Build NYC Resource Corp., New York Young Men's Christian Association of Greater New York; Non-Profit Organizations

**Primary Credit Analyst:**
Phillip A Pena, San Francisco + 1 (415) 371 5039; phillip.pena@spglobal.com

**Secondary Contact:**
Ken W Rodgers, New York (1) 212-438-2087; ken.rogers@spglobal.com

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S&P Global Ratings assigned its 'A-' rating to YMCA of Greater New York's (the Y) series 2018 taxable bonds. At the same time, S&P Global Ratings affirmed its 'A-' rating on Build NYC Resource Corp.'s revenue bonds, issued for the Y. The outlook is stable.

The rating reflects our opinion of the Y's long history of strong relationships with communities in New York City (NYC). It also reflects our opinion of the Y's provision of programs and services in New York City, with numerous facilities, consistently positive operating results on a generally accepted accounting principles (GAAP) basis, diverse revenue base, and high-quality management team. These strengths are partially offset by the Y's increasing debt load, modest financial resources and endowment for the rating category, and ongoing capital needs. We believe the additional debt and the organization's partnership approach to capital projects don't materially affect the rating, given some strengthening in balance sheet ratios during fiscal 2017. However, the rating could be stressed within the outlook period if the Y issues additional debt beyond the series 2018 debt.

The rating further reflects our view of the Y's:

- Long operating history of programs and services in NYC, and a strong relationship with communities across the city;
- Consistently positive operating performance on a full-accrual basis, with a diverse revenue base, and expectations of continued positive operating margins for at least the next four fiscal years;
- Partnership approach for capital development that limits the Y's debt relative to its extensive facilities; and
- Strong management team that intends to continue generating balanced to positive operating results.

Partially offsetting credit factors, in our view, include the Y's:

- Below-average financial resources, with expendable resources that are limited relative to operating expenses, and
pro forma debt reflecting the $54.2 million series 2018 issuance;

• Highly competitive market for some of its core services, including fitness & aquatics, though this is partly offset by a highly recognizable brand;

• Relatively modest endowment; and

• Ongoing capital needs related to building programs and facilities renewal.

The bonds are an unsecured general obligation of the Y. As of the last audit (Dec. 31, 2017), the Y had about $105.8 million in debt and capital leases outstanding. Including the $54.2 million series 2018 issuance, the Y's total pro forma debt will total approximately $139.3 million. The series 2018 bond proceeds will help finance the construction of the Y’s Northeast Bronx project (approximately $15 million), refinance a $20 million short-term loan from JP Morgan used for the construction of its La Central project, and fund an internal central bank for various internal capital projects (approximately $15 million), with the remainder funding capitalized interest and other transaction costs. Although the Y’s debt has increased, we believe an increase in its unrestricted resources during fiscal 2017 partly offsets this increased debt.

The YMCA of Greater New York is the largest in the U.S. and the biggest and most diverse YMCA in the world. Founded in 1852, the Y serves more than 500,000 New Yorkers each year. It operates in 22 full-service branches, a camp branch in upstate New York, and more than 90 public schools, parks, and community centers throughout NYC’s five boroughs. The Y delivers programs that promote youth development, healthy living, and social responsibility, and reaches about 250,000 children and teens annually.

**Outlook**

The stable outlook reflects our expectation that, during the next two years, the Y will maintain consistent demand for its programs and services, and will continue to generate positive results on a GAAP basis. We do not expect the issuance of any additional debt beyond the series 2018 issuance during the outlook period. We note the already light resource ratios could be pressured by the issuance of additional debt and could cause S&P Global Ratings to consider a negative rating action.

**Downside scenario**

We could lower the rating if the Y issues additional debt beyond the series 2018 debt within the outlook period. In addition, we could lower the rating if the Y's light resource ratios deteriorate to a level that we believe is no longer commensurate with the rating. We would also view any negative operations on a full-accrual basis as a pressuring credit factor.

**Upside scenario**

We do not expect to raise the rating during the outlook period, due to the Y's modest level of financial resources and the additional series 2018 debt.
Enterprise Profile

Facilities
The Y's 23 branches contain more than 1.4 million square feet with an insured value of about $547 million. The Y owns all of the branches, except for the recently opened Coney Island facility. The Y's NYC facilities have an average age of about 50 years, according to management. Despite ongoing maintenance and renovation of existing facilities, management indicates that capital needs remain significant. Management is continually exploring opportunities to replace and renovate older units. The organization partially meets its renewal, replacement, and expansion needs through partnering with private developers and the City of New York to build new facilities and upgrade existing branches.

