

## **FITCH AFFIRMS VILLAGE ON THE ISLE (FL) AT 'BBB-'; OUTLOOK STABLE**

Fitch Ratings-Austin-02 November 2018: Fitch Ratings has affirmed the 'BBB-' rating on the following bonds issued by Sarasota County Health Facilities Authority on behalf of Village On The Isle:

- \$58.385 million retirement facility revenue improvement bonds, series 2017A;
- \$5.75 million retirement facility revenue improvement bonds, 2017B-1 tax exempt mandatory paydown securities (TEMPS-85-SM);
- \$7.5 million retirement facility revenue improvement bonds, series 2017B-2 tax exempt mandatory paydown securities (TEMPS-50-SM);
- \$31.37 million retirement facility revenue refunding bonds, series 2016.

The Rating Outlook is Stable.

### **SECURITY**

The bonds are secured by a pledge of gross revenues, a security interest in obligated group facilities, and debt service reserve funds.

### **KEY RATING DRIVERS**

**SOLID OPERATING PROFILE:** VOTI benefits from its location in Venice, FL, on the west coast of Florida in Sarasota County (Issuer Default Rating AA+/Stable), limited competition from other full continuum of care providers, and entrance fee prices that compare well with area housing prices.

VOTI's ILU and SNF occupancy rates remain sound at 92.3% and 93.4%, respectively through the first nine months of fiscal 2018 ending Sept. 30. Lower than historically strong ALU occupancy results from a reduction in unit availability in order to allow VOTI to complete the Mark Manor renovations by April 2019.

**ADEQUATE FINANCIAL PROFILE:** VOTI's profitability ratios are strong for the rating category, exceeding the 'BBB' category medians for the past five audited years. Fitch expects the accretive nature of the ILU addition to further boost profitability once stabilization is achieved, estimated during fiscal 2020. Fitch expects VOTI's liquidity, as measured by days of cash (DCOH), to dip moderately below Fitch's 'BBB' category medians during fiscal 2019 due primarily to an accelerated use of cash for routine capital, Mark Manor construction costs, and other campus capital projects. Fitch expects liquidity to gradually improve subsequent to stabilization in fiscal 2020.

**REPOSITIONING PROJECT:** VOTI has undertaken a sizable repositioning project, which includes the addition of the Emerald Terrace, a 46-unit independent living unit (ILU) project, its 64-unit Luke Haven skilled nursing facility (SNF) replacement, and the Mark Manor, assisted living unit (ALU) repositioning project. Fitch expects that the projects are likely to improve VOTI's competitiveness. The projects also expose VOTI to construction and fill-up risks over the next several years, although all ILU units are committed at this time and all three projects remain on schedule to be completed by mid-2019.

**ELEVATED, BUT MANAGEABLE LONG-TERM LIABILITIES:** The repositioning projects increase VOTI's debt burden over the next several years as reflected in a deterioration of certain capital metrics, while bringing its average age of plant in line with 'BBB' medians. Fitch believes that the risks associated with the large increase in leverage are manageable within the 'BBB-' rating because of credit strengths, which include VOTI's strong market position, demand for the new units as evidenced by strong presales, solid utilization trends and a history of operating profitability.

## RATING SENSITIVITIES

**UTILIZATION RATES AND NEW ILU STABILIZATION PERIOD:** The rating is sensitive to utilization rates and the move-in period planned for the new ILUs. Utilization rates materially lower than those historically experienced by Village on the Isle or an extended move-in period associated with the new ILUs could pressure the current rating.

**PROJECT CONSTRUCTION RISKS:** Delays in completing the current AL or the new ILU or SNF project could pressure the current rating

## CREDIT PROFILE

VOTI operates a continuing care retirement community located in Venice, FL approximately 75 miles south of Tampa on Florida's Gulf Coast. The community currently consists of 206 ILUs, 59 ALUs, and 60 licensed skilled nursing beds. VOTI has two Type-B contracts available that offer either a 10% discount on AL and SNF services (Traditional), or unlimited assisted living services and 30 free days of skilled nursing each year for temporary care (Enhanced Living). Entrance fees are based on the unit selected. VOTI offers a fully-amortizing Type-B contract plan. It has discontinued marketing a 50% refundable plan previously offered. Total revenues for 2017 were approximately \$21.7 million.

