STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
UCF Stadium Corporation
Football Stadium Improvements, $100M

Overview:

The University of Central Florida ("UCF" or "University") is requesting authorization from the Board of Governors ("Board") to issue debt not to exceed $100M through UCF Stadium Corporation ("UCFSC"), a direct service organization, for renovations to its football stadium located on its main campus (the "Project").

The Project includes an expansion of the existing west tower and increased premium seating options. Project feasibility and demand is supported by an independent study conducted by Legends, a global consulting firm. Based on this report, there is strong demand for the proposed premium features and seating, and projected revenues pledged as repayment of the proposed debt, providing almost 4.0x debt service coverage.

The Project's financing structure will be comprised of two components: a bank note and a revenue bond issue. The bank note is expected to be repaid over an expedited 10-year period primarily from excess Tourist Development Tax revenues paid to UCF pursuant to a Funding Agreement with Orange County; however, if the TDT revenues are lower than projected, the term of the bank note will be structured with repayment over 15 years at lower debt service. The 30-year bonds will be repaid primarily from stadium-derived revenues. The proposed financing structure appears compliant with Florida Statutes and the State University System Debt Management Guidelines.

As proposed, the Project will receive internal 'bridge' financing of $8M prior to closing, part of which represents a transfer of reserves from a non-athletic auxiliary, pursuant to Board Regulation 9.013, as discussed later (pg-4).

The Project was approved by the UCF Board of Trustees ("BOT") on March 28, 2024; the Project is included in the University's Campus Master Plan, as amended on May 26, 2022.

Project Description:

The Project will renovate the west side of the stadium, expanding the existing tower by approximately 58,600 sq ft and include new premium seating options on the west sideline, reconfigured Club seating, enhanced loge area, and new Luxury and Bay suites. Overall, the project will have multiple floors with 1,436 new Luxury seats, and ADA accommodations on the ground level and second floor, as further described below:

- Club seating
  The Club level will be expanded by adding 25,400 sq ft and 378 new seats (total of 1,278 seats) and include indoor air-conditioned space with lounge and social spaces, food and beverage service, and two open-air outdoor spaces. Minor renovations will be made

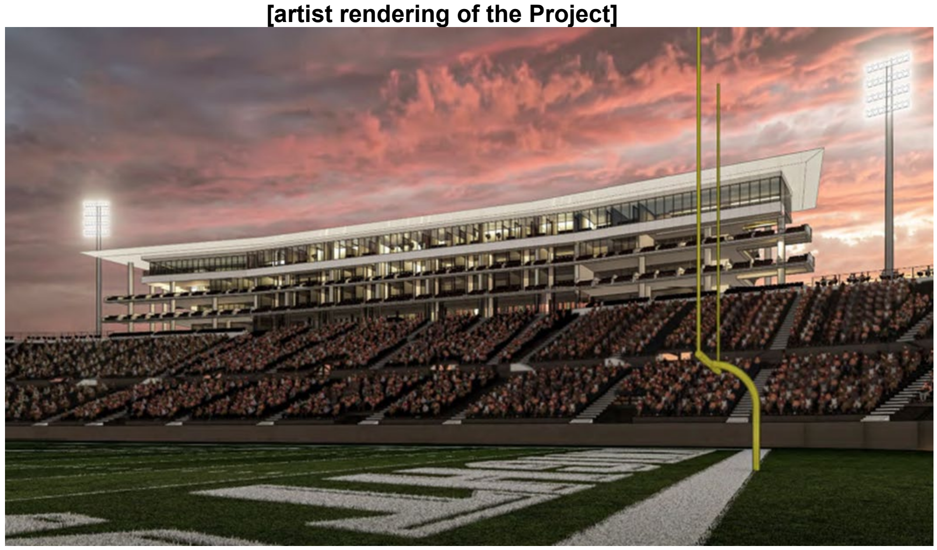
to the existing 34 loge boxes at the Club level (no additional seats).

- Luxury suites
  The Project will add 17,000 sq ft and five extra suites (bringing the total to 29 suites), 650 new seats, and offer upscale gathering space, with food and beverage amenities, for businesses and families.