The Y is currently developing two additional branches—La Central and Northeast Bronx—in the Bronx. The La Central project is part of a larger complex including affordable housing units that management expects will cost about $35.5 million, of which $20 million comes from the short-term note that will be refinanced with a portion of the series 2018 bonds. The Y's all-in cost is expected to be $20.5 million. The balance will be funded by a developer contribution. The Northeast Bronx project will be a freestanding building with construction starting in 2018 and completion in 2020. Approximately $15 million of this $60 million project will be funded with a portion of the series 2018 issuance, about $9 million from internal YMCA funding and gifts, and the remainder funded by government agencies. In addition, the Y opened three new facilities over the past four years in Prospect Park, the Rockaway, and Coney Island. According to management, the facilities are fully staffed, and demand for memberships is strong and consistent with budgeted expectations. The Y's ability to leverage partnerships to meet part of its development needs is a credit strength, in our view, but if the organization needs significantly more debt, resource ratios, already thin, could be stressed.

Management
The Y's management team has been relatively stable, following several years of executive-level changes after the current president and CEO joined in July 2015. The management team operates according to an eight-year strategic plan and budgets conservatively on a multiyear basis. At the branch level, each branch budgets according to guidelines from the chief financial officer, including a 10% budget contingency, which we view as a best practice. The management team's various connections with individuals and communities throughout NYC have allowed it to form effective partnerships throughout the city. In addition to a distinguished 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. At the board level, there have been minor changes due to normal term limit turnover and new appointments. We do not anticipate any additional significant changes in the near term.

Financial Profile

Operating performance
The Y budgets conservatively and has historically generated break-even to positive operating performance on a GAAP basis. The Y has posted positive results during the past five years, and operating results are budgeted to be positive at least through fiscal 2021. In fiscal 2017, the Y had an operating surplus of $29.1 million, a significant increase from its
$392,000 surplus in fiscal 2016. The large surplus in fiscal 2017 is attributed primarily to a $26.5 million contribution for the acquisition of its Rockaway branch for an amount significantly less than fair market value. (The YMCA acquired the Rockaway property for $1.9 million, while the property's fair market value was $29.1 million.) We note that the YMCA receives large unrestricted contributions like this from time to time, which bolster operating margins. However, even when adjusting for this one-time $26.5 million contribution, operating results would still have remained positive (about a $2.6 million surplus), which we consider a credit strength. Management expects a smaller operating margin of about $7 million for fiscal 2018. We note the fiscal year end is Dec. 31.

The Y's revenue stream is diverse. Membership dues and program fees provided 51% of total fiscal 2017 revenues; residence and related services, 16%; and contributions, 16%, though we note contributions were particularly high during fiscal 2017. The Y derives about one percent of its revenues from endowment spending, which management determines by a policy of spending 5% of the 20-quarter-average endowment market value. The organization's revenue diversity provides flexibility and is a credit strength, in our opinion.

Operating revenues grew approximately 16% in fiscal 2017, primarily due to the large, $26.5 million unrestricted contribution related to its Rockaway facility. When adjusting for this gift, operating revenues still grew by approximately 2.5%. We anticipate operating revenues will see modest growth within the outlook period. Retention has been between 61% and 64% over the past five years, including 62% in fiscal 2017. Although retention is stable, it lags the Y's rates in other cities, partially due to the transient nature of New York's population.

Fundraising
The Y is a good fundraiser and consistently raises between $10 million and $11 million in annual net unrestricted contributions. The Y is assessing campaign opportunities, which could affect the need and amount to borrow in the near term. We expect the Y will continue generating solid unrestricted gift revenues in the future, and that a larger campaign could emerge shortly to support upcoming projects and initiatives.

Financial resources and debt
The Y's financial resources grew during fiscal 2017, but are offset by the additional series 2018 debt and remain below average for the rating category, in our opinion. Expendable resources in fiscal 2017 increased to $76.7 million, up from $59.2 million in fiscal 2016, due primarily to the large, $26.5 million unrestricted contribution related to its Rockaway property. However, the boost in financial resources is offset by the $54.2 million in series 2018 debt.

When incorporating the series 2018 pro forma debt, fiscal 2017 expendable resources were equal to 40.3% of operations and 72.5% of pro forma debt, improved from 31.4% of operations and 48.3% of pro forma debt in fiscal 2016. The increase in total expendable resources helped to offset the additional pressure the debt adds to the Y's debt profile. The proceeds from the series 2018 bonds will finance part of the Northeast Bronx Project's construction ($15 million), fund an internal central bank for capital projects ($15 million) and refinance a $20 million loan taken out to fund a portion of the La Central project's construction. The series 2018 bonds are an unsecured general obligation of the YMCA of Greater New York. Management at the Y notes that it does not have any additional debt plans within the outlook period.

The Y's total long-term investments, which consist of various trusts and board-designated endowments, were $66.0 million as of Dec. 31, 2017, up from $57.2 million at the end of 2016. As of June 30, 2018, the total pooled endowment
breakdown was 83.1% equities, 15.1% fixed income, and 1.8% cash and other, which is consistent with past allocations. The endowment is largely liquid, with about $30.8 million liquid within a week. The Y also has a beneficial interest in a perpetual trust with a fiscal 2017 market value of $9.6 million. Although consistent for the organization, the Y's total endowment level is modest, in our opinion, relative to those of other not-for-profit-rated entities in the category.