

11 JUL 2023

Fitch Affirms Philadelphia Presbytery Homes' IDR and Revenue Rating at 'BBB'

Fitch Ratings - Austin - 11 Jul 2023: Fitch Ratings has affirmed at 'BBB' the rating on \$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 the 'BBB' Issuer Default Rating (IDR) assigned to HGPA.

The Rating Outlook is Stable.

The 'BBB' affirmation is supported by HGPA's adequate profitability in 2022, resulting from additional revenues generated by the Rydal Waters expansion independent living units (ILUs) at Rydal Park and PPP loan forgiveness that balanced against higher expenses from contract labor and overtime expenses. Management continues to invest into high demand/margin generating services as seen in the conversion of 23 personal care and residential swing units into 17 memory care units (MCUs) at Mansion at Rosemont, the construction of six additional cottages to the fully occupied Rydal Waters expansion and conversion of office space at Spring Mill Pointe into five new residential living apartments. Fitch expects the unit conversions/additions to improve HGPA's competitive positioning and core operating profitability over time, which is reflected in the Stable Outlook.

The 'BBB' rating is also supported by HGPA's affiliation with HumanGood, a large senior living and affordable housing provider with communities in California and four other states, along with the ongoing support from the Bala Foundation, a non-OG affiliate. While the Bala Foundation remains outside of the OG, it had approximately \$41.5 million in investments as of Dec. 31, 2022 and has consistently provided \$1 million-\$2 million in annual support to the OG in recent years.

Fitch notes that the unit conversions at Spring Mill Pointe and a generator upgrade at the Mansion at Rosemont were funded by the foundation, helping the OG to maintain its balance sheet strength.

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 ILU Occupancy

HGPA's ILU occupancy improved significantly to 90.2% in 2022 from a much weaker 80.7% in 2021 as a result of the successful fill-up of the Rydal Waters expansion project, enhanced sales and marketing efforts, restrictions being lifted on its campuses and a return to traditional marketing channels. Occupancies in HGPA's personal care units (PCUs), MCUs and skilled nursing facility (SNF) beds were generally stable averaging 87%, 87.5% and 82.8%, respectively in 2022 compared with 90.4%, 87.4% and 80.5%, respectively in 2021. This led to yoy growth in health care revenue generation as a result of 5.3% average fee increases implemented in 2022.

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.

This provided for an acceleration of pre-sales at Rydal Waters as well as ongoing strategic execution support for projects such as the Mansion at Rosemont's conversion of a portion of its assisted living building to a 17-suite memory care neighborhood. 15 of the new units are occupied and the final two units have depositors. Rydal Park will be reinvesting initial entrance fees released from escrow from the Rydal Waters project into the construction of six additional cottages and the Mansion at Spring Mill Pointe has converted office space into five new one-bedroom ILUs. Fitch expects the projects to be accretive to HGPA's operating and financial profiles over time.

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 no entrance fee increases in 2023 and 7.3% average increases to ILU, PCU and MCU service fees and skilled nursing private pay rates in 2023.

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.

2022 core operating profitability improved from 2021 as a result of increased revenue generation across service lines and the recognition of \$3.8 million in PPP loan forgiveness that was partially offset by expense increases - primarily a 20.8% yoy increase in salaries, wages and benefits. The combination of these factors resulted in a 103.9% operating ratio, 0.8% net operating margin (NOM) and 18.4% NOM-adjusted in 2022. Though labor remains a major challenge, the successful fill of the Rydal Waters

expansion project has provided for additional revenues that produced a 103% operating margin and 2.1% NOM in the first quarter of 2023.

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 will be utilizing up to \$5.5 million received from the initial Rydal Waters ILUs to build six additional cottages that are expected to generate \$3.5 million in entrance fees. Over the past five years, HGPA has averaged nearly \$20.1 million in annual capex, or 175.8% of depreciation, translating into a healthy 10.2 years average age of plant as of Dec. 31, 2022.

HGPA's capital related metrics are consistent with a 'bbb' operating risk assessment, as evidenced by revenue-only coverage of 0.9x in 2022. Maximum annual debt services (MADS) represented a moderate 10.8% of 2022 revenues and debt to net available is expected to be in the 5x to 8x range (it was 5.7x in 2022).

Financial Profile - 'bbb'

Midrange Balance Sheet and Debt Service Coverage

HGPA had unrestricted cash and investments of approximately \$84.8 million (as of March 31, 2023), which translates into 77.1% 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 favorable for the rating at 2.5x in 2022. 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 excluding the subordinate Bala loans that the organization will be tested on in 2023.

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 75% and days cash on hand is above 300 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%.

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>.

PROFILE

HGPA OG consists of a management services group and three communities: Rydal Park (372 ILUs including 75 ILUs from the Rydal Waters project, 32 PCUs, 22 MCUs and 114 SNF beds), The Mansion at Rosemont (109 ILUs and 77 PCUs), and Spring Mill Pointe (36 ILUs, 22 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 total consolidated assets and 84% of consolidated revenues in 2022. Total operating revenue of the HGPA OG in 2022 was \$70.7 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 \$42 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

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.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Philadelphia Presbytery Homes, Inc. (PA)	LT IDR	BBB ●	Affirmed
			BBB ●

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
<ul style="list-style-type: none"> Philadelphia Presbytery Homes, Inc. (PA) /General Revenues/ 1 LT 	LT	BBB 	Affirmed	BBB 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.27 Apr 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria \(pub.05 Apr 2023\) \(including rating assumption sensitivity\)](#)

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

[Solicitation Status](#)

Endorsement Status

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