- Bay suites
  The Project will add 34 suites with a total of 408 new seats (12 seats per suite), offering a mid-point option for businesses and families between Loge boxes and Luxury suites, including semi-private outdoor seating.

Also planned is a ‘Press’ level, representing 16,200 sq ft of modernized workspace for press and media personnel.

[artist rendering of the Project]



Project Location: The stadium, currently called FBC Mortgage Stadium, is located in the Dixon Athletics Village, on the northeastern area of the main campus, adjacent to UCF’s other sports complexes.

Construction Period: Project construction is anticipated to commence in December 2024 and be completed in Fall 2026. Work to expand (additional space) the tower will occur during the 2024 and 2025 fall football seasons, while renovations (to the existing facility) will occur after the fall 2025 season.

Demand Analysis: According to UCF, the stadium lacks diverse premium seating and amenities, thus the need for the proposed renovations. To assess the demand and financial impact of improvements, the University engaged Legends, a global consulting firm specializing in sports and entertainment venues (and same company utilized by FSU for their stadium renovation project approved late last year). Legends prepared a ‘Market and Financial Feasibility Study’, dated March 22, 2024, which concluded that there is sufficient interest in more premium seating; Club, Luxury, and Bay levels, and supported the addition of approximately 1,436 added premium seats. The study emphasized the incremental revenue these premium seats would generate for the stadium, projecting a $2.2 million increase in annual revenues. Based on data collected during the feasibility phase of the analysis, the University worked with Legends to determine an optimal pricing structure that would allow for maximum revenue potential while remaining competitive within the market.

Project Cost: The Project is expected to cost no more than \$100M including \$88M in construction costs. The construction budget includes a construction contingency (\$4.4M, 5.0%) and owner's contingency (\$13.2M, 15%). (See attached ***Estimated Sources & Uses of Funds*** for more details). Pursuant to a competitive selection process completed in August 2022, Barton Mallow Construction was selected as construction manager for the Project. A guaranteed maximum price contract is expected to be finalized at the end of 2024.

Financing Structure: The Project will be financed with a combination of a fixed rate, direct placement bank loan in an amount not to exceed \$70M (the "TDT Loan") and a fixed rate bond issuance in an amount not to exceed \$30M (the "Bonds"). The TDT Loan and the Bonds will be issued by UCFSC.

A portion of the debt will be issued on a taxable basis, as necessary due to the expected level of private business use/activity in portions of the Project. For the purpose of this analysis, UCF chose to conservatively assume that all of the debt (TDT Loan and Bonds) will be issued as taxable debt (at a higher assumed 'taxable' interest rate).

The impetus behind the TDT Loan is an agreement with Orange County to provide up to \$10M annually to UCF, for an aggregate total of \$90M, in the form of 'excess revenues' from the Orange County Tourist Development Taxes ("TDT"), as further described in the 'Lien Structure' section below. If the County's annual contribution is consistently \$10M, the aggregate commitment will be fulfilled in nine (9) years. Because annual TDT receipts may fluctuate, the TDT Loan will be structured to have: 1) a 15-year amortization, providing a reduced maximum annual debt service of \$5.9M (\$2M principal + accrued interest) and thus flexibility to accommodate fluctuations in annual County contributions (of TDT receipts); and 2) a \$6M 'liquidity reserve' established to help fund debt service should TDT receipts be insufficient in a given year (note: the reserve will be subsequently replenished from stadium operating revenues). Should a balance remain at the end of 15 years, arrangements will be made at that time to either retire or extend the Loan, as the County will still be obligated to fund the balance of receipts to pay off the balance.

The University has not yet selected a lender/bank, but will solicit offers in the coming months. The fixed interest rate will not exceed 6.5% (as assumed in the proforma projections). The County's TDT contributions must be used to pay for the proposed stadium improvements, thus the entire annual contribution will be applied to the TDT Loan and, in light of this, UCF anticipates paying off the TDT Loan early. When the TDT Loan is paid in full, the \$6M liquidity reserve will be used to pay debt service on the Bonds.

The revenue Bonds will be structured with a 30-year term and a taxable fixed rate of interest (assumed 6.5%, although UCF anticipates a lower rate). The Bonds will be credit enhanced by a municipal bond insurance policy and a debt service reserve, both of which will be funded from Bond proceeds.

