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Young Men's Christian Association of Greater New York; Non-Profit Organizations

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Build NYC Resource Corp (YMCA of Greater New York) Non-Profit		
Long Term Rating	BBB/Negative	Downgraded

Rating Action

S&P Global Ratings lowered its long-term rating by two notches to 'BBB' from 'A-' on YMCA of Greater New York's (YMCA) and Build NYC Resource Corp.'s general obligation (GO) bonds, issued for the YMCA. The outlook is negative.

The downgrade reflects our opinion of the weakened available resources and pressured operations of YMCA, including a projected general operating deficit of $14 million in calendar year 2020. As a direct result of the COVID-19 pandemic, YMCA has experienced revenue losses with the temporary closures of its gyms and community centers.

The negative outlook reflects S&P Global Ratings' opinion of the uncertainty and risk surrounding COVID-19 for YMCA, including its facilities, which are expected to operate at reduced capacity. On Aug. 17, 2020, New York State adjusted its guidelines for gyms and fitness centers to allow these facilities to reopen at 33% capacity, along with other safety protocols. YMCA has plans to open its facilities in phases, with nine of its 22 branches scheduled to open in September 2020. In our view, we expect operations to continue to remain pressured.

YMCA maintains debt that includes Build NYC Resource Corp. series 2015 bonds, along with the series 2020 and series 2018 issued by the organization. Due to the loss of revenues, management at the YMCA is not forecasting to meet the series 2015 bond debt service covenant for calendar year 2020. The series 2018 taxable bonds and series 2020 taxable bonds do not have debt service requirement covenants.

It is our understanding that inability to meet the covenant for the series 2015 bonds will not result in a default as long as certain terms are met. These include timely filing notice of noncompliance, timely development and filing of a financial plan for subsequent compliance, and potentially in future years, if compliance is still not met, the retention of a financial consultant to develop and file a new plan. Management at YMCA has indicated that if the requirement is not met, it intends to comply with the terms to remedy.

YMCA has prudently followed government guidelines for its gyms, and has distanced equipment in high-traffic areas, installed Plexiglas shields, increased cleanings, and implemented mandatory masks for staff and members.

While most of its programming and operations were paused in March 2020 because of the pandemic, YMCA has continued to operate its transitional housing and guest room programs, along with its counseling center in Staten Island. YMCA has also continued its virtual programming offerings.

As a result of the declines in membership and program fees, management has taken steps to reduce operating expenses and preserve liquidity. In response to the pandemic, management has furloughed approximately 3,800 workers, including 2,500 part-time staff. Management also had 126 layoffs of full-time staff. Management continues to closely monitor staffing levels. On March 17, 2020, YMCA increased its line of credit to $20 million, which was fully drawn and deposited to cash. Management has utilized $5 million of funds from the credit line to help fund operations, given the closures.

YMCA has updated its financial forecasts, and has conservatively budgeted its gyms and community centers to not being reopened for the rest of the year. Based on this forecast, management is anticipating monthly deficits of approximately $2.5 million per month, and an overall deficit of $14 million for calendar year 2020. However, management has increased partnerships with its transitional housing, and may have additional new program revenue streams in 2020 from the City of New York.

The bonds are an unsecured GO of the YMCA. YMCA's total pro forma debt is approximately $156.4 million.

Credit overview

The rating reflects our opinion of the YMCA's long history of strong relationships with New York City communities, diverse revenue base, and high-quality management team. In our opinion, the YMCA's modest financial resources and endowment for the rating category, ongoing budgetary pressures as a result of the COVID-19 pandemic, and ongoing capital needs somewhat offset these strengths.

The rating also reflects our view of the YMCA's:

- Established brand with strong community ties and diverse programming offerings;
- Diverse revenue base that includes a well-established residence business with improving revenue;
- Increased partnerships and collaborations with nonprofits and city agencies; and
- Proactive management team that budgets conservatively with demonstrated expense management.

We believe somewhat offsetting factors are what we consider the YMCA's:

- Full-accrual deficit in calendar year 2019, with a larger projected deficit in 2020 as a result of closures of its gyms and facilities;
- Below-average financial resources with limited expendable resources compared with operating expenses;
- Decreasing membership in a highly competitive market; and
- Ongoing capital needs related to building programs and facilities renewal.

