

## Fitch Affirms the United States Tennis Association at 'A'; Outlook Stable

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings affirms the 'A' underlying rating on the United States Tennis Association (USTA) National Tennis Center (NTC), Inc.'s, approximately \$57 million of outstanding civic facility revenue bonds. The 2003, 2004, and 2007 bonds were issued through the New York City Industrial Development Agency (IDA). The 2009 bonds were issued by the NTC. All bonds have annual principal payments with a final maturity in fiscal 2024. The Rating Outlook is Stable.

### KEY RATING DRIVERS

**PROVEN AND RESILIENT DEMAND PROFILE:** The U.S. Open is a premier international sporting event with strong historical attendance and healthy revenue growth trends, demonstrated through economic downturns. A nearly 2% compound average growth rate (CAGR) in attendance from 2003 to 2013 including a nearly 4% CAGR in weighted average ticket prices over that timeframe exhibits this resilient business model.

**STRONG OPERATING HISTORY:** The U.S. Open has been operating successfully for over 100 years and enjoys financial strength as an operating entity of the United States Tennis Association (USTA). The facility benefits from a market with solid demographics, a large corporate base, and a strong consumer presence in the greater New York/New Jersey region that continue to drive successful suite and sponsorship and advertising contract renewals. However, of concern is the single-event risk nature of the U.S. Open, which derives a high percentage of total pledged revenues as the tournament only occurs once a year. This risk is partially mitigated by the new 11-year ESPN contract, which contains significant annual increases in broadcast rights fees over the prior contract.

**CONSERVATIVE AND FRONT LOADED DEBT STRUCTURE:** The outstanding debt is approximately 90% fixed rate and maximum annual debt service (MADS) of approximately \$19.5 million runs through fiscal 2014, after which debt service drops off dramatically. The USTA continues to develop their financing plan for a portion of the Strategic Transformation Plan (STP) which may include a refunding of its existing debt. New debt in the near term for the NTC is mitigated by the strong additional bonds test (ABT) provision of 2.5 times (x) on parity senior bonds and current high financial flexibility.

**HIGH LEVELS OF FINANCIAL FLEXIBILITY:** Net pledged revenues generate very

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robust debt service coverage levels. Since 2009, debt service coverage has been in excess of 6.0x while ticket revenues alone have provided debt service coverage in excess of 4.0x capturing the project's low absolute leverage and manageable debt burden. Net debt to cash flow available for debt service (CFADS) is very low below 1.0x.

**ADEQUATELY MAINTAINED FACILITIES:** The facility is in adequate condition, and management employs a balanced approach towards capital expenditures and proactively maintaining the NTC's premiere facilities. The USTA is currently in the planning, design and initial construction on some of the phases for their STP. The STP includes a retractable roof on Arthur Ashe Stadium, newly constructed Louis Armstrong Stadium, relocated Grandstand Court as well as the relocation of other outer courts to facilitate various concourse and walkway widening projects aimed at improving the overall fan experience.

### RATING SENSITIVITIES

--Lower future renewals of key revenue agreements and/or significant attendance declines that have historically supported the NTC's robust financial profile;

--A material change in fan or corporate interest in global tennis;

--Significant additional leverage that is not supported by increases in revenues.

### SECURITY

The outstanding bonds are secured under a lease agreement with the respective Bond Trustees, which obligates the NTC to pay lease rental payments to the bondholders via the trustee in an amount equal to debt service on the bonds. The lease rental payments are secured by all ticket sales and broadcast revenues from the U.S. Open tournament.

### CREDIT UPDATE

The U.S. Open tennis tournament and the NTC's popularity continue to grow despite Fitch's concerns related to individual and corporate discretionary spending during recent tepid economic conditions. The robust levels of revenue growth since the economic downturn and the new 11-year ESPN broadcasting contract are testaments to the strong demand for premier-level tennis competition and content.

Paid attendance for the U.S. Open grew steadily from 2000 to 2007 to approximately 700,000. Since 2007, attendance was extremely stable, only marginally declining by 0.9% in 2010 from 2009, and has now returned above the previous peak level. Fitch notes some capacity constraints that have limited significant attendance growth in recent years. Parts of the STP aim to address some capacity issues and facilitate better spectator flow which should increase attendance.

The USTA's proven fan base drives its historical high coverage levels. Since 2009, debt service coverage has been in excess of 6.0x while ticket revenues alone have provided debt service coverage in excess of 3.0x. Considering the high ABT and significant levels of current financial flexibility, as well as the current declining debt profile after 2014, Fitch believes that capacity to issue additional debt exists. Fitch will continue to monitor the USTA's plans to issue debt related to the STP.

The Strategic Transformation Plan for the NTC involves the replacement of the aging Louis Armstrong Stadium, the construction of a new Grandstand Stadium, the relocation of seven tournament courts on the southern end of the site and the reconfiguration of another five tournament and two practice courts on the northwestern end, the building of a walkway to provide more convenient access to the southern part of the tournament venue, and the reconstruction of two parking garages and the transportation center on the northwestern corner of the NTC.

Planning and design for the major projects of the STP are currently underway. Preliminary elements of the new roof at Arthur Ashe stadium are expected to commence in 2014 with completion of the roof currently estimated for the 2016 U.S. Open. Other elements such as the chiller plant for the new renovated Ashe Stadium, Grandstand replacement and relocation of outer courts are expected to be completed by the 2016 U.S. Open. The ticket office relocation, sponsor retail pavilions, parking garage and Louis

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Armstrong replacement are slated to be competed by the 2018 U.S. Open. The new projects aim to improve the overall fan viewing experience and limit the risk of rain-delayed matches or the postponement of later round matches to less desirable time slots.

Created in 1978 as an operating entity of the USTA, NTC is a 501(c)(3) entity that operates and maintains the USTA Billie Jean King NTC. The USTA has owned and operated the U.S. National Tennis Championships since 1881 without interruption, and the tournament has been known as the U.S. Open since 1968. The tournament moved from the West Side Tennis Club in Forest Hills (Queens), NY to the NTC at Flushing Meadows (Queens), NY in 1978. The U.S. Open is one of the four 'Grand Slam' tennis events, which also include Wimbledon, the French Open, and the Australian Open.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance' (July 12, 2012);

--'Rating Criteria for U.S. Sports Facilities, Leagues and Teams ' (Aug. 9, 2012).

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Rating Criteria for Infrastructure and Project Finance [http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=682867](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867)

Rating Criteria for U.S. Sports Facilities, Leagues, and Teams [http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685897](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685897)

Additional Disclosure

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