

RatingsDirect®

Summary:

Las Vegas Convention & Visitors Authority, Nevada; Miscellaneous Tax

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Credit Profile

US\$80.0 mil rev bnds ser 2018C due 07/01/2048

Long Term Rating

A+/Stable

New

Las Vegas Convention & Visitors Auth rev rfdg bnds

Long Term Rating

A+/Stable

Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Las Vegas Convention and Visitors Authority (LVCVA), Nev.'s series 2018C revenue bonds (par amount of \$80 million). At the same time, S&P Global Ratings affirmed its 'A+' long-term rating and underlying rating (SPUR) on the authority's revenue bonds outstanding. The outlook is stable.

Security, purpose, and legal provisions

Hotel taxes collected throughout Clark County, net of operations-and-maintenance (O&M) costs at the authority's convention center and related facilities, and revenue generated by those facilities secure the series 2018C bonds and the existing debt. The authority recently issued series 2018B bonds that are additionally secured by expansion revenue through Senate Bill 1 (SB 1). During a fall 2016 special legislative session, LVCVA's \$1.4 billion expansion and renovation project was approved. SB 1 was adopted, providing new funding sources for the Las Vegas Convention Center (LVCC) that includes a new, 0.5% room tax (with a sunset in October 2049). SB 1 was effective as of Jan. 15, 2017, and generated roughly \$14.5 million in fiscal 2017; fiscal 2018 projected revenues total \$32.7 million. SB 1 revenues are not pledged to the series 2018C bonds and other outstanding revenue bonds.

For more information about the recently rated series 2018B convention center expansion revenue bonds (par amount of \$500 million), please see our report published Aug. 31, 2018, on RatingsDirect.

Proceeds of the 2018C bonds will be used to refund the outstanding balance of the 2016A bonds, fund capitalized interest through 2021, and pay the costs of issuance. The authority made a large land acquisition with draws on a bank facility, and the facility is expected to be terminated upon repayment of the outstanding balance. The authority's debt profile includes general obligation (GO) parity bonds that are a direct general obligation of Clark County, secured by its full-faith-and-credit property tax pledge, subject to a statutory limit on overlapping debt of \$3.64 per \$100 of assessed value.

As required by bond resolution, rates and charges on the facilities must be set at 1.25x debt service coverage (DSC), and there is a 1.5x maximum annual debt service (MADS) test for additional bonds. This issuance will not include a debt service reserve fund. We do not believe this is a significant credit concern, given the authority's ample reserves and monthly room tax deposits. The county and the cities within the LVCVA collect room taxes and transfer them to

the authority monthly. Although the total room tax varies in the county--10%-13% of the cost of a room--the authority receives only a portion, and remits 10% of that back to the municipalities for their services in collecting the taxes.

Credit fundamentals

The ratings reflect our view of:

- Strong pro forma MADS coverage of 2.8x using estimated collections in fiscal 2018;
- The authority's participation in the stabilized Las Vegas-Clark County metropolitan statistical area (MSA), which maintains its leading position as a national and international destination for tourists, business travelers, special events, and conventions;
- The extremely large base of hotels and rooms (approximately 150,000) with very high occupancy rates (including during the prolonged recession) that generate approximately 80% of the authority's gross pledged revenue, with no significant concentration in collections by any single hotel; and
- The strong and diversifying visitor industry, with high occupancy and comparatively low average daily room rates compared with those of peer cities, which provides for resiliency during cyclical downturns and a competitive advantage for the facility.

In our opinion, these strengths are partially offset by the authority's:

- Reliance on a revenue stream that has been volatile, having experienced decreases during the last recession, and
- Significant capital needs required for full expansion and upgrades required to maintain its competitive position, which could lead to lower coverage levels in the coming years.

Economy

The economy is unique relative to other tourism-driven economies, but hotels and gaming are still dominant employers in the Las Vegas MSA. Despite the region's somewhat large reliance on the leisure and hospitality industries, the employment base within Clark County has gradually diversified in recent years. The leisure and hospitality industries is now below 30% of Clark County's employment base, enhancing our view of the region's economy. Moreover, economic indicators critical to the economy--including room rates, visitor volume, passenger counts, and gaming revenue--continue to show strength and improvement. Visitor volume reached 42.2 million in 2017, a slight decrease of 1.6% from 2016. However, we note that 2017 still yielded the third-highest visitor volume on record in the county, and through June of 2018, visitor volume is tracking similar to 2017 levels. Taxable sales in the county rose 4.7% in 2016 and 4.2% in 2017. The county's employment gains have increased steadily in recent years, and the 5.1% unemployment rate in 2017 was the lowest since 2007. The unemployment rate was just above the state (5.0%) and national (4.4%) rates during 2017. The county's unemployment rate is averaging 5.0% through June of 2018.