The YMCA of Greater New York is a community service organization for all New Yorkers to empower youth, improve health, and strengthen community. Founded in 1852, the YMCA of Greater New York is the largest and most diverse YMCA in the world, typically serving approximately 500,000 New Yorkers annually. It operates 22 full-service branches, with two additional branches under construction, along with community centers throughout the five boroughs. The programming at the YMCA promotes youth development, healthy living, social responsibility, and community collaboration.

Environment, social, and governance (ESG) factors

The leadership of YMCA has implemented remote working for nonessential employees to protect employee health and safety and limit COVID-19-associated social risks. We view COVID-19 health and safety issues as a social risk under our ESG factors that drove the downgrade because of the pandemic's uncertain duration. Despite elevated social risk, we consider the environment and governance risks of YMCA in line with our view of the sector standard.

Negative Outlook

Downside scenario

We could lower the rating if YMCA cannot navigate COVID-19-related pressure, operating losses were to accelerate, available resource ratios were to weaken materially from current levels, or if YMCA were to issue a significant amount of debt without commensurate growth in available resources. In addition, if YMCA has a covenant violation of its bonds and is unable to remedy in a timely manner, we could also lower the rating.

Return to stable scenario

We could revise the outlook to stable if YMCA were to produce general operating surpluses, resulting in stronger available resources, and any additional debt were to remain supported by commensurate resource growth.

Credit Opinion

Enterprise Profile

Facilities

Because of COVID-19, in March 2020, the State of New York issued executive order guidance requiring closure of nonessential indoor facilities, which included fitness centers. YMCA of Greater New York complied with this order and temporarily closed its community centers and gyms. Based on updated guidance from New York State, which eases the restrictions on fitness centers, management has plans to open 10 of its branches in September 2020. Traditionally, YMCA of Greater New York operates programs in 22 branches and more than 90 locations in all boroughs across New York City.

Management has implemented various expense reductions as a result of COVID-19. The YMCA traditionally operates a summer camp and meeting center in Huguenot, New York. Because of the pandemic, the summer camp was cancelled and the employees who operate the facility were laid off.

In terms of facilities, YMCA is developing two additional branches in the Bronx: La Central and Northeast Bronx. La Central is part of a larger complex, including affordable housing. Northeast Bronx will be a freestanding facility. Both projects experienced construction delays as a result of the pandemic, and are expected to be completed in 2021. The

YMCA is funding both projects with a combination of debt (the series 2018 issuance), gifts, and funding from government agencies and other sources.

The YMCA maintains a residence program that includes transitional housing, guest rooms, and community-room rentals, which has remained operational and profitable during the pandemic. Management has partnered with several nonprofits, and the residences remain at or near full capacity.

Management is continually exploring opportunities to replace and renovate older units and adjust to demographic shifts in the metropolitan area. In our view, capital needs remain significant. The YMCA partially meets its renewal, replacement, and expansion needs through partnerships with private developers, New York City, and New York State to build new facilities and upgrade existing branches. The YMCA's ability to leverage partnerships to meet development needs is a credit strength, in our view. If it needs significantly more debt, however, the additional debt could stress already thin resource ratios.

Management

Sharon Greenberger, who has been president since July 2015, leads the YMCA's management. Management operates according to a 2018-2025 strategic plan known as "Thriving New Yorkers, Stronger Communities." With the onset of the pandemic, management reports that it has suspended the plan goals and will update the strategic plan once regular operations resume.

Management budgets conservatively on a multiyear basis. In recent years, YMCA has also increased its focus on data and digital marketing, which included adding a new chief marketing and communication officer in July 2019. While senior leadership has remained unchanged, there has been reorganization and consolidation of middle-level managers. However, the finance leadership team has remained stable.

At the branch level, each branch budgets according to the chief financial officer's guidelines, including a recommended 10% budget contingency. In addition to YMCA's 33-member board of directors, each branch has a board of managers that pursues specific program, membership, and fiscal objectives in line with overall organizational plans. We do not expect any significant near-term changes.

Financial Profile

Operating performance

The YMCA budgets conservatively, and has historically generated break-even-to-positive operating performance on a generally-accepted-accounting-principles basis. However, expenditure increases resulted in a full-accrual deficit for 2019. Because of the pandemic, which resulted in temporary closures of its gyms and community centers, these financial pressures were exacerbated. We note fiscal year-end is Dec. 31.

For 2020, the projected deficit of $14 million is primarily the result of lost revenues from memberships, programming, and fees following the closure of its facilities and fitness centers. Management budgets conservatively and has forecast based upon the gyms remaining closed for the rest of the year. Management has incurred 126 layoffs and 3,800 furloughs as a result of the pandemic. Management is anticipating monthly deficits of approximately $2.5 million per month. If facilities remain limited operationally, management is anticipating comparable losses for 2021. With facilities currently either closed or operating at reduced capacity, we expect operations for YMCA to remain pressured.

For 2019, YMCA reported a $2.1 million deficit, which was lower than the 2018 surplus of $1.05 million. Management partially attributed the deficit to increased salary costs, which included minimum-wage salary increases to $15 an hour. Historically, in 2017, the YMCA had a large $26.5 million surplus resulting from the acquisition of its Rockaway branch for an amount significantly less than fair market value. However, when adjusting for this one-time $26.5 million contribution, operating results would have remained positive, with a surplus of about $2.6 million.

The YMCA's revenue stream is diverse. Membership dues and program fees provided about 56% of 2019 revenue, while residence and related services generated 20% and government contracts accounted for 15%. The YMCA derives about 1.5% of its revenue from the endowment distribution, which management determines by a policy of spending 5% of the 20-quarter-average endowment market value. We view the revenue diversity of YMCA positively.

Prior to the pandemic, membership retention averaged about 63% during 2014-2019. Overall retention lags YMCA's rates in other cities, partially attributable to New York City's transient population. The YMCA discontinued charging membership fees during the facility closures and plans to reinstate them in October 2020. Approximately 1,500 members opted to continue paying their monthly charge to support the YMCA during the closure.

Fundraising

The YMCA is a good fundraiser, and consistently raises approximately $10 million in annual net unrestricted contributions. The YMCA has launched its "Bronx is Up" campaign, which has raised $7.5 million, with an ultimate goal of $25 million. We expect fundraising for the YMCA to remain stable, and its current campaign could support upcoming projects and initiatives.

Financial resources and debt

YMCA's total pro forma debt equals approximately $156.4 million. The debt includes Build NYC Resource Corp. series 2015 bonds, along with the series 2020 and series 2018 issued by the organization. Management issued the 2020 issuance to refund its series 2012 bonds.

YMCA's financial resources declined during 2019. Adjusted expendable resources in 2019 declined to approximately $94.8 million, down from $106 million in 2018. Previously, in 2018, the organization issued additional debt for its Northeast Bronx and La Central projects. However, a large $26.5 million unrestricted contribution related to its Rockaway property largely offset this debt.

When incorporating series 2020 bonds and drawn credit lines, expendable resources equals about 46.4% of operations and 60.6% of pro forma debt. The decline in available resources by the organization supports the downgrade. We expect expendable resources to remain pressured due to continued projected deficits. Management has indicated that they do not have any additional debt plans within the outlook period.

The YMCA's total long-term investments--including endowments, board-designated endowments, and various trusts--were $70.3 million at June 30, 2020. As the 2019 audit, the endowment investments comprised equities (78%), fixed income (20%), and cash and other (2%). Management reports that $33.7 million of its endowment is unrestricted. YMCA's total endowment is modest, in our opinion, compared with other similar not-for-profit-rated entities.

As of Aug. 10, 2020, aside from its investments accounts, management reports that it has approximately $17 million available in its operating reserves. Additionally, it has $15 million remaining in funds from the line of credit and overall maintains $32 million in available funds.

YMCA made its $4.8 million debt service payment on Aug. 1, 2020. The next scheduled payment is Feb. 1, 2021, which is an interest payment of $2.8 million. Management intends to maintain their 5% endowment draw policy, and intends to utilize funds from the endowment draw for the February payment. The payment after is due Aug. 1, 2021, which is a principal and interest payment of $5.4 million, which management intends to fund through operations.

Pensions

YMCA had a defined-benefit plan which was terminated December 31, 2018. The organization currently participates in a defined-contribution plan, The YMCA Retirement Fund Retirement Plan, which is a not-for-profit, tax-exempt pension fund incorporated in the State of New York and organized and operated for the purpose of providing retirement and other benefits for employees of YMCAs throughout the country. The plan is operated as a church pension plan. Total contributions charged to retirement costs were $5,149,633 and $4,811,349 in 2019 and 2018, respectively.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 9, 2020)		
Young Men's Christian Association of Greater New York GO bnds ser 2020 due 08/01/2042		
Long Term Rating	BBB/Negative	Downgraded