YMCA of Greater New York, NY

Update to credit analysis

Summary

The YMCA of Greater New York's (Baa1 stable) credit quality favorably incorporates its well-established brand and critical role as a community service partner throughout New York City's five boroughs. While operating performance has thinned slightly over the past several years, operations remain balanced, and cash flow will continue to provide good coverage of growing debt service. In addition, the YMCA has considerable real estate assets with greater market value than reflected in its financial statements. Credit challenges include relatively weak financial reserves relative to both pro forma debt and operations, limited likelihood of substantial growth in liquidity due to the organization's mission and enterprise risk should the YMCA brand be adversely impacted.

Credit strengths

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

» Diverse revenue streams, with growing membership revenue and consistent gift revenue

» Substantial real estate holdings throughout New York City

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

» Growing debt weakens already low financial reserve coverage of debt, with pro forma total cash and investments to debt of 0.6x

» Thin cash and investments relative to operations, with monthly liquidity of $52 million providing 107 days cash on hand

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

» Harm to YMCAs reputation and brand could adversely impact operations and philanthropy

Rating outlook

The outlook is stable, reflecting expectations of continued breakeven operating performance, stable liquidity and no substantial increase in debt beyond current plans.

Factors that could lead to an upgrade

» Sustained and consistent operating surpluses

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

Factors that could lead to a downgrade

» Sustained move to negative operating performance coupled with diminished debt service coverage

» Adverse impacts to key revenue drivers including membership, programs, lodging and fundraising

» Decreased support from local, state or federal sources

» Heightened financial leverage beyond current plans

Key indicators

Exhibit 2

<table>
<thead>
<tr>
<th>YMCA OF GREATER NEW YORK, NY</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Pro forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue ($000)</td>
<td>163,276</td>
<td>176,681</td>
<td>185,847</td>
<td>187,734</td>
<td>190,841</td>
<td>190,841</td>
</tr>
<tr>
<td>Annual Change in Operating Revenue (%)</td>
<td>4.0</td>
<td>8.2</td>
<td>5.2</td>
<td>1.0</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Total Cash &amp; Investments ($000)</td>
<td>67,691</td>
<td>68,454</td>
<td>62,582</td>
<td>70,573</td>
<td>77,037</td>
<td>77,037</td>
</tr>
<tr>
<td>Total Debt ($000)</td>
<td>84,106</td>
<td>81,307</td>
<td>88,743</td>
<td>85,677</td>
<td>103,209</td>
<td>139,253</td>
</tr>
<tr>
<td>Exendable Financial Resources to Total Debt (x)</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Expendable Financial Resources to Operating Expenses (x)</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Monthly Days Cash on Hand</td>
<td>113</td>
<td>104</td>
<td>89</td>
<td>102</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Operating Cash Flow Margin (%)</td>
<td>12.0</td>
<td>9.5</td>
<td>10.5</td>
<td>8.8</td>
<td>9.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Total Debt to Cash Flow (x)</td>
<td>4.3</td>
<td>4.8</td>
<td>4.5</td>
<td>5.2</td>
<td>6.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Three-Year Average Gift Revenue ($000)</td>
<td>10,635</td>
<td>23,381</td>
<td>24,087</td>
<td>23,905</td>
<td>19,485</td>
<td>19,485</td>
</tr>
<tr>
<td>Annual Debt Service Coverage (x)</td>
<td>2.0</td>
<td>2.3</td>
<td>2.9</td>
<td>2.4</td>
<td>2.5</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Pro forma column includes $34 million of new Series 2018 debt and estimated MADS, occurring in 2025. 2014, 2017 and Pro forma columns exclude unusually large capital contributions from operating revenue and related calculations.

Source: Moody’s Investors Service

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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, providing health and fitness, youth services, and residence facilities. Fiscal 2017 operating revenues totaled $191 million.

Detailed credit considerations

Market profile: well-established brand and reputation with strong community ties
The YMCA of GNY will continue to enjoy its well-established reputation and service niche in New York City. With 23 branches and 90 program sites across New York City’s five boroughs and a residential camp in upstate New York, the YMCA serves a growing population, reaching over half a million youth and adults annually.

