Fitch Ratings

RATING ACTION COMMENTARY

Fitch Affirms Frasier Meadows Manor, Inc., Colorado at 'BB+'; Outlook Stable

Wed 31 Mar, 2021 - 5:19 PM ET

Fitch Ratings - Chicago - 31 Mar 2021: Fitch affirmed Frasier Meadows Retirement Community Project d.b.a. Frasier Meadows Manor, Inc., Colorado's approximately $80 million of series 2017A and B revenue refunding bonds issued by the Colorado Health Facilities Authority on behalf of Frasier at 'BB+'. In addition, Fitch has assigned Frasier a 'BB+' Issuer Default Rating.

The Rating Outlook is Stable.

SECURITY

Payment on the bonds is secured by a gross revenue pledge and first mortgage lien on the Frasier bonds.

ANALYTICAL CONCLUSION

The 'BB+' rating primarily reflects Frasier's strong revenue defensibility balanced against weak operating risk. Frasier's excess cash flow generation has funded extensive capital projects and should continue to fund future construction, resulting in Frasier's liquidity profile remaining flat throughout Fitch's forward-looking scenario analysis. Frasier's business profile is solid, characterized by strong revenue defensibility as an established operator. Weak operating risk reflects Frasier's consistent history of operations and extensive capital improvements. The rating incorporates expectations for elevated future capex but not for significant additional debt. The 'BB+' rating assumes net entrance fee receipts and net operating revenue will continue to increase from the additional 98 expansion independent living units (ILUs).

KEY RATING DRIVERS

Revenue Defensibility: 'a'

Single Site LPC with Strong Demand and Pricing Characteristics

Frasier is a single-site provider with limited competition. Substantial barriers to entry prevent additional life plan communities (LPCs) from entering the Boulder service area. Frasier's robust demand contributes to Fitch's strong revenue defensibility assessment. Utilization has been consistently strong, albeit weaker during the coronavirus pandemic. Frasier has a history of regular fee increases, and weighted-average entrance fees are substantially below prevailing housing prices in the market.

Operating Risk: 'bb'

Large Capital Projects, stable core operations

Fitch's assessment of Frasier's operating risk is based on its demonstrated track record of consistent cost management and its predominantly Type B contract mix. It's average age of plant is favorably low, and capital spending has been high over the past several years. Future capital spending is expected to be elevated given management's plans to renovate the healthcare center and potentially add ILUs. Fitch believes Frasier can absorb the elevated planned capex at its current rating level assuming no material increase in debt.

Financial Profile: 'bb'

Stable liquidity and elevated leverage

As of YE 2020, Frasier had unrestricted cash-to-adjusted debt of about 36%. Given Frasier's strong revenue defensibility and planned capex, Fitch expects Frasier's liquidity metrics to remain consistent with historical averages and the 'BB+' rating, despite the recent economic and operational volatility resulting from the pandemic.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risk considerations were relevant to the rating determination.

RATING SENSITIVITIES

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

--Continued balance sheet accretion such that cash-to-adjusted debt levels are expected to improve and be sustained at levels approaching 70%.

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

--Frasier's financial profile remains stable through Fitch's stress case scenario. However, liquidity remains flat, indicating additional debt such that cash-to-adjusted debt falls below 30%, which could pressure the rating.

--The rating could be pressured if operating performance deteriorates substantially such that revenue-only maximum annual debt service (MADS) coverage falls below 0.0x or if the net operating margin falls below 11%.

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].

CREDIT PROFILE

Established in 1956, Frasier owns and operates a single-site life plan community with 298 ILUs, 19 assisted living units, 19 memory care units (MCUs) and 54 skilled nursing facility (SNF) beds on a 20-acre campus in Boulder, CO. Frasier currently offers a Type B modified-fee-for-service contract, with 50% refundable or nonrefundable entrance fee residency agreements. Nonrefundable entrance fees are approximately 25% lower than refundable entrance fees. All agreements provide a modest discount for healthcare benefits as well as 30 free healthcare days per ILU per year in a semiprivate room.

Entrance fees for ILUs range from $59,000-$782,000. Monthly service fees range from $1,719-$5,047.

Since opening in 1960, Frasier has undergone several renovation and expansion projects. The most recently executed project added 98 ILUs, opened in January of 2020 and filled within the first six months despite pandemic pressures. In addition, there have been ongoing reconfigurations and renovations as part of Frasier's flood recovery efforts. Management actively maintains the campus with ongoing capital projects. Plans to renovate the healthcare center are in development.

