Fitch Assigns 'A' IDR to Lasell Village (MA); Outlook Positive

Fitch Ratings-New York-06 December 2018: Fitch Ratings has assigned an Issuer Default Rating (IDR) of 'A' to Lasell Village, MA (LV).

The Rating Outlook is Positive.

KEY RATING DRIVERS

STRONG FINANCIAL PROFILE: The 'A' rating reflects LV's strong financial profile supported by a robust liquidity position, solid operations and steady occupancy levels. At Sept. 30, 2018 (unaudited), LV had $48.3 million of unrestricted cash and investments, translating to 1,057 days cash on hand (DCOH), a 35.8x cushion ratio and 304.2% cash to debt, all of which clearly exceed Fitch's 'A' category medians of 853 DCOH, 146.7% and 17.2x, respectively.

SOLID DEMAND FOR UNIQUE PROVIDER: LV has averaged 93% occupancy in its independent living units (ILU) over the past five years. LV is unique in its location adjacent to the campus of Lasell College (LC), where LV residents are required to complete at least 450 hours of continuing education. LV's strong demand in an economically favorable service area has helped generate solid levels of maximum annual debt service (MADS) and revenue-only MADS coverage of 5x and 1.3x as of fiscal 2018, better than or on par to Fitch's 'A' category medians of 3.2x and 1.3x, respectively.

LOW LONG-TERM LIABILITY PROFILE: LV's debt position is low. MADS as a percent of revenues amounts to 7% at June 30, 2018, which was better than Fitch's 'A' category median of 8.9%. Debt to net available equates to 2.3x, stronger than Fitch's 'A' category median of 3.6x.

CAPITAL NEEDS: LV's immediate capital needs, which include an expansion and renovation of their Town Hall building, are manageable and expect to equate to $7.4 million and will be funded through cash flow. Additionally, management is refining other potentially larger capital plans with an upcoming planning session in the spring of 2019. Any project that could come out of the planning session is not incorporated into the current rating.

ASYMMETRIC RISK FACTORS: Asymmetric risk factors are generally neutral or negative to the rating. LV's debt structure is somewhat aggressive and consists entirely of a floating-rate, direct-purchase bank obligation. However, the rating is not constrained given LV's swap to hedge interest rate risk and robust liquidity position with unrestricted cash amounting to 304.2% of outstanding debt.

RATING SENSITIVITIES

STRATEGIC PLAN: Lasell Village is undertaking a strategic planning process in the spring of 2019. Capital projects that are identified during this planning process could affect the rating.

MAINTENANCE OF CURRENT FINANCIAL PROFILE: An upgrade would be likely should LV maintain its current financial profile and be able to fund any potential projects associated with the strategic planning process.

CREDIT PROFILE

Lasell Village is a type A (life care) continuing care retirement community (CCRC) located in Newton, MA, that was formed originally in 1990 and opened in 2000 as a component of LC. In 2003, the trustees of LC voted to form a non-profit organization called Lasell, Inc. At this time, the trustees also voted to approve the transfer of sole membership of LV from LC to Lasell, Inc., making it its sole member. The community consists of 182 ILUs, nine supported living units (SLU), and 38 skilled nursing beds (SNF). In fiscal 2018, LV had total revenues of $19.4 million.

Residents are offered life care contracts that are 90% refundable. For agreements entered into before April 2003, the refundable entrance fee is refunded upon the earlier of the re-occupancy of the unit or nine months. For agreements entered into subsequent to April 2003, the refundable portion of the entrance fees are not paid to the terminating resident until the unit is reoccupied.

LV benefits from a close relationship with LC that includes management and financial oversight. LV's current Master Service Agreement with LC was entered into in October of 2015 and expires on June 30, 2020. The agreement is comprised of five separate agreements that cover management, educational services, information technology services, maintenance and security. Payments totaled $2.1 million in fiscal 2018 and $2.1 million in fiscal 2017.

UNIQUE PROVIDER STATUS; SOLID DEMAND
Located in Newton, MA and in close proximity to the campus of LC, LV has a unique market position that Fitch believes provides a competitive advantage. LV is a unique educational provider of senior living services, which requires its residents to complete 450 hours of continuing education at LC.

