MOODY'S
INVESTORS SERVICE

CREDIT OPINION
12 December 2017

Rate this Research

Contacts

Patrick Liberatore +1.415.274.1709
*AVP-Analyst*
patrick.liberatore@moodys.com

William Oh +1.415.274.1739
*AVP-Analyst*
william.oh@moodys.com

CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |

# Las Vegas Convention & Visitors Authority, NV

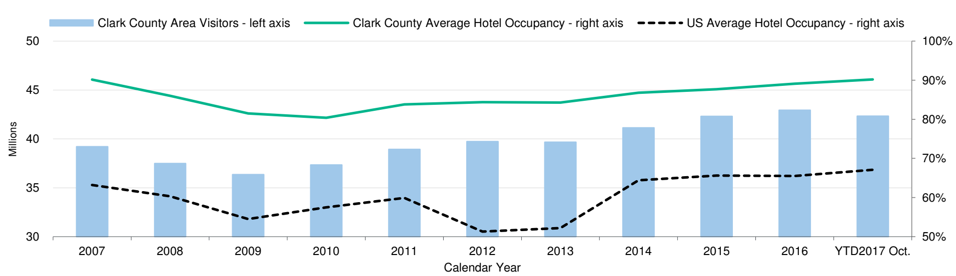
Update to credit analysis

## Summary

Las Vegas Convention & Visitors Authority (LVCVA) benefits from its position as the nation's market leader for large-scale conventions and the area's substantial tourism amenities that include the renowned Las Vegas Strip. Sound maximum annual debt service coverage of 4.2 times fiscal 2017 pledged revenues provides substantial headroom to endure volatility. Modestly paced economic growth in the U.S. and globally are directly benefitting the authority's revenues as increased hotel room rates are growing pledged tax receipts to new annual highs. Visit volume may slip modestly in 2017 after reaching all-time highs for each of the last few years, but without detriment to continued growth in pledged revenues that is supported by uniquely strong 90% average daily hotel occupancy. Lastly, legal provisions for parity lien revenue bonds and related GOLT debt are adequate, and planned new-money debt will be financed under a new, different security.

On December 12, we affirmed LVCVA's revenue bond rating at A1. The authority's outlook remains stable.

Exhibit 1
**Hotel tax driven by Las Vegas area's position as a global tourism destination**




*Source: Las Vegas Convention & Visitors Authority*

## Credit strengths

» Las Vegas (Aa2 stable) and greater metro area feature many tourist attractions that lure events and visitors

» Very large visitor volumes support hotel tax receipts that continue growing to new highs

» Uncommonly strong hotel occupancy rates relative to U.S. norms

## Credit challenges

» Pledged revenues reliant on cyclical tourism and convention activities, including hotel taxes that proved sharply volatile at outset of the last recession

» Large amount of additional debt anticipated over the next three to five years

» Global competition from other tourism and convention destinations

## Rating outlook

The stable outlook reflects that the rating is well positioned due to continued strong trends for pledged revenues for parity lien bonds, especially hotel taxes, that are supported by the Las Vegas area's resilient appeal as a travel destination. LVCVA has substantial capital plans and plans to finance projects with over $1 billion of new debt, but issuance will be secured under a new lien that includes a recently-imposed incremental hotel tax dedicated to expansion projects (which is not pledged to these revenue bonds). Future issuances will be driven by a multi-phased convention center expansion led by the authority's prudent management.

## Factors that could lead to an upgrade

» Sustainable and significant strengthening of maximum annual debt service coverage for parity lien debt

» Reduced economic volatility for pledged revenues, particularly during recessions

## Factors that could lead to a downgrade

» Significant declines in pledged revenues, particularly hotel taxes

» Substantial additional debt that significantly reduces coverage for parity lien bonds

## Key indicators

| Las Vegas Convention & Visitors Authority, NV | | | | | |
|---|---|---|---|---|---|
| Credit Background | | | | | |
| Pledged Revenues | Hotel tax and facilities | | | | |
| Legal Structure | | | | | |
| Additional Bonds Test | 1.5x MADS | | | | |
| Open or Closed Lien | Open Lien | | | | |
| Debt Service Reserve Fund Requirement | No DSRF | | | | |
| MADS Coverage | | | | | |
| 2017 MADS Coverage (x) | 4.2x | | | | |
| Trend Analysis | | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Debt Outstanding ($000) | 596,375 | 623,725 | 772,945 | 745,280 | 707,685 |
| Revenues ($000) | 251,290 | 284,040 | 291,613 | 321,124 | 350,003 |
| Annual Debt Service Coverage (x) | 3.3x | 3.7x | 3.8x | 3.9x | 4.2x |

*Source: Moody's Investors Service*

## Profile

LVCVA markets the Las Vegas area as a global travel destination for business and leisure and operates large-scale convention facilities. The authority is an independent governmental entity with its own governing board and administrative staff.