Hotel occupancy rates in Las Vegas, which are approximately 23 percentage points higher than the national average, saw a modest, 0.4% decline in 2017 to 88.7%, with a \$1.40 increase in the average room rate. Occupancy rates through June of 2018 are in line with 2017 levels. In our view, the high occupancy rate, even throughout the recession, demonstrates the resiliency of the Las Vegas tourism market relative to that of comparable peers. For example, the county's occupancy rate--even at the recessionary low--never dropped below 80%, which is strong compared with the

national average that fell to 55%. We attribute this to the diversification of Las Vegas' tourism sector, the uniqueness of the product provided, and the sophistication of the hotels and resorts in adjusting the average room rate to keep the market's constant interest. Gaming continues to grow moderately, but the more significant expansion has been in the city's diversification in other entertainment sectors and high-end retail. Room inventory has stabilized at approximately 150,000.

The 10 largest hotel properties represented 24.6% of the Las Vegas MSA's total room inventory as of Dec. 31, 2017. We note that MGM Resorts International owns seven of the top 10 principal room taxpayers, representing 28,260 rooms (approximately 17.6% of the total rooms in the county). Caesars Entertainment Corp. (Caesars) also owns two of the top 10 principal room taxpayers, which represents 4.5% of the total rooms in the county (7,259 total rooms). On Jan. 15, 2015, Caesars Entertainment Operating Co. and approximately 172 other entities filed for Chapter 11 bankruptcy. Payment of room tax by hotels owned by entities that have filed for bankruptcy could be delayed or forestalled. Therefore, we previously viewed the bankruptcy as a potential credit risk. Caesars Entertainment Operating Co. recently exited bankruptcy, which we view as a credit strength. According to officials and plans announced by developers, Las Vegas could see an additional 9,000 rooms added by 2020, with a large portion of that from the Genting Group's 3,500-room resort on the Las Vegas Strip. We note that there are several other projects under construction that should contribute to stable occupancy rates in the future, such as the indoor stadium for the Oakland Raiders' move to Las Vegas. The stadium site is located in the south area of the Strip just west of Interstate 15. The stadium design includes a seating capacity of approximately 65,000, and the facility is expected to be open for operation by August 2020.

Pledged revenue, coverage, and finances

Room taxes typically generate about 80% of gross pledged revenue, while facility revenue and other charges account for the balance. DSC on the authority's series 2018C bonds along with the outstanding debt, by net pledged revenue (excluding SB 1 revenue), is expected to remain relatively stable in fiscal 2018 at 4.3x, which we consider very strong, compared with 4.2x in audited 2017. Annual DSC for the authority's revenue bonds has been more than 3.0x over the past five audited fiscal years. Pledged revenue (net of O&M and not including expansion revenue) between 2008 and 2010 dropped from a prerecession high of \$200.16 million (in 2008) to a low of \$135.12 million (in 2010), a decrease of approximately 32%. Room tax revenue, the LVCVA's main revenue source, has increased each year for the past seven years and is estimated to increase again in fiscal 2018.

Fiscal 2018 estimated room taxes and gaming revenues are projected be \$285.1 million, a modest, 1% increase from the 2017 actual results. The LVCVA's use-of-facilities revenue is expected to decrease 1%, which we believe reflects the annual rotation of trade shows. Total fiscal 2018 revenues, including other financing sources, are budgeted to be \$351.8 million, a less than 1% increase from fiscal 2017. The authority is budgeting for a modest decline in pledged revenue in fiscal 2019, largely due to lower use-of-facilities revenue from an off-year of major trade shows. Gross pledged revenue (excluding expansion revenue) is projected to be \$349 million, which would be a modest, 1% decline from estimated 2018 results. Using fiscal 2019 projected revenue, annual DSC for the authority's outstanding debt would be roughly 3.6x.

Las Vegas has been the U.S.' top host city for more than 20 consecutive years, ranked by net square footage. The facilities consist mainly of the 3.2-million-square-foot LVCC and the 10,000-seat outdoor sports stadium known as

Cashman Center. Most facilities revenue relates to leasing exhibit halls in the convention center. Seventy-nine events (conventions, events, and meetings) were held at LVCC facilities in fiscal 2018. The authority has several long-term facility commitments in place, some through as late as 2024 with some of its largest lessees. The bulk of the LVCVA's operating expenditures are discretionary, which we believe provides greater flexibility to withstand economic volatility. For example, the largest portion of the budget is discretionary marketing and advertising, which management curtailed in the recession as needed, and which management believes accounts for about 60% of the budget. Most trade shows contract out for services, which allows the authority to maintain a more nimble cost structure relative to facilities that maintain larger staffs. To offset reduced revenue sustained during the recession, the authority also froze hiring, deferred capital spending, and made other reductions. More recently, the LVCVA finalized a restoration plan to invest additional postrecession revenue. Even with the restoration plan, total authorized positions for fiscal 2018 remain well below those authorized in 2008 (545 positions in 2018 compared with 572 in 2008).