REVENUE DEFENSIBILITY

Frasier is a single-site provider in a minimally competitive service area. Fitch views Frasier's robust demand as contributing to strong revenue defensibility. Favorably, demand withstood sectorwide downward pressure through the pandemic. Utilization in the ILUs has been above 92% since 2017. ALUs and SNFs also show good utilization, with occupancy above 90% since 2017. MCU utilization has fluctuated from approximately 76%-100% over the past several years.

Frasier has demonstrated stable occupancy over the past several years. Despite the global pandemic in 2020, occupancy remained good in the ILUs, at 92% with a waitlist of 360. In January 2020, Frasier opened its 98-ILU expansion. It filled ahead of schedule, with 89 move-ins in the first six months of the year.

With strong demand for its services, Frasier planned to expand its healthcare center in 2020. These plans were halted to protect residents and staff from coronavirus exposure. While Frasier still intends to undergo healthcare renovations, the initial plan is being altered to incorporate enhancements based on Frasier's pandemic experience and possibly add more ILUs.

The service area in Boulder is strong. It is an affluent city with a growing population and rising housing prices. Median household income levels are well above the national average. According to Zillow.com, property values in Boulder are well above the national average and have grown by 6.3% in the last year. With the typical home value around $844,000 and the highest entrance fee of $782,000, Frasier has strong price flexibility.

OPERATING RISK

Frasier offers Type B contracts which require upfront entrance and ongoing monthly fees. This contract includes moderate actuarial risk and future service liability risk.

Frasier has a history of consistent cost management, with a four-year average operating ratio of 108.2%, net operating margin (NOM) of negative 3.2% and NOM-adjusted of 18%. Core operating performance has remained relatively stable in 2020, with an operating ratio of 113% and NOM of 3.8% through the six months ended Dec. 31, 2020.

Frasier's capex averaged about 684% of depreciation over the prior four years and is expected to remain elevated over the next few years. Average age of plant is low at 6.9 years. Management planned to renovate the healthcare center in 2020 but postponed construction in order to reevaluate the plan and incorporate insights gained from their successful infection containment and mitigation during the pandemic. Additional ILUs are under consideration as well.

Frasier's capital-related metrics are soft, with revenue-only MADS coverage of 0.1x and debt-to-net available of 38.0x in 2020. MADS represented an elevated 28% of 2020 revenues. Frasier is heavily reliant on turnover entrance fees for timely payment of debt service. This indicates additional debt may pressure Frasier's rating.

FINANCIAL PROFILE

Fitch expects Frasier's key leverage metrics to remain consistent with a 'BB+' rating throughout the current downward economic and business cycle.

As of YE 2020, Frasier had unrestricted cash of approximately $47.4 million. This represented about 36% of total adjusted debt, which includes approximately $131.7 million of long-term debt. Liquidity has remained relatively stable yoy ranging from 31%-36% cash-to-debt between 2018 and 2020.

Through Fitch's new baseline scenario, Fitch expects Frasier will see improvement in MADS coverage while liquidity remains near current levels. Liquidity growth is suppressed in the scenario due to elevated planned capex. Fitch's baseline scenario assumes both a significant economic stress to reflect equity volatility and a business cycle stress to reflect pressure on net entrance fees during the pandemic in year one, followed by a sharp increase in MADS coverage through year five. Despite the stress, Frasier maintains cash-to-adjusted debt levels that are consistent with the 'BB+' rating throughout Fitch's baseline forward-looking scenario and remains resilient in Fitch's stress case scenario, which assumes an even deeper economic and business cycle stress that persists until 2022.

MADS coverage increases from 0.5x in year one of the baseline scenario (equivalent to calendar-year 2020; it was at 0.4x as of June 30, 2020), and steadily increases to 2.0x as revenue and net entrance fees receipts increase from the 98 ILU expansion that opened in January of 2020.

Frasier had 595 days cash on hand as of June 30, 2020, resulting in a liquidity profile assessment that is neutral to the rating.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risk considerations were relevant to the rating determination.

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.

Feedback

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Frasier Meadows Manor, Inc. (CO)	LT IDR	BB+ Rating Outlook Stable	New Rating	

ENTITY/DEBT	RATING			PRIOR
• Frasier Meadows Manor, Inc. (CO) /General Revenues/1 LT	LT	BB+ Rating Outlook Stable	Affirmed	BB+ 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

Colorado Health Facilities Authority (CO)	EU Endorsed, UK Endorsed

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