LV's solid market position is evidenced by healthy demand, including ILU occupancy averaging 93% from fiscal 2014 to fiscal 2018. In addition to its unique offering, LV's demand profile benefits from its proximity to Boston and from a desirable service area with high wealth and socioeconomic indicators. Management reports that about half of recent new residents come from the immediate area; the rest relocate from elsewhere, often to live near their adult children.

SOLID FINANCIAL PROFILE

LV's financial profile is characterized by a strong balance sheet and consistent profitability, which supports very good debt service coverage. At Sept. 30, 2018, LV had $48.3 million in unrestricted cash and investments, up from $24.8 million at June 30, 2012. Unrestricted cash and investments equal 1,057 DCOH, 35.8x cushion ratio and 304.2% cash to debt. Each of LV's liquidity metrics exceed Fitch's 'A' category medians of 853 days, 17.2x and 146.7%, respectively. LV's balance sheet is a primary credit strength, and recent growth in cash supports planned capital spending at the current rating level.

LV's operating ratio was 94.4% at fiscal year-end 2018, which is in line with LV's average of 93.4% over the prior four years and compared with Fitch's 'A' category median of 93.9%. The healthy operating ratio is impressive given LV's life care resident agreements. Slightly weaker operations in 2018 were driven by timing of ILU move-ins as occupancy dipped to 91% at fiscal year-end, mostly due to ILU renovations taking place that were completed in June of 2018. Through the first quarter of 2019 there were eight move-ins and occupancy improved to 93%. Management expects occupancy to be at 96% by the end of 2018. LV's adjusted net operating margin (NOM) averaged 25.9% over the last two fiscal years, which is better than Fitch's 'A' category median of 23.8%. Adjusted NOM averaged 15.9% in 2015 and 2016; a recent upward repricing implemented in fiscal 2017 has led to an increase in net entrance fee receipts the last two fiscal years.

Historical profitability has supported very good MADS coverage averaging 3.9x over the past five fiscal years, including 5x in fiscal 2018, better than Fitch's 'A' category median of 3.2x. Revenue-only coverage was 1.3x in fiscal 2018, on par with Fitch's 'A' category median of 1.3x.

CAPITAL NEEDS

In fiscal 2017, LV entered into a project to renovate and refurbish parts of its ILU facilities, which are about 15 years old. Renovations included new technology and refurbishments to the common space, libraries and classrooms. The total cost of the project was $3.4 million and was completed in June 2018. During 2018, the LV began another construction project to expand and refurbish the Town Hall Building. The estimated cost of the Town Hall Project is $7.4 million. Plans include reconfiguration of the main entrance, the addition of a cafe and other various renovations around the community.

Approximately $612,000 was spent through June 30, 2018. Completion is expected by June 2019. LV believes that both projects help the community position itself for the next generation of residents and are being funded through cash-flow. Fitch believes that LV has adequate liquidity and cash flow to fund these projects at the current rating level.

LV is undertaking a strategic planning process sometime in the spring of 2019. Fitch will evaluate any potential projects that come out of the planning session when more information becomes available.

LONG-TERM LIABILITY PROFILE

LV'S debt position is low. MADS as a percent of revenues amounts to 7% at June 30, 2018, which was better than Fitch's 'A' category median of 8.9%. Debt to net available equates to 2.3x, stronger than Fitch's 'A' category median of 3.6x.

LV's only outstanding debt obligations are the directly purchased series 2014 bonds, of which $15.9 million is outstanding at June 30, 2018. The variable rate bonds are swapped to fixed rate through maturity in 2037 but have a mandatory tender in 2024. The fixed-payor swap has a remaining notional value of $15.7 million as of June 30, 2018. The mark-to-market valuation was negative $2.6 million. LV has no collateral posting requirements related to the swap.

Additionally, LV has a $3 million working line of credit with Bank of America that is renewable in October 2019; to date the line has not been drawn upon.

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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)

Additional Disclosures

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