S&P Global
Ratings

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

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Credit Highlights

- S&P Global Ratings revised its outlook from negative to stable and affirmed its 'BBB' rating on Young Men's Christian Association (YMCA) of Greater New York's outstanding general obligation bonds issued by Build NYC Resource Corp. on YMCA's behalf.
- The outlook revision reflects a stabilization to modestly improving demand at the Y; positive operating performance in fiscal 2021 and anticipated for fiscal 2022 (FYE is Dec. 31); adequate available resources; and our expectation that YMCA's bullet maturity in 2026 will be adequately addressed.

Security

As of fiscal 2021, YMCA's total debt was approximately $142.2 million, including about $3.7 million in operating and finance leases and excluding $10 million in a paycheck protection program (PPP) that was forgiven. All bonds are an unsecured general obligation (GO) of the YMCA.

Credit overview

The rating reflects our opinion of YMCA's long history of strong relationships with New York City communities, stabilizing to modestly growing demand profile as of 2022, diverse revenue base, and high-quality management. The rating also reflects our opinion of robust operating performance in fiscal 2021 and expectation of positive operating performance in fiscal 2022. Additionally, it reflects our opinion that available resources, while down from peak levels in fiscal 2021, are still sufficient for the rating category and adequate compared to pre-pandemic levels. We also understand that YMCA has set aside $11 million as of 2022 and has a credible plan to address a $62 million bullet maturity coming due in 2026.

The rating also reflects our view of YMCA's:

- Established brand with strong community ties and diverse programming;
- Solid operating performance in fiscal 2021, and anticipated solid operating performance for fiscal 2022; and

- Solid history of fundraising, including a one-time $18 million gift received in fiscal 2021.

Somewhat offsetting factors are what we consider YMCA's:

- Bullet maturity of $62 million associated with its series 2021 bonds that is coming due in fiscal 2026, though there are plans to address the bullet;
- Memberships levels that remain lower than pre-pandemic levels, though we note that memberships are growing modestly as of 2022; and
- Ongoing capital needs related to building and facilities renewal.

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

Environmental, social, and governance

We view the health and safety social risks posed by the pandemic as somewhat abating for the non-profit sector but, given the pandemic's significant effects on demand and membership trends over the past two and a half years, we believe a future public health event of similar size and scope could again affect demand and finances. Despite the elevated social risk, we view YMCA's environmental and governance risks as being neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that demand will continue to stabilize, operating revenues will grow while overall operating performance remains positive, and that the balance sheet will remain adequate for the rating category. The outlook also reflects our belief that the bullet maturity coming due in 2026 is adequately addressed.

Downside scenario

We could lower the rating if operating results were to weaken materially from current projections for fiscal 2022, available resources were to materially weaken from current levels, or YMCA were to issue additional significant debt without commensurate growth in available resources. We would also view a drop in memberships as a pressuring credit factor.

Upside scenario

We could consider a positive rating action if YMCA were to demonstrate increased operational stability, a trend of material membership growth, and improved available resources, as well as supporting any additional debt with commensurate growth in resources. Continued growth in the bullet maturity fund would also be viewed favorably.

Credit Opinion

Enterprise Profile

Memberships

Memberships have begun to stabilize following the worst effects of the COVID-19 pandemic. Memberships as of September 2022, totaled 51,096, an improvement from 49,961 in fiscal 2021. In fiscal 2020 memberships declined to 59,519 from 89,076 in fiscal 2019 as a result of the pandemic. While memberships remain well below pre-pandemic levels, we believe they will show continued improvement as the pandemic abates and wider programs and new facilities are offered and opened. We also note that active memberships are materially higher than in fiscal 2021. As of September 2022, active memberships totaled 41,435 compared to 27,317 in the prior year.

Programming

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. Facilities were opened with limited capacity in September 2020. Programming was restarted at the resident branches in early 2021. Group exercise restarted in April 2021, summer camp in 2021 was in-person, and other programs grew. Nine branches reopened for membership in fall 2021, the Northeast Bronx opened in September 2021, and the newest branch, La Central, is expected to open in late 2022.

Management is currently evaluating operations at each of its branches across the five boroughs as well as its other real estate assets. We believe progress has been made since the peak of pandemic-related pressures. We note that as of September 2022 membership dues of $29 million are 62% ahead of the prior year's, and that program fees of $13.9 million are 74% ahead of the prior year's. We believe this increase in membership and program-related revenues is a credit strength and demonstrates that pandemic pressures relative to demand are abating.

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 partnered with several nonprofits, and the residences remain at or near full capacity. Residential program contracts have also demonstrated growth and increased demand, with residence program revenues as of $28 million as of September 2022, a 27% increase compared to the prior year. We also note that occupancy rates have improved to 82% as of September 2022 from 71% in the year prior, further evidence that demand is rebounding.

