RATING ACTION COMMENTARY

Fitch Rates UCF Stadium Corp, FL's Series 2024A&B Revs at 'AA-'; Outlook Stable

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Fitch Ratings - New York - 11 Nov 2024: Fitch Ratings has assigned a rating of 'AA-' to up to $30 million of taxable revenue bonds, series 2024A and tax-exempt series 2024B issued by the UCF Stadium Corporation (UCFSC).

The bonds are expected to sell the week of Nov. 20 via negotiation. Proceeds will be used to finance expansion of the existing football stadium on the main campus of the University of Central Florida (UCF) in Orlando, FL, pay capitalized interest for the first two years through March 1, 2026, and to pay costs of issuance, including bond insurance and a debt service reserve fund.

Fitch has also affirmed University of Central Florida's Issuer Default Rating (IDR) at 'AA' and the $31.7 million outstanding UCFSC series 2015A and 2015B bonds at 'AA-'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
University of Central Florida (FL)	LT IDR Affirmed	AA Rating Outlook Stable	AA Rating Outlook Stable

UCF Stadium Corporation (FL) /General Revenues/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
University of Central Florida (FL) /Issuer Default Rating/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

UCF's 'AA' IDR reflects the university's very strong financial profile combined with its 'aa' revenue defensibility and 'a' operating risk profile assessments. As one of 12 public institutions in the state, UCF attracts students both statewide and nationally and has strong fundraising capabilities. The Stable Outlook reflects Fitch's expectation that the university will sustain adjusted cash flow margins in line with historical trends and maintain balance sheet strength.

Fitch's criteria allow ratings on securities with narrower or limited revenue pledges to be notched below the parent's IDR. Debt service for the auxiliary bonds ranges from sufficient to strong.

The 'AA-' rating on the USFSC series 2024 bonds is one notch below UCF's IDR. It reflects the credit strengths of the university and its close ties to UCFSC, which is a direct support organization (DSO) and component unit of UCF created to finance and operate the football stadium for the university. The rating incorporates the importance of the stadium and essentiality of the facilities to UCF, as well as the extensive integration of management between UCF and DSO entities.

Fitch believes UCF's support is reliable based on the long history of the stadium project, which has operated since 2007, and its demonstrated track record of solid coverage from pledged revenues. Debt service coverage for UCFSC improved to 9.4x in fiscal 2024 and exceeded historically adequate levels. The demonstrated viability of the structure, with a flow of funds diverting gross revenues preferentially to debt service accounts, is also an important credit consideration.

UCF's credit profile is very strong, with a very large enrollment base, solid demand, positive operations, and healthy balance sheet resources. UCFSC's existing series 2015 bonds carry the universities implicit support via a support agreement, but the series 2024 bonds will not carry this implicit support. However, Fitch believes UCF has ample capacity to support stadium operations and UCFSC's debt without this implicit support.

SECURITY

The bonds are secured by a first lien on pledged revenues comprised of facilities revenues related to the football stadium and student athlete leadership center, including gross operating revenues of the Athletic association and non-operating revenues, including all revenues and fees collected and charged by UCFSC, UCF, UCF Athletic Association, or the UCF Foundation on behalf of UFCSC, and monies on deposit in funds/accounts under the indenture.

The series 2024 bonds will be issued on parity with the existing stadium series 2015AB&C bonds. However, state statute does not allow the university support agreement in place with the existing series 2015 bonds to be applied to the new bond series. Under the support agreement, the university agrees to defer charging certain expenses when necessary and covenants to replenish draws on the debt service reserve.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

UCF's revenue defensibility is consistent with a 'aa' assessment. This is characteristic of a competitive national public institution with strong in-state and national student draw, evidenced by consistent enrollment growth and very strong demand indicators. Fitch expects improved state support for operations at times of economic growth, but this is somewhat tempered by limitations on tuition rate increases in Florida.

Fitch believes the credit effects of stadium demand and lower attendance are manageable given the staggered timing and less demand-driven nature of other pledged revenue streams. Football remains a large component of student life, and UCF's main Orlando campus is the third largest in the country.

The bonds' pledged revenue streams include UCF Athletic Association rent under the operating agreement of $2.12 million, which is guaranteed and covers 58% of annual debt service in fiscal 2024. Conference distributions alone (independent of team performance unless they win the conference) grew to $20.4 million in fiscal 2024 and account for 133% of pro forma debt service ($15.5 million).

These sources are not correlated to demand at UCF and are likely to remain stable. They are sufficient on their own to cover maximum annual debt service (MADS). Other revenues are more demand-driven over the long term (naming rights, suite/corporate seating) or short term (game-day ticket sales, concessions, etc.).

Operating Risk - 'a'

The university's 'a' operating risk assessment is consistent with UCF's adequate adjusted cash flow margins (averaging 6.4% over the prior three-year period). Capital spending requirements benefit from consistent state and foundation support, and capital needs are manageable in the near to intermediate term.

