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CREDIT OPINION
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YMCA of Greater New York, NY

Update following downgrade

Summary

The YMCA of Greater New York's (Baa2 negative) credit quality favorably incorporates its very good brand and critical role as a community service partner throughout New York City's five boroughs. As a result of coronavirus-driven facility closures, already thin operating performance is expected to weaken materially in fiscal 2020, resulting in both a decline in already thin financial reserves and an increase in debt through the use of an operating line of credit.

The coronavirus (COVID-19) situation has created dislocation across industries and geographies and triggered urgent challenges for many businesses and organizations to address. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The pandemic further heightens the YMCA's already elevated social risk given its location in an outbreak epicenter and its widespread operations, which include serving at-risk populations.

On May 18, 2020, the rating was downgraded to Baa2 from Baa1.

Credit strengths

» Well-established brand as largest YMCA in the US and strong New York City community partnerships

» Diverse revenue streams, including membership revenue and consistent gift flows

» Substantial real estate holdings throughout New York City

» Strong management team engaged in sound budgeting, risk management and targeted growth

Credit challenges

» Low and decreasing financial reserve coverage of debt, with total cash and investments to debt of 0.6x for fiscal 2018, declining with use of a line of credit and anticipated use of operating reserves

» Already thin cash and investments relative to operations, with monthly liquidity of $59 million providing 120 days cash on hand

» Restarting operations to meet new health and safety requirements and meeting local needs while meeting financial obligations will prompt difficult decision-making

» Affordability and community service mission of the YMCA limits substantial growth in flexible reserves

» Harm to YMCA's reputation and brand could adversely impact operations and philanthropy

Rating outlook

The negative outlook is driven by expectations that operating performance will remain weak throughout fiscal 2020 (December 31 year end), with modest use of reserves. An extended period of operating loss with potential material use of reserves into fiscal 2021 or additional debt could result in further credit deterioration. Should downside risks accelerate, the rating or outlook could be negatively impacted. Local, state or federal aid that provides a meaningful offset to operating losses could favorably impact credit quality.

Factors that could lead to an upgrade

» Sustained and consistent operating surpluses

» Material growth in flexible reserves providing additional cushion relative to debt and operations

» Local, state or federal aid that provides a meaningful offset to operating losses

Factors that could lead to a downgrade

» Material use of operating funds, endowment or quasi-endowment funds to support operations

» Inability to adjust operations to offset declines in key revenue drivers including membership, programs, lodging and fundraising

» Decreased support from local, state or federal sources

» Heightened financial leverage beyond line of credit use

Key indicators

YMCA OF GREATER NEW YORK, NY

	2014	2015	2016	2017	2018
Operating Revenue ($000)	176,681	185,847	187,734	190,841	196,307
Annual Change in Operating Revenue (%)	8.2	5.2	1.0	1.7	2.9
Total Cash & Investments ($000)	68,454	62,582	70,573	77,037	81,917
Total Debt ($000)	81,307	88,743	85,677	103,209	139,535
Spendable Cash & Investments to Total Debt (x)	0.7	0.6	0.7	0.6	0.5
Spendable Cash & Investments to Operating Expenses (x)	0.3	0.3	0.3	0.3	0.4
Monthly Days Cash on Hand	104	89	102	107	120
EBIDA Margin	9.5	10.5	8.8	9.1	10.8
Total Debt to EBIDA	4.8	4.5	5.2	6.0	6.6
Three-Year Average Gift Revenue ($000)	23,381	24,087	23,905	19,485	20,412
Annual Debt Service Coverage (x)	2.3	2.9	2.4	2.5	2.3

December 31 fiscal year end
Source: Moody's Investors Service

Profile

The Young Men's Christian Association of Greater New York is a not-for-profit community service organization that was originally established in 1852. The organization is the largest YMCA system in the US and is spread across the five boroughs of New York City, providing health and fitness, youth services and residence facilities. Fiscal 2018 operating revenue totaled $196 million.

Detailed credit considerations

Market profile: well-established brand and reputation with strong community ties

As the largest YMCA in the world, the YMCA of GNY has a well-established reputation and service niche in New York City. With 22 branches and over 90 program sites across New York City's five boroughs and a residential camp and meeting center in upstate New York, the YMCA serves a growing population, reaching over half a million youth and adults annually. The YMCA is also building two new branches in the Bronx. Typical program offerings are diverse and focus on empowering youth, improving health and strengthening community through partnerships with corporations as well as volunteer and service opportunities. The residence facilities add to the YMCA's broad market position, with flexibility in the facilities to provide rooms to self-pay visitors or transitional housing supported with City of New York agency funding.

Currently, memberships and almost all programs have been halted because of the coronavirus pandemic, and summer camps have been canceled. Some residential facilities remain open, serving critical local needs. No reopening date is planned for other operations. YMCA leadership is evaluating its facilities and programs to meet increased health and safety requirements and to best serve its constituents while meeting financial obligations. Two new branches in the Bronx are still in progress, with opening dates delayed because of construction halts, though it has resumed on one site.

