

FITCH RATES PRESBYTERIAN RETIREMENT COMMUNITIES' (FL) 2010 REVS 'A-'; UPGRADES OUTSTANDING

Fitch Ratings-New York-11 June 2010: Fitch Ratings assigns an 'A-' rating to the \$138 million St. Johns County Industrial Development Authority revenue bonds series 2010A and B, to be issued on behalf of Presbyterian Retirement Communities (PRC).

The bonds are expected to sell the week of July 19, 2010. Proceeds will be used to refund the series 2006A, 2006B, and 2009 bonds, fund \$32 million in future capital expenditures, provide \$13 million in reimbursements for prior capital expenditures, fund debt service reserve funds, and cover costs of issuance.

In addition, Fitch upgrades to 'A-' PRC's approximately \$113.3 million outstanding series 2004A, 2006A and 2006B bonds.

The Rating Outlook is Stable.

RATING RATIONALE:

--PRC's liquidity position has improved. At fiscal year end 2010, PRC's unrestricted cash and investments totaled \$119.8 million (including minimum liquid reserves required by Florida Department of Insurance and expected funds from the current bond issue for prior capital expenditures) reflecting a 24% improvement from fiscal year end 2009's \$96.4 million.

--While PRC's liquidity indicators are on the lower end of the 'A' category (378 days cash on hand, 10.3 times (x) cushion ratio and 66% of long-term debt), this is mitigated by the system's lower future healthcare liability associated with its type B residency contract compared to a type A contract and is reflective of PRC's strong capital re-investment in its communities; over the past five fiscal years, PRC's capital expenditures have averaged 185% of depreciation (totaling approximately \$150 million) as compared to the 'A' category median of 138.1%. Additionally, PRC's average age of plant is a low 8.4 years, compared to the 'A' category median of 10 years.

--With the issuance of the series 2010 bonds, PRC will significantly reduce its capital structure risk. Upon closing of the series 2010 issue, 94% of PRC's debt will be fully committed capital compared to just 25% currently, eliminating much of its exposure to letter of credit renewal, remarketing, and put risk.

--Profitability levels remain solid as demonstrated by a 2.6% excess margin in fiscal 2010, compared to the 'A' category median of 1.6%. Earning strength is due to variable based budgeting programs, strict attention to cost controls, and improved terms from vendors.

--Strong cash flow has supported solid debt service coverage; pro forma maximum annual debt service (MADS) coverage of 2.4x in fiscal 2010 exceeds the 'A' category median of 2.2x and has averaged 2.5x over the past five fiscal years. Furthermore, the strong historical coverage demonstrates PRC's ability to cover pro forma debt service without the need of the expected additional income from future capital projects.

--PRC has a relatively light debt burden as evidenced by pro forma MADS equaling 8.4% of revenues for fiscal 2010, which compares favorably to the 'A' category median of 8.8%

--Depressed occupancy levels coupled with the stressed real estate market in Florida are credit concerns. Occupancy in independent living units at the end of fiscal 2008 was 88.5% which dropped to 85.6% at the end of fiscal 2010 and 85.2% as of early May 2010. Occupancy levels at PRC's Orlando, Jacksonville, and Tallahassee communities are fairing better than its Bradenton and St. Petersburg communities.

--Mitigating the lower occupancy levels are PRC's attractive and well-maintained campuses which are located in prime service areas across five Florida markets and PRC's ability to generate strong operating margins and cash flow at these lower occupancy levels.

--Construction/fill-up risk associated with the new projects is mitigated by the fact that PRC is adding incremental units to existing, well-established communities (no start-up risk).

KEY RATING DRIVERS:

--Returning occupancy to historical levels, particularly in the Bradenton and St. Petersburg markets;
--Completion of the various construction projects on time and on budget, which should positively affect operating revenue and income.

SECURITY:

Debt payments are secured by a pledge of the gross revenues, mortgages on PRC's communities, and debt service reserve funds.

CREDIT SUMMARY:

The primary drivers of the upgrade to 'A-' are PRC's improved liquidity position and new capital structure. Additional credit strengths include strong cash flow and debt service coverage, solid profitability levels, and strong management team. PRC's unrestricted cash and investments improved approximately \$10 million in fiscal 2010 to \$107 million. As part of the issuance of the series 2010 bonds, PRC will be reimbursing itself \$13 million for prior capital outlays, leading to total unrestricted funds of roughly \$120 million. Although pro forma liquidity metrics of 378 days cash on hand, 10.3x cushion ratio, and 66% cash to debt are light compared to the 'A' category medians of 607 days, 12.8x, and 97%, respectively, PRC's future healthcare liability is lower than those associated with type A residency contracts and thus its entrance fees can be offered at a lower price point. Furthermore, PRC has spent considerably on its communities, averaging approximately 185% of its depreciation expense over the past five fiscal years (equal to \$150 million in total) which would improve these ratios significantly. Fitch views this management practice favorably as it has kept PRC's communities up to date which improves marketability.

The new debt structure significantly reduces the risks associated with its current capital structure. Committed capital will now account for approximately 94% of total outstanding debt, compared to only 25% prior to the issuance. The new debt will increase total outstanding debt by approximately \$52 million to \$180 million; however the debt burden remains moderate as illustrated by pro forma MADS equal to 8.4% of total revenues in fiscal 2010 compared to the 'A' category median of 8.8%.

Pro forma debt service coverage has been excellent at 2.4x in fiscal 2010 and has averaged 2.5x over the past five fiscal years. Coverage has remained stable over the past few years due to management's variable based budgeting process which tailors expenses to current occupancy levels and strong net entrance fee receipts. The strong historical coverage ratio also mitigates the concern of PRC's capital plan to add an additional 253 independent living units in a tough operating environment. PRC is not reliant on any additional income to cover debt service, and as these projects fill-up over the course of the next five years the incremental income and entrance fees should bolster PRC's already strong financial profile.

Primary credit concerns include relatively low occupancy levels, the stressed residential real estate market in Florida, and general construction/fill-up risk associated with the new projects. Overall independent living occupancy has declined from 88.5% in fiscal 2008 to 85.2% in fiscal 2010. In particular, the Bradenton and St. Petersburg markets (48% of total independent living units) have occupancy levels in the seventy to eighty percent range, while the other markets tend to be over ninety percent. Management's biggest challenge in improving occupancies across its system is working with prospective residents to sell their homes which have lost considerable value in the past few years (upwards of 40% in some areas) and tend to remain on the market for extended periods of time. However, the weighted average entrance fee at each community is priced below the average home value in each of PRC's markets.

As with any construction project there are inherent risks, however many of these concerns are mitigated by the fact that PRC will be spreading the 253 additional independent living units across four of its well-established communities (i.e. there is no start-up risk), it is not reliant on any incremental income to cover pro forma debt service, it has a deep wait list of over 900 potential residents, and management has an excellent track record of expanding and developing its communities.

The Stable Outlook reflects Fitch's belief that PRC will continue to maintain strong operating performance, generating solid debt service coverage.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com':

--'Revenue-Supported Rating Criteria,' dated Dec. 29, 2009;

--Rating Guidelines for Nonprofit Continuing Care Retirement Communities', dated Dec. 15, 2008.

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