Aside from Project costs, bond proceeds will fund capitalized interest ($605K) during the first seven (7) months of the construction period (18-months) and cost of issuance. The TDT Loan, however, will not have an interest-only period and will begin amortization in the first year. UCFSC has chosen not to delay amortization during Project construction/renovation activity, as the Stadium will continue to operate, generating revenue to pay down the indebtedness.

The justification for using taxable debt (instead of non-taxable) relates to federal tax law restrictions related to “private use” of tax-exempt financed facilities. Said restrictions are usually satisfied by issuing a small portion of “taxable” issuance. However, in this case, a large portion of the Project activities stem from ‘private use’, thus necessitating that a larger portion of the Bonds be issued as taxable debt. To be conservative, for the purpose of the proposal, the University assumed the entire Bonds issuance will be taxable with a 6.5% interest rate. Analysis by Bond Counsel will determine if a portion of either issuance can be issued on a nontaxable basis, which would allow for interest savings.

Interim Funding from Non-Athletic Auxiliaries:

Prior to issuing the Debt, the University intends to advance $8M (interest free) to the Project to cover initial costs for design and materials, and will be fully reimbursed at the time of debt issuance and receipts of the proceeds. The $8M advance will be funded from two sources; the UCF Foundation ($3.7M) and a **Non-Athletic Auxiliary ($4.3M)**. The latter is further discussed below:

Board regulation 9.013 governs the proposed use of auxiliary resources. Per the regulation, proposed transfers of reserves from a non-athletic auxiliary to athletics will be considered on a case-by-case basis and requires, at a minimum, the following information be provided to the Board for consideration in support of the proposed transfer:

a) *<u>The specific non-athletic auxiliary the funds are coming from, the amount of the proposed transfer, and the amount of reserves available.</u>*
$4.3M will come from the ‘General Auxiliary Fund’, an auxiliary supported through self-generated sales and services (i.e., university food services, bookstore, card services, business services, etc.).

b) *<u>Justification that the use of unreserved cash from the non-athletic auxiliary will benefit the broader student body or campus community.</u>*
Per UCF, the Project will provide increased opportunities for social engagement, fostering a sense of school pride, and offering a venue for community events, overall enhancing the collegiate experience.

c) *<u>If the supporting non-athletic auxiliary has outstanding debt, verification that the funds to be used are unreserved cash balances and that sufficient current revenues exist to cover all</u>*

expenditures, including, but not limited to, debt service payments and required reserves.
Per UCF, the auxiliary has no outstanding debt.

d) *Assurance by the university, with concurrence of the Division of Bond Finance, that such transfer does not violate any bond covenants.*
The auxiliary has no outstanding debt. UCF stated there were no bond covenants or other debt-related agreements directly associated with the general auxiliary fund.

e) *In the event the non-athletic auxiliary revenues to be transferred include student fees or payments, documentation that a disclosure has been made to students that non-athletic auxiliary revenues which include student fees or payments will be transferred to athletics.*
Per UCF, the auxiliary does not include any student fees, thus disclosure was not necessary.

Security/Lien Structure: **Bonds**

The Bonds will be issued on parity with UCFSC's other outstanding debt (series 2015A, B, and C with an aggregate outstanding balance of approximately $31.7M) and secured by a first lien on certain stadium gross revenues: (i) ticket sales revenues, (ii) food and beverage concessions revenues, (iii) catering revenues, (iv) sale of novelties revenues, (v) University-owned parking revenues, (vi) premium seating revenues, (vii) advertising, royalty and sponsorship revenues, (viii) facility service fee revenues, (ix) certain other miscellaneous revenues, (x) UCF Athletics Association Rent Revenues, and (xi) conference payments and non-conference game guarantee payments (together, "Stadium Revenues").

TDT Loan

Orange County collects tourist development taxes ("TDT") authorized by Florida Statutes and uses them to construct, remodel, repair, and maintain publicly owned sports stadiums, among other things. The TDT Loan will be secured by (i) a first lien on 'Excess TDT Revenues" (as further described below), (ii) a subordinate lien on Stadium Revenues, and (iii) the $6M liquidity reserve (described in the section "Financing Structure" section on pg-4).

