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# **St. Joseph's Healthcare System, NJ, Outlook Revised To Stable From Positive On Increased Debt; 2017 Bonds Rated 'BBB-'**

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CENTENNIAL (S&P Global Ratings) Aug. 7, 2017--S&P Global Ratings revised its outlook to stable from positive and affirmed its 'BBB-' rating on the New Jersey Health Care Facilities Financing Authority's series 2016 and 2008 bonds issued for St. Joseph's Healthcare System (SJHS). At the same time, S&P Global Ratings assigned its 'BBB-' rating and stable outlook to SJHS' series 2017 fixed-rate taxable bonds, the proceeds of which will fund the system's defined benefit pension plan.

"The outlook revision reflects this additional debt and recently softer earnings," said S&P Global Ratings credit analyst Chloe Pickett. "Furthermore, the revision reflects our view of likely continued pressure on finances following information technology upgrades and some compression of liquidity over the outlook period," Ms. Pickett added.

We assess the enterprise profile as strong, with SJHS serving a large population and maintaining a dominant market share in a competitive area. We assess the financial profile as vulnerable, with modest operating margins, although debt service coverage has remained solid in recent years; near-term compression on liquidity metrics such as days' cash on hand and cash-to-debt; and higher leverage than median rating levels. However, some of this pressure is due to SJHS' decision to significantly increase funding to its pension plan, which should provide long-term cash flow benefits and a less risky balance sheet. Combined, we think these credit factors lead to an indicative rating of 'bbb-'. In our view, the 'BBB-' also reflects the significant reliance on special funding.

SJHS operates two acute-care hospitals with 703 beds between the 567-staffed-bed SJRMC and Children's Hospital in Paterson; and the 145-staffed-bed St. Joseph's Wayne Hospital, approximately seven miles away in Wayne. In addition, the system includes two foundations, a home health agency, a captive insurance company, and a 151-bed long-term care provider.

The stable outlook reflects SJHS' solid enterprise profile, essentiality, and efforts to improve operations after soft 2016 performance. The outlook also reflects some flexibility from SJHS' unrestricted reserves, which are above median level and hover near debt outstanding. We also believe that after some near-term pressure on cash flow, earnings should improve over the longer term with benefits from the pension plan funding and management's efforts underway to improve earnings. the system's reliance on special funding remains a credit risk.

An outlook revision to positive is possible if SJHS reestablishes a long-term trend of positive operations and strengthens its balance sheet metrics--including leverage and unrestricted reserves--all to be more in line with the higher rating. In addition, we would view reduced dependency on

special funding, while maintaining other credit characteristics, positively.

A revision to negative outlook is possible if SJHS maintains negative operations, debt service coverage does not stay in line with the rating, or if there is material weakening of the balance sheet. Furthermore, any material negative change in the system's enterprise profile or materially reduced state support that is not offset could result in a lower rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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