year four of Fitch's stress case, cash-to-adjusted debt is approximately 67% and days cash on hand is above 250 days, which is neutral to the rating assessment.

Asymmetric Additional Risk Considerations

No asymmetric risks informed the rating assessment.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--An inability to maintain ILU census above 85% that results in a change in HGPA's revenue defensibility assessment to weak;

--A deterioration in key operating metrics such that the operating ratio is steadily above 105%, NOM is below 0% or NOM-adjusted is below 11%;

--Unexpected deterioration in HGPA's unrestricted cash reserves that results in cash-to-adjusted debt falling below 55%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Maintenance of ILU census above 93%;

--Accretion of cash flow and liquidity, such that all-in MADS coverage is sustained at or in excess of 2x and cash-to-adjusted debt is consistently above 100%.

PROFILE

HGPA OG consists of a management services group and three communities: Rydal Park (376 ILUs including 81 ILUs from the Rydal Waters project, 32 PCUs, 22 MCUs and 114 SNF beds), The Mansion at Rosemont (108 ILUs and 61 PCUs), and Spring Mill Pointe (41 ILUs, 24 PCUs and 27 MCUs). A fourth community, Broomall (146 SNF beds), was sold in May 2019. Fitch's analysis is based on the OG financial statements. The OG composed approximately 65% of HumanGood East's total consolidated assets and 84% of HumanGood East's consolidated revenues in 2023. Total operating revenue of the HGPA OG in 2023 was \$76.6 million.

HGPA OG is part of HumanGood East, fka Presby's Inspired Life, a senior living organization with facilities located in and around the greater Philadelphia region. Non-

obligated entities include a large affordable housing portfolio (mostly U.S. Department of Housing and Urban Development housing) and the Bala Foundation, which has approximately \$46 million in cash and investments. Bala provides resident assistance and has provided capital support through loans to the OG, including for Rydal Waters.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

[U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria - Effective from April 5, 2023 to August 19, 2024 \(pub. 05 Apr 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria – Effective from January 12, 2024 to January 10, 2025 \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Portfolio Analysis Model (PAM), v2.0.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Montgomery County Higher Education & Health Authority (PA)

EU Endorsed, UK Endorsed



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