FitchRatings

Fitch Rates Peconic Landing at Southold (NY) 2019 A/B Bonds 'BBB-'; Outlook Revised to Positive

24 OCT 2019 04:08 PM ET

Link to Fitch Ratings' Report(s): Peconic Landing at Southold, Inc., New York

Fitch Ratings-New York-24 October 2019: Fitch Ratings has assigned a 'BBB-' rating to the following bonds issued by Suffolk County Economic Development Corporation on behalf of Peconic Landing at Southold, Inc. (PL):

--$2.55 million series 2019A (Peconic Landing at Southold, Inc. Project);
--$24.575 million series 2019B (Peconic Landing at Southold, Inc. Project).

In addition, Fitch has affirmed the following bonds issued on behalf of PL:

--$18.9 million Southold Local Development Corporation revenue bonds, series 2015 (Peconic Landing at Southold, Inc. Project);
--$25.2 million Suffolk County Economic Development Corporation revenue refunding bonds series 2010 (Peconic Landing at Southold, Inc. Project).

Bond proceeds are expected to be used to refund the series 2010 bonds, pay for certain capital projects, fund a debt service reserve fund and to pay for costs of issuance. The bonds are expected to price via negotiation the week of Nov. 11. The series 2019B bonds are forward delivery bonds that are expected to be delivered pursuant to a forward delivery arrangement around the week of Nov. 30, 2020.

The Rating Outlook has been revised to Positive from Stable.

SECURITY

The bonds are secured by a gross revenue pledge, mortgage interest on the land and all buildings except the ILU/Co-op units, and a debt service reserve fund.

KEY RATING DRIVERS

REDUCED LONG-TERM LIABILITY PROFILE: The Positive Outlook reflects PL's reduced debt burden following the issuance of the series 2019 bonds and subsequent refunding of the series 2010 bonds. Following this refunding, PL's maximum annual debt service (MADS) declines approximately 9% to $3 million, which equates to a manageable 9.4% of fiscal 2018 (ending Dec. 31) revenues. Additionally, debt to net available measured a solid 5.8x in fiscal 2018, which remains favorable to Fitch's 'BBB' category median.

LIQUIDITY GROWTH: The Positive Outlook also reflects PL's steady improvement in cash reserves in recent years, which improved approximately 15% over the last two fiscal years. In fiscal 2018, PL had approximately $31.5 million in unrestricted cash and investments, which translates into 375 days cash on hand (DCOH), 73.3% cash to debt and 10.2% pro forma cushion ratio. PL's liquidity metrics largely remain favorable to Fitch's 'BBB' category medians.

SOLID MARKET POSITION: PL has demonstrated strong demand across all its service lines, which Fitch attributes to its favorable location and limited competition. Over the last two fiscal years, PL averaged a solid 92% occupancy in its independent living units (ILUs), 94% in its assisted living units (ALUs) and 89% in its skilled nursing facility (SNF) beds.

SUFFICIENT OPERATIONS: In fiscal 2018, PL continued to improve its core operations as evidenced by its 99.1% operating ratio and 4.6% net operating margin (NOM). While somewhat weak, PL's operations remain sufficient for its rating level, particularly given its primary Type-A contract offerings. Fitch attributes the recent improvement in operations to the completion of PL's campus repositioning and expansion project in 2016, which was expected to be accretive to its operating profile. From fiscal 2016-2018, PL's operating revenues have increased 16% to $32.4 million.

ASYMMETRIC RISK FACTORS: There are no asymmetric risk factors affecting this rating determination.

RATING SENSITIVITIES

LIQUIDITY GROWTH/COVERAGE LEVELS: If PL is able to maintain its solid coverage levels while improving its operational performance and cash reserves levels, there may be upward rating movement over the Outlook period. Conversely, unexpected deterioration in PL's cash reserves or operations would stabilize the rating at its current level.

CREDIT PROFILE

PL is located on the North Fork of Long Island and consists of 109 single-story cottages, 187 apartments, 26 enriched housing units (ALUs), 16 memory care units (MCUs) and 60 SNF beds. Utilizing a co-op model, PL primarily offers a Type-A contract. Under the co-op structure, co-op shares are issued to the resident by PL.

When the ILU is vacated and resold, PL pays the resident or resident's estate the lower of (1) the purchase price by the new resident less certain fees or (2) the purchase price initially paid by the resident, plus inflation (if positive), less certain fees. If no new buyer is identified within one-year, PL pays the resident or the resident's estate the lower of (1) the most recent purchase price of a similar unit recently sold less certain fees or (2) the original purchase price less certain fees. Fitch views the co-op structure and refund provisions as limiting credit factors, which could present a challenge if ILU turnover accelerated and new unit sales slowdown.