The LVCVA's liquidity position is robust, in our view. Management targets 10% of room tax revenue for its economic reserve in addition to other cash on hand. The authority's total ending fund balance for fiscal 2017 is \$55.8 million, or 23% of expenditures. Fiscal 2018 projected fund balances are expected to decline to \$39 million (16% of 2018 estimated expenditures), largely due to additional transfers out for construction costs of the convention center project. Investment policies are prudent and include quarterly reporting and investment goals that focus on minimizing risk. The authority invests primarily in highly rated government securities and liquid assets. We believe maintaining strong reserves is an important attribute of the issuer to mitigate the cyclical nature of the economy and the trade show business, and to ensure appropriate cash is on hand to maintain the facility.

Debt and liabilities

The authority has a revolving credit agreement and term loan agreement with JP Morgan Chase Bank that provides additional liquidity. The revolving credit agreement is not to exceed \$100 million in advances outstanding at any time and \$300 million in draws over the facility's life. Pledged hotel taxes and facility revenues, net of O&M costs, secure the authority's term loan and revolving credit line, on a subordinate basis to its previously issued senior-lien revenue bonds, and senior-lien revenue-supported GO bonds. Under the agreements, amounts drawn against the credit line are subject to accelerated repayment upon an event of default. However, pledged revenues must first be used to fully fund the annual senior-lien debt service requirement and required reserves (if any) for the bond year before accelerated or any subordinate-lien payments can be made. If, after payment of senior-lien debt and required reserves for the fiscal year, pledged revenue is insufficient to fund subordinate-lien payments, we understand that subsequent years' pledged revenue cannot be used to fund accelerated subordinate-lien payments or claims from a previous year; \$1 million is currently drawn. Acceleration cannot occur until the senior-lien debt service is made for the bond year. Therefore, we do not believe the subordinate credit agreement weakens the credit standing of the authority's senior-lien bonds.

The LVCVA plans to issue an additional \$500 million of new debt over the next few years to fund additional construction of the convention center expansion. LVCVA also has approximately \$801 million of GO secured bonds outstanding and \$672 million of revenue-secured bonds outstanding.

On June 1, 2017, the Cashman Center property was transferred to the city of Las Vegas in an effort to redevelop the site. The center was aging and has been operating at an annual loss. At the end of calendar 2017, the authority closed the meeting, convention, and theater space, maintaining it in mothballed status. Under the management agreement,

the LVCVA continues to operate Cashman Field (the stadium) until the expiration of the baseball team lease (December 2022) or until the team terminates the lease with sufficient notice, whichever comes first. At that time, the management agreement for the Cashman campus will cease and the city of Las Vegas will assume all responsibilities for the property. In 2017, the LVCVA board of directors approved a naming rights and marketing agreement with the Clark County Las Vegas Stadium LLC (Stadium Company) providing for naming and marketing rights for a replacement baseball field for Cashman Stadium. Under the terms of the agreement, the LVCVA will pay \$4 million per year to the Stadium Company for a period of 20 years once the new facility is operational. The new facility is expected to be open for the 2019 Minor League Baseball season. At such time, the LVCVA's obligations to operate the stadium will cease. The naming rights agreement will cost the authority approximately \$1.5 million less than the annual operating losses at Cashman, putting the LVCVA modestly ahead.

Outlook

The stable outlook reflects our view of the strong pro forma MADS coverage on the series 2018C bonds and the outstanding revenue bonds, which we expect will be sustained in the near term despite the large capital plans. The stable outlook also reflects our opinion that the stabilized economy and strong visitor industry trends will continue through the two-year outlook period, as Las Vegas remains a leading destination for U.S.-based and international leisure and business travel. We do not anticipate changing the ratings within the two-year outlook horizon.

Upside scenario

We do not anticipate raising the ratings during the current two-year outlook period, as we don't expect MADS coverage to improve, due to the authority's plans for additional debt. However, if coverage does improve to very strong levels through positive revenue trends and limited additional parity debt, we could consider raising the ratings.

Downside scenario

If coverage declines to a level we no longer consider strong relative to our view of the inherent volatility within the tourist-related industries that support pledged tax revenues, we could consider lowering the ratings.

Ratings Detail (As Of October 19, 2018)

Las Vegas Convention & Visitors Auth convention ctr expansion rev bnds ser 2018B due 07/01/2049		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Las Vegas Convention & Visitors Auth misc tax (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Las Vegas Convention & Visitors Auth GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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