Programs remain diverse and focus on empowering youth, improving health, and strengthening community through partnerships with corporations as well as volunteer and service opportunities. Though the YMCA competes with other fitness clubs and community centers, its long-term brand recognition and reputation for family and youth-oriented programming serves a critical need in the metro area and will continue to attract users over the long term. Total membership of approximately 82,000 members (measured as units) will remain healthy.

After adding two branches, one in Brooklyn and one in Queens, within the past four years, the YMCA will continue its growth trajectory, building two new branches in the Bronx by 2020, the Northeast Bronx branch and La Central in the south Bronx.

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 2017 operating revenues and is directed to both programs and capital improvements.

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. The YMCA’s 1,669 hotel rooms located at seven sites are available on most online travel sites, adding broader market accessibility at very reasonably prices, averaging approximately $75 per night.

Operating performance: balanced performance and good cash flow to continue
The YMCA will maintain balanced financial performance under management’s strong oversight. The organization’s $191 million in operating revenue for fiscal 2017 (ending December 31) will remain well diversified, coming from membership and program fees (58%), residential services (18%), grants and contracts (15%), and gifts and other (7%). Operating cash flow of 9% provided a good 2.5x debt service coverage. Based on preliminary guidance, fiscal 2018 operating results will to be in line with fiscal 2017, excluding a large capital contribution in 2017, which Moody’s does not include in operating revenue. Increases to the minimum wage in New York City and State will continue to pressure operating performance but will be fully integrated in fiscal 2019.

The YMCA has good expense flexibility and strong planning, enabling it adapt fairly quickly to changes in programming needs and expense, such as adjusting part-time staffing levels in response to shifts in program enrollment and minimum wage increases. The organization’s affordability and community service mission limit substantial revenue and financial resource growth through increased pricing power or large operating surpluses.

Wealth and liquidity: low financial resources with limited opportunity for growth
Financial resources are low relative to peers and expenses. Resources are unlikely to grow substantially from operations due to the organization’s mission to be a competitively priced option for members and program participants, including residential and hospitality services. Expendable financial resources provided a thin cushion to operations of 0.2x for fiscal 2017.

The YMCA has benefitted 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 $251 million net property and equipment, including land, on the YMCA’s balance sheet and reflected in Moody’s calculations of financial resources. Real estate holdings increased by $26.5 million in fiscal 2017 through the acquisition of the Rockaway branch for less than fair market value.
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).

**Liquidity**
The YMCA’s flexibility to adjust quickly to revenue shortfalls through program cuts and reallocations partially mitigates limited liquidity. For fiscal 2017, $52 million of monthly liquidity provided 107 monthly days on hand, well below the Baa-median of 163 days.

**Leverage: growing leverage weak relative to financial reserves but manageable given scope**
Leverage is weak relative to financial resources but manageable relative to the organization’s operating scope. Total cash and investments cover pro forma debt, which includes Series 2018 bonds, by a low 0.6x, though pro forma debt to operating revenue is in line with peers at 0.7x.

Total cost of the two new facilities is currently estimated at $95 million, including $35 million from series 2018 bond proceeds, $10 million from contributions and other internal sources, and the remainder through government grants, tax credits and developer contributions. A portion of the Series 2018 bond proceeds, $15 million, will be used to create an internal pool of funds to support other various capital projects.

**Debt structure**
Debt is fixed rate and amortizing, providing planning stability. Debt service is in the $8.5-$9.3 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. Outstanding rated debt has a debt service coverage test of 1.15x. The YMCA anticipates healthy pro forma MADS coverage of 4.7x for fiscal 2017, including fiscal 2017’s unusually large contribution.

**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. In fiscal 2017, the YMCA’s contributions were a low less than 1% of operating expenses, in addition to contributions for two defined contribution plans. The YMCA does not have an OPEB plan.

**Governance and management: strong governance exhibits strong planning and oversight**
The YMCA’s experienced leadership, will continue to exhibit strong planning and oversight of the organizations various operations and facilities. Budgeting and financial oversight functions are strong, including budgeting for depreciation and interest and conservative estimates for potential budget impacts. Staff also works closely with city and state leadership, particularly regarding new facilities, and external consultants when outside expertise is needed. Enterprise risk management practices include training and procedures to help provide a safe environment for users and staff.
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