## Detailed credit considerations

### Tax base and nature of the pledge: large taxable base includes Las Vegas Strip for otherwise narrow hotel tax

LVCVA collects hotel taxes and related resort fees throughout Clark County (Aa1 stable), a large service area with substantial tourism amenities that include more than 150,000 hotel rooms and nearly two million square-feet of convention space offered by the authority's Las Vegas Convention Center plus over two million square-feet provided by large resorts on The Strip. The Las Vegas area has been the market leader in the U.S. for hosting trade shows and convention for over 20 years, bolstered by LVCVA's marketing efforts and large facilities that allow the area to attract almost 60 of the 250 largest conventions and trade shows. Also, the relocation of the NFL's Oakland Raiders will provide another leisure attraction, likely starting in 2020 after the planned stadium should be completed, and is expected to also attract other large-scale events.

On October 1, 2017, a tragic mass-casualty shooting occurred along the south end of the Las Vegas Strip during an outdoor music festival. As part of the region's response, tourism-driven industries and LVCVA are working to protect the Las Vegas area's brand as a leading leisure and conference destination. At this time, no substantial material impact on the local economy has been observed, though survey data indicated some consumers chose to temporarily forego a visit to the area after the tragedy, but there are no known cancellations of large-scale events.

However, visitor data for October indicated a 4.2% decline in volume to 3.6 million visitors compared to October 2016, but there was one less weekend day in October 2017 and October 2016 was considered an abnormally strong month. At the same time, hotel occupancy for October 2017 remained strong at 90%, and average daily room rates were stable to the prior month and up slightly compared to October 2016. McCarran Airport reported its busiest month ever with traffic of 4.3 million travelers in October 2017, which was 1.5% over October 2016, and 40.8 million fliers year-to-date was 2.2% over the same period in 2016; the airport added over 130 weekly flights in 2017 following its recent expansion which supports passenger traffic. Auto traffic for visitors was stable year-over-year for October 2017.

### Debt service coverage and revenue metrics: solid coverage driven by cyclical hotel tax

LVCVA revenues grew 8.9% in fiscal 2017, driven by growth in pledged hotel room taxes to another annual record ($281.4 million). Debt service coverage improved to a strong 4.2 times pledged revenues for parity lien revenue bonds and related GOLT bonds issued through Clark County. The fiscal 2018 budget anticipates still strong 4.1 times coverage. Average hotel daily occupancy has been very strong, including 90.2% in calendar year 2017 through October, and average daily room rates were up 3.5% year-to-date. Visitor volumes for calendar year 2017 through October indicated a 1.4% decline that management attributed at least partly to this year's rotation of large events despite persistent strength in hotel demand. Pledged hotel taxes have been collected since the 1950s and the only historic declines were in fiscal years 2009-10 when collections fell a substantial 29% and proved highly volatile during the global recession. Nevertheless, pledged revenues grew overall at an average rate of 4.4% for fiscal years 2008-17.

Pledged facility revenues are uneven over time due to the biennial or triennial schedules for some events hosted by the authority's Las Vegas Convention Center, and fiscal 2017 data indicated healthy growth of over 5% (to $60 million). Modest growth in operating expenses (to $88.9 million) was offset by overall revenue growth. The Las Vegas area remains competitive on hotel tax rates compared to most travel destinations nationally and room rates are relatively affordable, which supports consumer and convention volumes. LVCVA also benefits from multi-year commitments for many conventions and trade shows that directly support pledged facility revenues.