Government contracts and contributions

YMCA has long-standing government contracts with New York City; these contracts have grown despite COVID-19. Management also added some new programming contracts, which helped partially offset some lost revenue when facilities underwent temporary closures. As of September 2022 government grants totaled $43.8 million compared to $39.6 million in the year prior; we understand that this level of grants should hold through fiscal 2023 and outperform pre-pandemic levels, when contracts generally generated about $30 million in revenue annually.

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, this could stress already thin resource ratios, in our view.

In terms of facilities, YMCA opened Northeast Bronx in 2021 and will open the La Central branch in late 2022. Both projects had construction that began prior to COVID-19. La Central is part of a larger complex that includes affordable housing. Northeast Bronx is a freestanding facility. We understand that YMCA is working on the creation of the Flushing Commons YMCA in partnership with a developer in New York City. This will be a 62,000-square-foot facility and will be constructed from 2023 through 2026. To date YMCA has reserved or paid about $8 million toward construction of the project and plans to finance the remainder through the sale of the existing Flushing branch in addition to a $22 million contribution from a developer.

Management

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

Management budgets conservatively on a multiyear basis. Each branch budgets according to the chief financial officer's guidelines. In addition to YMCA's 38-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 near-term changes to senior leadership.

Financial Profile

Operating performance

YMCA budgets conservatively and has historically generated near breakeven operations on a generally accepted accounting principles (GAAP) 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 in addition to growth in government contracts and contributions.

YMCA ended fiscal 2021 with an impressive $58.8 million unrestricted operating surplus. The surplus was driven by increased government grants and contracts, increased government and private gifts, improved residence and related services, and maintaining a stable expense base. A portion of this surplus was a single unrestricted gift of $18 million. We note the fiscal year-end is Dec. 31. While this surplus is impressive, we do not anticipate surpluses of this magnitude to persist, although we do anticipate positive results for fiscal 2022.

As of unaudited September 2022 management is projecting an operating surplus of around $18 million before interest and depreciation, driven by further improvements in government contracts, improved contributions, and increased membership, program, and residence-related revenues, with only modest increases in operating expenses. Given management's recent operating results, we expect continued positive operating performance for fiscal 2022. We also note that during fiscal 2022 the Y received forgiveness for its $10 million PPP loan.

YMCA has diverse revenue streams, which as of fiscal 2021 include residential programs (17%), government contracts (26%), private contributions (18%), and membership-and-program fees (21%).

Fundraising

YMCA is a good fundraiser and benefitted from increased support during COVID-19. In January 2021, it received an unrestricted $18 million gift from a well-known philanthropist. As of September 2022, the Y has raised about $4.1 million in contributions. In fiscal years 2020 and 2019, it raised approximately $5 million in unrestricted contributions as part of the annual campaign. 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 sufficient for the category. At Dec. 31, 2021, YMCA had approximately $304.3 million of total net assets, including $172.6 million of undesignated net assets.

Cash and investments in fiscal 2021 totaled $141.8 million, which equaled a good 109% of operating expenses and 100% of debt. Available resources, measured by expendable resources, totaled $116.9 million, or 53% of operating expenses and 49% of debt. We understand that as of unaudited September 2022 cash and investments totaled $117.7 million, equivalent to about 82% of debt. The decline in cash and investments from fiscal 2021 is driven by generally weak market returns in fiscal 2022 following stellar results in fiscal 2021.

As of June 30, 2022 YMCA's collective investment market value was $89.7 million, including $69.7 million in the general endowment and board designated funds. This portion has strong liquidity, with 69.6% in equities, 25.2% in fixed income, and 5.2% in cash and other investments.

Debt and contingent liabilities

As of fiscal 2021, YMCA's total debt was approximately $142.2 million, including about $3.7 million in operating and finance leases and excluding $10 million in a PPP that was forgiven. All bonds are an unsecured GO of the YMCA.

The series 2021 bonds are structured as a five-year bullet. We understand that management has currently set aside $11 million to address this bullet, with plans to contribute about $150,000 monthly toward a bullet maturity fund. Management's plans currently anticipate paying half of the approximately $62 million bullet with its bullet maturity fund and refinancing the remainder. The Y is also exploring the use of real estate assets to reduce the size of the bullet payment due in 2026. Given the Y's strong brand recognition and role in New York, we believe access to refinancing is likely.

Maximum annual debt service equals $7.4 million, which includes smoothing of the bullet; this remains manageable at 5.6% of fiscal 2021 expenses. However, credit risk remains given the amount of the bullet relative to available resources. While management's repayment plan does not anticipate the use of internal reserves, we note that the use of internal resources could severely hamper available resources of the institution to levels no longer consistent with the current rating.

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, which is 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 $1.1 million and $1.895 million in fiscal years 2021 and 2020, respectively. We consider retirement costs manageable.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022