## SOLID OPERATING PROFILE; LIGHT LIQUIDITY

VOTI's operating profile is characterized by high occupancy and sound profitability consistent with Fitch's 'BBB' category medians. VOTI's fiscal year to date (June) 2018 operating ratio of 96.5% and net operating margin (NOM)-adjusted of 22.3% approximate Fitch's respective 'BBB' medians of 96.3% and 23.3%. Fitch expects a decline in profitability over the next year due to a decrease of units in service. Profitability is expected to return to historical levels upon achievement of stabilized occupancy levels by 2020. VOTI's operating cash flow projections incorporate an increase in entrance fee pricing designed to support service line enhancements and its pro forma debt service coverage. VOTI budgets conservatively and has a solid track record of meeting expectations.

VOTI's historically strong liquidity, as measured by cash to debt, fell from 70.2% in fiscal 2016 to a weak 24.1% at June 30, 2018 reflecting the series 2017 issuances and use of cash for project needs. Fitch expects VOTI's liquidity to gradually recover to levels consistent with Fitch's 'BBB' category median over 10 years.

## SIZABLE CAPITAL PROJECT PLAN

VOTI is undertaking significant capital improvements to reposition its approximate 35-year old campus and address its increasing average age of physical plant. VOTI's ILU and SNF projects were funded with \$71.6 million of series 2017 bonds. Its \$14 million ALU renovation project was funded largely with \$10 million of new money from its series 2016 retirement facility revenue refunding and improvement bonds.

ALU construction is progressing one floor at a time to minimize interruptions for current residents. Upon completion now expected in April 2019, the project will consist of 64 enlarged units remodeled under the household model of care and a dedicated memory care floor. VOTI's construction on the 46-unit ILUs and SNF replacement remain on schedule with a projected completion date in mid-2019. All three projects have been undertaken with a guaranteed maximum price. VOTI reports no additional near term capital plans requiring debt issuance.

## ELEVATED DEBT PROFILE

Fiscal year-end 2017 (December) debt of \$112.6 million (par value of \$104.6 million) represented a high 18.6x of net available in relation to the 5.7x 'BBB' category median. Excluding \$13 million of temporary debt associated with the ILU addition, debt of \$91.32 million represented a still high 15.1x of net available, although debt to net available is expected to significantly improve to approximately 8.0x by 2022, the second full year after project stabilization.

Pursuant to the master trust indenture, VOTI's maximum annual debt service (MADS) of \$3.2 million (applicable until the first full year following stabilization anticipated in 2021) provided coverage of 2.2x for the six months ending June 30, 2018, consistent with Fitch's 'BBB' category median. Excluding temporary debt, MADS of \$6.1 million would have been covered about 1.1x for the same period. Fitch expects MADS coverage to approximate 1.7x subsequent to stabilization.

The current rating analysis incorporates the results of a feasibility study and market analysis that Fitch has reviewed for reasonableness. The marketing analysis indicates a favorable demographic profile and strong demand to support VOTI's product offerings. Pro forma utilization and profitability are consistent with VOTI's historical performance.

VOTI's debt issuance consists entirely of fixed rate bonds. The community's investment allocation consists of mostly cash and fixed income, which provides further stability at the rating level. VOTI does not have any outstanding swaps.

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## Applicable Criteria

Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)

<https://www.fitchratings.com/site/re/10020113>

U.S. Public Finance Not-For-Profit Continuing Care Retirement Community Rating Criteria (pub. 30 Mar 2018)

<https://www.fitchratings.com/site/re/10024657>

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