#### LIQUIDITY

LVCVA anticipates growing its available reserves to approximately $168.1 million in fiscal 2018 (47.4% of budgeted general fund revenues), which include unrestricted balances in various supplemental funds that are legally unrestricted, though many are earmarked for specific needs such as the convention center expansion ($75 million) or pre-funding OPEB liabilities. Additionally, the authority has a line of credit with JPMorgan Chase Bank N.A. (Aa3 stable, P-1) that allows for outstanding draws of up to $100 million.

### Debt and legal covenants: adequate provisions

The additional bonds test for parity lien obligations requires the prior year's pledged revenues to provide at least 1.5 times peak debt service on all revenue bonds and double-barreled GOLT debt issued through Clark County.

The authority makes monthly set asides for semi-annual interest and annual principal debt payments, which are second only to the payment of operating expenditures.

There will no longer be a debt service reserve fund, post-refunding, which is typically considered a credit weakness but is offset by management's more stringent target of maintaining at least 3.0 times debt service on parity lien revenue and GOLT bonds.

**DEBT STRUCTURE**

The impact of planned issuances on debt service coverage, and management's target level, is currently in development. Debt plans are driven by the Las Vegas Convention Center District (LVCCD) program with expansion projects totaling over $1 billion. Expansion investments benefit from a recently enacted incremental hotel tax that provides additional and legally dedicated resources for those projects (known as the Senate Bill 1, or SB 1, hotel taxes). The next planned long-term debt issuance is estimated at $325 million to finance the second phase of the LVCCD expansion and will be GOLT additionally secured bonds already authorized to be issued through the county in 2018.

Regardless of additionally pledged revenues like base hotel taxes, bonds for LVCCD expansion projects are not expected to materially impact the outstanding parity lien revenue and GOLT bonds since LVCCD issuances would reflect a new and different revenue pledge to bondholders. The SB1 hotel tax is an incremental 0.5% tax on hotel rates that expires in 2049. The first full year of collections is projected at $29.5 million for fiscal 2018, and SB1 revenues also include funds in excess of a $25 million annual cap on tax collection fees paid to underlying local governments that will recapture approximately $4.6 million of revenues.

Debt service for outstanding parity lien revenue and GOLT bonds is structured favorably with incremental declines through final maturity in fiscal 2047. As such, long-term revenue growth is not as critical to maintaining strong debt service coverage for parity lien obligations.

LVCVA also has Subordinate Revenue Bonds, Series 2016A outstanding in the amount of $1 million, which is the revolving line of credit agreement with JP Morgan with an available commitment of up to $300 million and limited to $100 million outstanding at any time. The facility has a junior lien on pledged revenues and currently expires in July 2018. LVCVA may draw $40-60 million from this facility over the next year or so to support cash flow for the LVCCD expansion.

**DEBT-RELATED DERIVATIVES**

LVCVA has no exposure to debt-related derivatives.

**PENSIONS AND OPEB**

The authority participates in the Nevada Public Employee Retirement System (PERS), a cost sharing, multiple-employer and defined benefit plan. Its Moody's adjusted net pension liability (ANPL) is modest and the average from fiscal 2015-17 was stable at only 0.6 times operating revenues. LVCVA annually pays 100% of the actuarially required contribution owed to PERS, which included $10.1 million in fiscal 2017. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace reported liability information, but to improve comparability with other rated entities.

The authority's OPEB are provided through a multi-employer plan with Clark County, a Nevada HMO, and an insurance continuation plan through PERS. The OPEB internal service fund is budgeted to end fiscal 2018 with $27.6 million. OPEB contributions remain modest and included $711,509 as of fiscal 2017. The unfunded actuarial liability was low at $40.7 million as of 2016, and does not include the OPEB internal service fund since it is not held in trust.

### Management and governance: sound leadership and prudent planning

For LVCVA, management remains committed to prudent policies, which directly support operating performance and support debt service coverage as well as notable available liquidity. The authority's goal in long-term planning is to solidify the Las Vegas area as a leading destination with global appeal.

Officials are working in conjunction with stakeholders on the LVCCD initiative with a long-term capital development plan that totals $1.4 billion. This initiative envisions expanding convention facilities and renovating existing spaces over several incremental phases, which offers flexibility to scale projects and complete them when sufficient resources are available. Early investments include improving and expanding existing facilities to maintain the convention center's competitive advantage while meeting site demands from longstanding clients.

REPORT NUMBER 1104614

CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |

Moody's
INVESTORS SERVICE