FITCH AFFIRMS PRESBYTERIAN RETIREMENT COMMUNITIES (FL) REV BONDS AT 'BBB+'; OUTLOOK TO STABLE

Fitch Ratings-New York-29 January 2010: Fitch Ratings takes the following rating action on Presbyterian Retirement Communities Obligated Group (PRC), Florida as part of its continuous surveillance effort:

--Approximately $28 million St. Johns County Industrial Development Authority fixed rate revenue bonds, series 2004A, affirmed at 'BBB+'.

--Approximately $72 million Orange County Health Facilities Authority variable rate revenue bonds, series 2006A and 2006B, affirmed at 'BBB+'.

The Rating Outlook is revised to Stable from Positive.

RATING RATIONALE:

--The Outlook revision to Stable from Positive reflects reduced cash and investment balances resulting from unrealized investment losses from the financial market downturn and capital improvements in physical plant. Since the end of fiscal year (FY) 2008, unrestricted cash and investments dropped by $20 million. Unrestricted investments have had significant unrealized gains in the current fiscal year and as of Sept. 30, 2009, $70 million of unrestricted cash amounts to 231 days cash on hand (DCOH) or 55% of long-term debt. These levels compare moderately with Fitch's medians for 'BBB' category continuing care retirement communities (CCRC) of 336 DCOH and 47.5% of long-term debt. Regardless, liquidity is also supported by $32 million of State of Florida Minimum Liquid Reserve balances, which is equivalent to an additional 105 DCOH.

--A current capital structure that is somewhat aggressive, with $96 million or 75% of Presbyterian Retirement Communities' (PRC) long-term debt in a variable rate mode with put features. (About 40% of PRC's variable rate demand bonds [VRDB] are fixed with an interest rate swap). However, repayment terms in the event of a draw on the letter of credit for $86 million of the VRDBs are not too onerous. PRC is also party to a fixed payor interest rate swap with a negative mark-to-market of $6.3 million as of Dec. 31, 2009. Regardless, PRC plans to refinance a majority of its VRDBs sometime in 2010 and given the improvement in the capital markets, Fitch expects PRC to enjoy satisfactory market access.

--Solid profitability levels. Earnings remain positive, with PRC generating a 1.9% excess margin in FY09 and an improved 6.8% excess margin in through the first six months of FY10. Earnings progress is due to variable based budgeting programs that are keyed to anticipated occupancy levels, strict attention to cost controls, and improved terms from vendors.

--Strong cash flow and debt service coverage. Given the solid earnings and healthy receipt of net entrance fees, maximum annual debt service (MADS) coverage remains robust at 3.3 times (x) in FY09 and 4.0x for the six month period ending Sept. 30, 2009.

--Low debt position, evidenced by 5.6% MADS as a percent of revenues and 48.9% adjusted debt to capital as of Sept. 30, 2009. These ratios compare very favorably to Fitch's 'BBB' category medians of 11.8% and 60.8%, respectively.

--Continued capital improvements in physical plant. PRC enjoys a low 8.4 year average age of physical plant and has expended capital at an above average rate during the last four fiscal years of 192% of depreciation.

--Attractive facilities in prime locations, with nine CCRCs operating in five district Florida markets. Moreover, PRC's CCRCs enjoy strong competitive positions in their respective local markets. PRC predominately serves moderate income seniors, with an aggregate average entrance fee of about $87,000.

--Moderating occupancy levels. After 89.5% occupancy at the end of FY08, occupancy in all levels of care dropped to 87.1% as of March 2009 and 85.8% as of Jan. 22, 2010. Occupancy at PRC's Orlando, Jacksonville, and Tallahassee facilities is higher than its Bradenton and St. Petersburg CCRCs.

--Stressed real estate market as home values and sales velocity in many parts of Florida remain at depressed levels.

KEY RATING DRIVERS:

--Maintenance of healthy financial performance despite softening occupancy.

--Reduction in capital structure risk.

--Stable balance sheet metrics.

SECURITY:

The bonds are secured by mortgages on PRC's facilities, a gross revenue pledge, and debt service reserve funds.

CREDIT SUMMARY:

The 'BBB+' rating reflects solid profitability and cash flow, satisfactory cash balances, low debt position, and attractive facilities in prime locations. Offsetting factors include the current capital structure, moderating occupancy levels, and a stressed residential real estate market.

PRC enjoys a long-history of successfully operating and growing its CCRC business throughout the state of Florida. While maintaining a strong financial profile with modest amounts of debt, PRC continuously and strategically invests in new and existing facilities to keep them marketable and increase its dominance in its core markets. Fitch views this management practice very favorably and is indicative of PRC's positive status in the Florida CCRC marketplace. A recent example of this is PRC's February 2009 purchase and renovation of a vacant 14 story residential building adjacent to its Westminster Palms CCRC in downtown St. Petersburg. PRC is doing a total overhaul of the building which will include 132 new residential units when it is complete in September 2010. Despite softening residential occupancy at a few of its facilities and the weakened state of Florida's real estate market, Fitch remains confident that PRC can effectively manage its business while maintaining its solid financial position.

Fitch views favorably PRC's plans to restructure its debt position with a majority of fixed rate obligations. PRC is also contemplating a debt issuance of $20 million-$30 million to fund an additional 72 residential units and a parking garage at its very successful Winter Park Towers CCRC. The additional debt should not have an impact on PRC's 'BBB+' rating.

PRC includes nine CCRCs in Jacksonville, Orlando, Bradenton, St. Petersburg, and Tallahassee, FL. The organization operates 1,894 independent living units, 483 assisted living units and 750 skilled nursing beds for a total of 3,127 revenue producing units. PRC offers type-B entrance fee contracts at all its CCRCs. In FY09, PRC reported $128.7 million of total revenues. PRC covenants to provide annual audited financial statements, quarterly un-audited financial statements, and occupancy statistics to the Municipal Securities Rulemaking Board's EMMA system and to bondholders.

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

--'Revenue-Supported Rating Criteria', dated Dec. 29, 2009.
--'Rating Guidelines for Nonprofit CCRC's', dated Dec. 15, 2008.

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