The UCFSC revenue bonds rated by Fitch are supported by gross operating revenues and UCFAA non-operating revenues. Together, they have a strong history of generating sufficient cash flow coverage at about 4%. Coverage increased to 6.4% in fiscal 2023 and 9.4x in fiscal 2024, largely due to growth in conference revenue distributions in fiscal 2024. Fitch expects this trend to continue because UCF joined the Big 12 Conference in July 2023.

Projected coverage of pro forma debt service of about $15.3 million remains stable. Including all new UCFSC projected debt, coverage is above 4.0x. This is due to significant increases in non-operating revenues from UCFAA, including new contracted TDT revenues and conference revenue distributions.

Financial Profile - 'aa'

UCF's 'aa' financial profile is consistent with its strong capital-related ratios. Available funds (AF) measured about $730 million at FYE 2023, including $192 million of UCF Foundation funds. Based on estimates provided to Fitch, AF increased in FYE2024 (unaudited). Fitch defines AF as unrestricted cash and investments less non-expendable restricted net assets. AF to adjusted debt (total $726 million, including the Fitch-adjusted net pension liability $359 million), remains strong at 100% at fiscal year-end 2023.

Overall, in Fitch's forward-looking scenario, leverage is expected to remain in line with recent historical levels through a moderate investment stress, and AF to adjusted debt holds steady in stress years with improvement in the out years. Pro forma adjusted debt of $359 million includes the proposed Orange County Tourist Development Tax (TDT) loan to support the stadium project and the proposed series 2024 bonds. Post issuance, all UCF auxiliary and DSO issued debt will be structured with level debt service through 2039

(MADS) and then falls off sharply with only the UCFSC debt then outstanding through 2054. Pro forma MADS includes the TDT loan bullet maturity in 2039.

Asymmetric Additional Risk Considerations

There are no asymmetric risk factors affecting the ratings.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Failure to maintain auxiliary and DSO bond debt service coverage from pledged revenues at or above required bond coverage levels, without transfers from UCF or federal support monies;

--Weakening of UCF's competitive demand profile leading to materially weaker coverage on any or all of its limited pledge bonds;

--Sustained weakening of UCF's adjusted cash flow margin below 6%;

--Narrowing of the university's available funds-to-adjusted debt ratio below 60%;

--Significant unplanned debt issuance by any auxiliary or DSO could pressure the rating, particularly if compounded with UCF's weaker operations or liquidity metrics.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Sustained improvement in UCF's adjusted cash flow margin above 12%, irrespective of support funds;

--Material improvement in UCF's available funds-to-adjusted debt ratio at or above 200%;

--Improvement in UCF's competitive demand profile that supports materially improved and sustained coverage on its limited pledge bonds, could lift the IDR and consequently the auxiliary and DOS bond ratings.

PROFILE

UCF was founded in 1963 and is one of the 12 universities in the State University System of Florida. It is the largest public institution by enrollment in the state and third largest in the nation. UCF is a metropolitan comprehensive university, serving over 70,000 students in fall 2024 across its main campus, hospitality campus, and health sciences campus in Orlando and its 10 regional locations. The university also operates an academic center in downtown Orlando.

UCF Stadium Corp is a discreet component unit of UCF and was certified as a DSO in 2005 under state law. The purpose of the UCFSC was to finance, construct and operate a stadium on behalf of UCF and the UCF Athletic Association. In May 2022, FBC Mortgage entered a 10-year, $19.5 million deal with UCF for the naming rights of the stadium beginning on July 1, 2022.

UCF owns and operates the FBC Mortgage football stadium (home of the UCF Knights) on its main campus for the service and convenience of the university. The stadium seats approximately 48,000 attendees, including 2,180 premium/club seats. A portion of the corporation's revenues are driven by attendance and the overall success of the football team, including season tickets, premium seating/suites, gameday ticket sales, away game guarantees (for out-of-conference games), and advertising/sponsorship revenue.

The university joined the Big 12 Conference on July 1, 2023. UCFSC has no employees. The stadium is managed by the UCF Athletic Association under a management and use agreement between the two. The football team moved to NCAA Division I FBS in 1996. In 2013, UCF joined the rebranded American Athletic Conference and won several conference titles. The stadium has hosted the Hula Bowl since 2022 and the Cure Bowl since 2023.

UCF announced stadium renovation plans in March 2023 and selected AECOM as the architect and Barton Malow as the construction manager. A $90 million makeover of the stadium's premium seating area, Roth Tower, was approved by the UCF Board of Trustees in March 2024. The project will begin in December 2024 following the completion of the football season and then pause during the 2025-2026 season. The new tower is expected to be completed for the 2026-2027 football season.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Nancy Moore
Director
Primary Rating Analyst
+1 212 908 0725
nancy.moore@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Rebecca Moses
Director
Secondary Rating Analyst
+1 512 215 3739
rebecca.moses@fitchratings.com

Emily Wadhwani
Senior Director
Committee Chairperson
+1 312 368 3347
emily.wadhwani@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

U.S. Public Finance College and University Rating Criteria (pub. 19 Sep 2023) (including rating assumption sensitivity)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 12 Jan 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v2.0.0 (1)

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Dodd-Frank Rating Information Disclosure Form

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