TDT funds will be paid to UCF pursuant to a Funding Agreement ("Agreement") between the county, UCF, and UCFSC and solely from 'Excess TDT Revenues', as defined in the Agreement and as illustrated in Exhibit B, until such time as the full $90M county contribution has been made (the amount will be certified annually by the Orange County Comptroller). Excess TDT Revenues will be paid annually, in an amount up to $10M, beginning on December 1, 2024 through December 1, 2032. To the extent the annual payment is less than $10M in any year, UCF will be entitled to an additional catch-up payment(s) in a future year(s) until the full $90M has been paid. The County may also, but is not obligated to, prepay its funding obligation under the Agreement. When the contributions reach $90M, the County will have no further funding obligation. Once the TDT Loan has been paid in full, the $6 million Liquidity Reserve will be transferred to the appropriate Bond account to make future debt service payments on the Bonds.

Pledged Revenues & Debt Service:

Excess TDT Revenues

Orange County collects Tourist Development on Taxes hotels, motels, vacations rentals, and other transient rentals that are authorized by Florida Statutes, and uses these or projects that promote tourism, including to construct, remodel, repair, and maintain publicly owned sports stadiums. Beginning in FY24, the University will receive Excess TDT Revenues from Orange County of up to $10M annually. However, the actual amount of annual Excess TDT Revenues is dependent a sufficient amount of Tourist Development Taxes being collected in Orange County; such tax receipts may increase or decreased based on factors outside the University's control.

Stadium Revenues

Stadium Revenues are benefiting greatly from the football team's move to the "Big 12" conference. In FY23, conference distributions more than doubled to over $20.8M, which reflects UCF's agreement to receive partial distributions (essentially half of a full distribution) for the first two years as a conference member; FY23 and FY24, with full conference distributions commencing in FY25 (approximately $38 million). (*See attached* ***Historical and Projected Debt Service Coverage*** *for proforma projections*).

The UCF Stadium generates revenue from a multitude of sources including, but not limited to, ticket sales, premium seating, naming rights, rents, royalties, concessions, sponsorships, and fundraising. Over the past 5 years, total stadium revenues increased from $14.1M to over $23.2M, and are projected to grow to over $68M by FY27, providing debt service coverage (on a 'gross pledge' basis) of at least 5.33x over the projected period, exceeding the 1.20x minimum required by the SUS Debt Management Guidelines.

Private Sector Alternatives:

The football stadium is operated and managed for the benefit of UCF Athletics, and the proposed Project's improvements to the football stadium will enhance the quality of the fan experience, increasing revenue from premium seating ticket sales and concessions. The University feels that no private-sector alternative could realistically service that mission as singularly as or as well as UCF itself.

IRR Calculation:

The Project is expected to achieve an internal rate of return (IRR) of approximately 10.6%, based on the assumptions provided by the University, with a focus on construction costs and added cash flow as a result of the Project. For the purposes of the IRR projection, at opening, the Project will operate at 'breakeven' for cashflow purposes. (*See attached schedule* ***Projected IRR***)

Type of Sale:

The Bonds will be issued through a negotiated public sale. The TDT Loan, however, will be issued through a private negotiated sale with a financial institution, which was deemed most appropriate to provide necessary flexibility in light of the unique revenue pledge and timing of the Excess TDT Revenues. As mentioned previously, UCF has not yet selected a lender/bank, but will solicit offers via an ITN in the coming months and will negotiate the interest rate not to exceed

6.5% and terms.

Selection of Professionals: UCF maintains continuing contracts, compliant with Florida Statutes, with the professionals involved in this transaction, including Bryant Miller & Olive (Bond Counsel), Hilltop Securities (Financial Adviser), and Gray Robinson PA (Disclosure Counsel). Furthermore, the University anticipates selecting the underwriter in June via a competitive bid process.

Recommendations: Staff of the Board of Governors and the Division of Bond Finance have reviewed the resolution and supporting documentation provided by UCF. Based upon this review, it appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt and complies with the Debt Management Guidelines adopted by the Board of Governors.

As such, staff recommend authorization of the proposed TDT Loan and Bonds to finance the Project.