The YMCA's critical service to the community is demonstrated by federal, State of New York and City of New York grants. Government support, largely from the city, comprised 15% of fiscal 2018 operating revenue and is directed to both programs and capital improvements.

Operating performance: coronavirus impact severely impairs revenue

While the YMCA has typically delivered balanced financial performance, reflecting management's strong oversight and good financial strategy, revenue has sharply declined as a result of coronavirus-driven facility closures. Management has implemented dramatic cost saving measures, including the furlough of over 2,600 employees and salary reductions. However, cutbacks are not sufficient to meet revenue losses. To fill the gap, management has drawn on a $20 million line of credit. That liquidity will allow it to meet operating deficits through September, assuming no startup of operations. After line of credit funds are exhausted, the YMCA contemplates use of operating and other non-endowment reserves to support operations well into fiscal 2021. Shifts in sources of revenue are likely once broader operations resume as facilities may be used in different ways than before the coronavirus pandemic. Should pandemic conditions persist into fiscal 2021, downside credit risk would be considerably heightened.

Wealth and liquidity: low financial resources with limited opportunity for growth

Financial resources are low relative to peers and expenses and are expected to decline modestly through fiscal 2020 through some use of reserve to support operations. Should reserves decline materially into fiscal 2021, credit quality will like be negatively impacted.

Over the longer term, resources are unlikely to grow substantially from operations because of the organization's mission to be a competitively priced option for members and program participants, including residential and hospitality services. Spendable financial resources provided a thin cushion to operations of 0.4x for fiscal 2018.

The YMCA has benefited from City of New York policies that encourage developers to include a community amenity, such as a park or recreation facility, in new projects. The organization has substantial real estate holdings with an insured building and equipment replacement value of approximately $541 million, exceeding the $268 million net property and equipment, including land, on the YMCA's balance sheet and not reflected in Moody's calculations of financial resources.

Philanthropic activity remains central to the YMCA's mission as a means to sponsor youth, fitness and healthy living, counseling and education-related programs. Annual gift revenue is generally around $11 million (excluding building gifts), with stronger support in fiscal 2018, at $14 million.

Liquidity
The YMCA's flexibility to adjust quickly to revenue shortfalls through program cuts and reallocations, as demonstrated by its coronavirus response, partially mitigates limited liquidity. For fiscal 2018, $59 million of monthly liquidity provided 120 monthly days on hand, below the Baa-median of 149 days.

Leverage: weak leverage relative to financial reserves but manageable given typical scope
The YMCA's leverage profile is weak relative to financial reserves but manageable relative to the organization's typical operating scope. Total cash and investments cover debt by a low 0.6x, though debt to operating revenue is in line with peers at 0.7x. Leverage has increased modestly with the use of a $20 million line of credit. Paydown plans to repay the line of credit usage are currently being evaluated.

Debt structure
The bonded debt is fixed rate and amortizing, providing planning stability. Debt service is in the $8-$9 million range through 2040, after which it declines through final amortization in 2048.

Legal security
Bonds are an unconditional general obligation of the YMCA of Greater New York. Series 2015 bonds have a debt service reserve and a debt service coverage test of 1.15x. Coverage was a strong 3.1x for fiscal 2018 and estimated at over 2x for fiscal 2019. A violation of the debt service coverage covenant is not an event of default as long as the YMCA undertakes a plan to improve performance.

Debt-related derivatives
Not applicable.

Pensions and OPEB
The YMCA has limited exposure to its outstanding defined benefit plan, which has been closed to new employees since 1989. Using the plan's expected rate of return of 7%, the plan is fully funded per GAAP. The YMCA's contributions are typically low at less than 1% of operating expenses, in addition to contributions for two defined contribution plans. The YMCA does not have an OPEB plan.

ESG considerations
Environmental
Environmental considerations are not a material credit driver at this time.

Social
Social considerations are heightened given the YMCA's broad reach, diverse programs, large number of part-time employees and volunteers and range of populations served, including numerous youth populations. Adverse impact to the YMCA's brand poses additional enterprise risk. Enterprise risk management practices help mitigate these factors and include training and procedures to help provide a safe environment for users and staff.

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Governance
The YMCA's experienced leadership continues to exhibit strong planning and oversight of the organization's various operations and facilities. Budgeting and financial oversight functions are strong, including budgeting for depreciation and interest and conservative estimates for potential budget impacts, including detailed forecasts that incorporate coronavirus scenarios. Leadership is evaluating facility usage options for reopening and consulting with other large YMCAs and outside experts regarding new health and safety procedures. Staff also works closely with city and state leadership, particularly regarding new facilities and external consultants when outside expertise is needed.

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