In 2016, PL obtained approval from the state of New York to begin offering Type-C contracts as well. To date, only eight residents have chosen the Type-C contract. In 2018, PL had total operating revenues of $32.4 million.

LONG-TERM LIABILITY PROFILE

Following the issuance of the series 2019 bonds, and subsequent refunding of the series 2010 bonds, PL is expecting to have $46 million in long-term debt consisting of $19 million in series 2015 bonds and $27 million in series 2019 bonds. All of the bonds are expected to be fixed-rate and have a pro forma MADS of $3 million. However, the series 2019B bond proceeds, which will be used to refund the series 2010 bonds, are not expected to be delivered until the fall of 2020. Therefore, the refunding of the series 2010 bonds and associated debt service savings are not expected to occur until then.

PL's pro forma MADS of $3 million is an approximate 9% drop from its existing MADS, which is reflected in the Positive Outlook and should provide PL with additional annual cash flow to further improve its cash reserves and core operations. Pro forma MADS equates to 9.4% of PL's fiscal 2018 revenues, which compares favorably with Fitch's 'BBB' category medians of 12.9%. Additionally, debt to net available measured a solid 5.8x in fiscal 2018, which also compares favorably with Fitch's 'BBB' category median of 7.1x.

FINANCIAL PROFILE

Following completion of the expansion and repositioning project in fiscal 2016, PL has shown steady improvement in operations. In fiscal 2018, PL improved its operating ratio to 99.1%, NOM to 4.6%, and NOM-adjusted (NOMA) to 16.8%. However, while weaker than Fitch's 'BBB' category medians, they remain sufficient for its rating level given PL is primarily a Type-A facility and has a strong market position and growing liquidity position. Additionally, PL continued to improve its operations in the interim period as evidenced by its 97.9% operating ratio, 6.8% NOM and 15% NOMA. Furthermore, PL's coverage levels remained solid in fiscal 2018 with a 2.4x pro forma MADS coverage and 1x pro forma revenue-only coverage which both are better than Fitch's 'BBB' category medians of 1.9x and 0.9x, respectively.

PL's improved operational performance and cash flow levels have driven solid growth in its cash reserve levels in recent years, which is reflected in the Positive Outlook. In fiscal 2018, PL had $31.5 million in unrestricted cash and investments, which is a 15% increase from fiscal 2016 levels and equals 375 DCOH, 73.3% cash to debt and 10.2x pro forma cushion ratio. While DCOH remains below Fitch's 'BBB' category medians, PL's cash to debt and cushion ratio remain favorable to the 'BBB' category medians of 63.6% and 8.3x, respectively. Overall, Fitch expects PL's upcoming refunding to save approximately $300,000 in annual debt service costs, which should provide for solid coverage levels and further cash accretion moving forward.

MARKET POSITION

PL has demonstrated strong demand for its services across all service lines as evidenced by its 92% occupancy in its ILUs, 93% occupancy in its ALUs, and 90% occupancy in its SNF during fiscal 2018. Additionally, PL's strong census has been maintained through the eight-month interim period (ending Aug. 31, 2019), with average census of 94% in its ILUs, 95% in its ALUs and 93% in its SNF beds. Fitch attributes PL's strong census to its favorable location and limited competition in the demographically attractive Long Island market.

PL continues to benefit from its large and attractive campus located on the North Fork of eastern Long Island, which includes a private beach. PL also benefits from the limited competition for prospective residents as there are currently only two other CCRCs in the large Long Island market, both of which are outside its primary service area. There is also a third CCRC in the planning phase, which is still accepting entrance fee deposits. However, this CCRC is outside PL's primary service area and is expected to have little-to-no impact on census levels. Overall, Fitch feels PL's attractive campus and location, coupled with its favorable competitive landscape, should continue to support demand for its services.

Contact:

Primary Analyst
Ryan J. Pami, CFA

Director
+1-212-908-0803
Fitch Ratings, Inc.
300th West 57th Street
New York, NY 10019

Secondary Analyst
Gary Sokolow
Director
+1-212-908-9186

Committee Chairperson
Eva Thein
Senior Director
+1-212-908-0674

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278,
Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria – Effective May 28, 2019 to November 7, 2019 (pub. 28 May 2019)

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

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy