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

Primary Credit Analyst:
Kevin Barry, New York + 1 (212) 438 7337; kevin.barry@spglobal.com

Secondary Contact:
Stephanie Wang, New York + 1 (212) 438 3841; stephanie.wang@spglobal.com

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

Credit Profile		
US$63.0 mil taxable bonds ser 2021 due 08/01/2026		
Long Term Rating	BBB/Negative	New
Young Men's Christian Association of Greater New York Non-Profit		
Long Term Rating	BBB/Negative	Affirmed

Rating Action

S&P Global Ratings assigned its 'BBB' rating to Young Men’s Christian Association (YMCA) of Greater New York's approximately $62.8 million taxable series 2021 general obligation (GO) bonds and affirmed its 'BBB' rating on YMCA's and Build NYC Resource Corp.'s existing GO debt, issued for YMCA. The outlook is negative.

The negative outlook reflects S&P Global Ratings' opinion of the uncertainty and risk for YMCA, including its facilities, which continue to have reduced programming and operating capacity due to COVID-19. In addition, the negative outlook reflects our opinion of operating challenges for the organization, characterized by relatively high debt compared to available resources.

YMCA's total pro forma debt is approximately $153.3 million, including about $4.9 million in finance leases. YMCA has only $1.7 million in operating leases. All bonds are an unsecured GO of the YMCA. Officials intend to use series 2021 bond proceeds for a taxable advance refunding of tax-exempt series 2015 bonds. Management will structure the entirety of the series 2021 bonds as a five-year bullet due Aug. 1, 2026, which we view as aggressive given the organization's current resources. The finance plan will defer principal payments by capitalizing on interest through Feb. 1, 2023, which could help relieve some cash-flow pressure; however, the ultimate payment of the bullet is still relatively uncertain, but management is actively planning internally. The structure will also remove the 2015 covenants and release the debt-service-reserve fund.

Due to COVID-19, in March 2020, YMCA paused programming and gym-and-fitness-center operations. However, YMCA continued to operate transitional-housing and guestroom programs, along with its counseling center in Staten Island. At the same time, YMCA also continued and expanded its virtual programs. In August 2020, New York State adjusted its guidelines that allowed gyms and fitness centers to reopen at reduced capacity. In response, in September, YMCA reopened nine of its 22 branches. In 2021, New York State gradually lifted capacity restrictions; as of June 15, 2021, the state has lifted all capacity restrictions while maintaining certain safety protocols. YMCA has prudently followed government guidelines for its gyms: It has distanced equipment in high-traffic areas, installed plexiglass shields, and increased cleanings.

Due to decreased membership and program fees, management has taken steps to reduce operating expenses and preserve liquidity, such as the implementation of furloughs and layoffs of approximately 1,700 workers. YMCA also increased its line of credit to provide increased liquidity. YMCA maintains a $10 million revolving line of credit that extends through October 2021. As of May 2021, the organization has a balance of $5 million.

YMCA updated its financial forecasts and conservatively budgeted for reduced revenue for gyms and fitness centers. However, management also increased partnerships with its transitional housing. It received additional revenue from New York City for new programming. The Learning Labs childcare program provided $22 million in government funding, from September 2020 through June 2021, for in-person childcare at 22 locations when students had remote learning. Management also received a one-time unbudgeted, unrestricted gift of $18 million, which helped offset lost revenue during the pandemic.

YMCA has historically near breakeven-to-positive operations, but it experienced a full-accrual deficit in fiscal 2020 from COVID-19-related pressure. In calendar 2021, due to a combination of conservative budgeting for gyms and fitness centers, disciplined expense reductions, new residential-housing contracts, and increased donations, management expects positive operations, which we view as likely. YMCA also received a payroll-protection-program loan for $10 million in fiscal 2021, which we expect will likely be forgiven.

Credit overview

The rating reflects our opinion of YMCA's long history of strong relationships with New York City communities, diverse revenue base, and high-quality management. In our opinion, YMCA's modest financial resources and endowment for the rating category, ongoing budgetary pressure due to uncertainty around the effects of COVID-19, and ongoing capital needs somewhat offset these strengths.

The rating also reflects our view of YMCA's:

- Established brand with strong community ties and diverse programming;
- Diverse revenue base, including well-established residence business;
- Increased partnerships and collaborations with nonprofits and city agencies; and
- Proactive management that budgets conservatively and maintains disciplined expense administration.

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

- Full-accrual deficit in calendar 2020, albeit with a surplus projected in calendar 2021 due to a combination of new programming and increased philanthropy;
- Below-average financial resources with limited expendable resources compared with operating expenses, coupled with an aggressive debt structure;
- Decreased membership in a highly competitive market; and
- Ongoing capital needs related to building-and-facilities renewal.

YMCA is a community-service organization for all New Yorkers to empower youth, improve health, and strengthen community. Founded in 1852, this YMCA is the largest YMCA in existence; it operates branches and community centers throughout the five boroughs. YMCA also operates transitional-housing and guestroom programs, along with a counseling center. YMCA programming promotes youth development, healthy living, social responsibility, and community collaboration.

YMCA has diverse revenue streams, which include residential programs (20%), government contracts (25%), other contributions and sources (26%), and membership-and-program fees (29%). Due to the temporary closure in 2020 of its fitness centers, membership-and-program fees decreased from historical levels; however, revenue from residential programs and government contracts were stable.

Environmental, social, and governance (ESG) factors

YMCA's leadership 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 because of the pandemic's uncertain duration. Despite elevated social risk, we consider environmental and governance risks in-line with our view of the sector standard.

Negative Outlook

Downside scenario

We could lower the rating if operating results were to weaken materially from current projections for calendar 2021, available resources were to weaken from current levels, or YMCA were to issue additional significant debt without commensurate available-resource growth.

Return-to-stable scenario

We could revise the outlook to stable if YMCA were to demonstrate increased operational stability, improve available resources, and support additional debt with commensurate-resource growth. We would view further clarity on the repayment plan for the bullet positively.

Credit Opinion

Enterprise Profile

Fitness and community center branches

Due to COVID-19, in March 2020, New York State issued executive order guidance requiring the closure of nonessential indoor facilities, including fitness centers. YMCA complied with this order and temporarily closed its community centers and gyms. When New York State allowed facilities to reopen with capacity restrictions in September 2020, management reopened nine of its 22 branches, largely its most profitable locations. In June 2021, as the level of vaccination increased and incidence of COVID-19 decreased, New York State removed capacity restrictions. While full membership services are currently limited to nine branches, all branches are currently running varying programs. Educational programming for Learning Labs used areas in branches previously used for membership activities. Management also launched YMCA@Home to stay virtually engaged with members, including fitness programs. YMCA also had virtual programs for certain early childhood and afterschool programs, as well as some counseling services, which will transition back to in-person counseling this year.

Management is currently evaluating operations at each of its branches across the five boroughs, as well as other real estate assets. YMCA has historically operated a summer camp and meeting center in Huguenot. As part of its potential real estate reduction, YMCA is exploring this facility's sale.

Residential programs

YMCA maintains a residence program that includes transitional-housing, guestrooms, and community-room rentals; this remained operational and profitable during COVID-19. At most locations, during COVID-19, YMCA pivoted most guest rooms to transitional housing and entered into new contracts. Management has partnered with several nonprofits, and the residences remain at or near full capacity. Residential-program contracts generally run for six months to a year; as of June 2021, certain contracts are currently under negotiation. Management is in the early stages of reverting some residential locations back to guest rooms.

Government contracts and contributions

YMCA has long-standing government contracts with New York City; these contracts have maintained stability despite COVID-19. Management has also added some new programming contracts, including Learning Labs, which helped partially offset some lost revenue when facilities endured temporary closures. Learning Labs provided in-person childcare for youth on days when they were scheduled for remote learning. While the Learning Lab contract will end in June 2021, management plans to add other preschool and youth educational programming. YMCA will also expand its "Summer Rising" program, which will help bring students up to various grade levels academically.

Management is continually exploring opportunities to replace and renovate older units and adjust to metropolitan area demographic shifts. In our view, capital needs remain significant. 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. YMCA's ability to leverage partnerships to meet development needs is a credit strength, in our view. If it needs significantly more debt, however, additional debt, in our view, could stress already thin resource ratios.

In terms of facilities, YMCA will open two new Bronx locations: La Central and Northeast Bronx. Both projects had construction that began prior to COVID-19 and are near completion. La Central is part of a larger complex, including affordable housing. Northeast Bronx will be a freestanding facility. When complete, YMCA would have 24 branch locations. Officials expect both projects to be complete in summer 2021 and open in September. YMCA could also receive operating support, totaling $7 million, from New York State and New York City for the two new Bronx branches and one existing Bronx branch.

Management

Sharon Greenberger, who has been president since July 2015, leads YMCA's management. Management operates according to a 2018-2025 strategic plan known as "Thriving New Yorkers, Stronger Communities." With the onset of COVID-19, management is re-evaluating and updating its strategic plan.

Management budgets conservatively on a multiyear basis. Recently, YMCA has increased its focus on data and digital marketing, including adding a new chief marketing and communication officer in July 2019. At the branch level, each branch budgets according to the chief financial officer's guidelines. In addition to YMCA's 34-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. While senior leadership has remained unchanged, there has been reorganization and consolidation of middle-level managers. However, the finance leadership team has remained stable.

We do not expect near-term changes to senior leadership.

Financial Profile

Operating performance

YMCA budgets conservatively, and it has historically generated near breakeven operations on a generally accepted-accounting-principles basis. However, due to COVID-19, YMCA experienced lost revenue related to its fitness and community centers. Management partially offset this pressure with disciplined expense reductions related to staffing and adding new programming contracts. As of June 2021, New York State has lifted all state-mandated capacity restrictions; management reports membership is starting to improve at open facilities. For fiscal 2022, officials are projecting breakeven operations. We note fiscal year-end is Dec. 31.

For fiscal 2021, management is projecting positive operations of roughly $14.5 million. While management conservatively budgeted for a year-end deficit, it reopened for membership at its more-profitable branches. YMCA also reduced expenditures and benefitted from new programming, including its Learning Labs government contract. YMCA also received a single unrestricted gift of $18 million. New York State issued an executive order in January 2021, and the YMCA will recognize a credit to expense in fiscal 2021 related to unemployment from March 2020 through December 2020 totaling roughly $4.8 million. Management maintained disciplined expense management regarding staffing. As noted, YMCA's $10 million payroll-protection-program loan also helped. In our view, revenue related to Learning Lab programming and residential-program contracts and a large one-time donation greatly helped YMCA offset revenue pressure. While we view these initiatives positively, we note several programs, contracts, and donations were one-time in nature; we will continue to monitor YMCA's financials as it continues to innovate programming and operations.

For fiscal 2020, YMCA had a full-accrual deficit, including a negative $28.5 million change in unrestricted net assets. Management attributes the larger deficit due to lower membership and program fees and limited operations during COVID-19. In fiscal 2020, YMCA had 59,519 members, which decreased sharply from 89,076 in 2019. A faction of members opted to continue paying monthly charges to support YMCA during the closure. While we expect membership will likely improve, we think continued challenges exist for YMCA to return to historical membership, specifically a highly competitive market for gyms and fitness centers. In terms of expense reductions, YMCA had 3,800 furloughs, which ultimately resulted in 1,700 layoffs. We posit management will likely strategically reopen various facilities and community branches.

For fiscal 2019, YMCA reported a $2.1 million deficit compared with the fiscal 2018, $1.05 million surplus. Management partially attributes the deficit to increased salary, including minimum-wage salary increases to $15 an hour. YMCA derives about 2.9% of revenue from endowment distribution, determined by a policy of spending 5% of the 20-quarter-average endowment market value. We view YMCA's revenue diversity positively.

Fundraising

YMCA is a good fundraiser, and it has benefitted from increased support during COVID-19. In January 2021, it received an unrestricted $18 million gift from a well-known philanthropist. In fiscal years 2020 and 2019, it raised approximately $5 million in unrestricted contributions as part of the annual campaign. YMCA has launched its "Bronx is Up" campaign, which has a goal of $25 million. We expect that fundraising will likely remain stable and that its current campaign could support upcoming projects and initiatives.

Financial resources

We consider YMCA's financial resource ratios somewhat modest, albeit sufficient for the category. At Dec. 31, 2020, YMCA had approximately $266 million of total net assets:

- $175 million of which were unrestricted net assets,
- $68 million of which were temporarily restricted, and
- $23 million of which were permanently restricted.

With new Financial Accounting Standards Board (FASB) presentation standards, the balance sheet lists net assets as either without or with donor restrictions. To calculate expendable resources, we used net assets without donor restrictions rather than the formerly classified unrestricted net assets. In addition, management identified $68 million of net assets with donor restrictions; old FASB standards would have classified this as temporarily restricted net assets. Therefore, we used that amount in our expendable-resource calculation for comparability.

Cash and investments in fiscal 2020 of $100 million equaled a satisfactory 76.9% of operating expenses and 65.3% of pro forma debt. Available resources, measured by expendable resources, totaled $67.5 million, or 51.9% of operating expenses, which improved from 46.4% in fiscal 2019; the expendable-resources-to-pro forma-debt ratio was 44%, down from 60.6% in fiscal 2019. YMCA does not have near-term debt plans, and we expect relative stability in available resources. As of Dec. 31, 2020, management reported liquidity of $64.1 million, including $23 million of unrestricted daily working capital and $41.1 million of unrestricted weekly endowment funds.

As of March 31, 2021, YMCA's collective-investment market value was $101.1 million, including $31.4 million in the endowment. The endowment portion has strong liquidity with 71% in equities, 25% in fixed income, and 4% in money-market funds. Remaining investments are trusts, annuities, and other investments.

Debt-and-contingent liabilities

As of Dec. 31, 2020, debt totaled $132.6 million, including $126.2 million in GO debt. Series 2021 bonds will refund series 2015 bonds as a five-year bullet due Aug. 1, 2026, which will also release the series 2015 debt-service fund. Pro forma debt includes the series 2021 issuance, series 2020 and 2018 taxable bonds, finance leases, and a $5-million outstanding line of credit. Total pro forma debt is $153.3 million.

YMCA made its $4.8 million debt-service payment on Aug. 1, 2020, and an interest payment of $2.8 million on Feb. 1, 2021. We understand management used its endowment draw for the February payment. The next payment due is Aug. 1, 2021, which is a principal-and-interest payment of $5.4 million. As part of series 2021, YMCA intends to update its debt structure to provide debt-service relief until Feb. 1, 2023, by deferring principal payments and capitalizing interest.

As noted, series 2021 is being structured as a five-year bullet. We understand management is potentially exploring the use of real estate assets to reduce the size of the bullet payment due in 2026. Pro forma maximum annual debt service equals $7.2 million, which includes smoothing of the bullet; this remains manageable at 5.5% of fiscal 2020 expenses.

However, credit risk remains when the amount of the bullet, roughly $70 million, is compared to current levels of unrestricted assets. While management is developing a repayment plan and is not expecting to use internal reserves, we note the use of internal resources could severely hamper available resources of the institution to levels no longer consistent with the current rating.

While refunding debt with the series 2021 issuance, YMCA did not meet its covenant in fiscal 2020 for series 2015 bonds. We understand YMCA's inability to meet the series 2015 bond covenant does not result in a default as long as it meets certain terms, including the timely filing of noncompliance and timely development and filing of a financial plan for subsequent compliance. YMCA indicates it has complied with remedy terms. Management also expects to meet the covenant in fiscal 2021. The series 2021 issue will remove the outstanding covenant and compliance-related issues. YMCA's other GO debt, specifically series 2020 and 2018 bonds, does not have financial covenants.

Pensions

YMCA's defined-benefit plan terminated on Dec. 31, 2018. It currently participates in a defined-contribution plan: The YMCA Retirement Fund Retirement Plan, a not-for-profit, tax-exempt pension fund incorporated in New York State and organized and operated to provide retirement and other benefits for YMCA employees nationwide. YMCA operates the plan as a church pension plan. Total contributions were roughly $1.895 million and $5.15 million in fiscal years 2020 and 2019, respectively. We consider retirement costs manageable.

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 July 1, 2021)		
Young Men's Christian Association of Greater New York GO bnds ser 2020 due 08/01/2042		
Long Term Rating	BBB/Negative	Affirmed
Build NYC Resource Corp, New York		
Young Men's Christian Association of Greater New York, New York		
Build NYC Resource Corp (YMCA of Greater New York) Non-Profit		
Long Term Rating	BBB/Negative	Affirmed