S&P Global
Ratings

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Summary:

Las Vegas Convention and Visitors Authority, Nevada; Miscellaneous Tax

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Summary:

Las Vegas Convention and Visitors Authority, Nevada; Miscellaneous Tax

Credit Profile		
US$76.155 mil rev rfdg bnds ser 2017B due 07/01/2040		
Long Term Rating	A+/Stable	New
Las Vegas Convention & Visitors Auth hotel tax (wrap of insured) (AMBAC & AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Las Vegas Convention & Visitors Auth misc tax (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Las Vegas Convention & Visitors Auth rev rfdg bnds		
Long Term Rating	A+/Stable	Affirmed
Las Vegas Convention & Visitors Auth misc tax		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has assigned its 'A+' long-term rating to Las Vegas Convention and Visitors Authority (LVCVA), Nev.'s series 2017B revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'A+' long-term rating and underlying rating (SPUR) on the authority's revenue refunding bonds outstanding. The outlook is stable.

The ratings reflect our view of:

- Very strong debt service coverage (DSC) of 4.2x for fiscal 2017, significantly above the authority's policy of 3.0x;
- The authority's participation in the stabilized Las Vegas-Clark County metropolitan statistical area, 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;
- 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
- The authority's significant capital needs required for full expansion and upgrades required to maintain its competitive position.

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 bonds. As required by bond resolution, rates and charges on the facilities must be set at 1.25x DSC, and there is a 1.5x maximum annual debt service 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 it 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. According to revised legislation adopted in fall 2017, those funds are distributed to the county and cities up to a maximum of $25 million annually. Any collection allocation above $25 million is retained by LVCVA and is restricted in use to the expansion project.

Proceeds of the 2017B bonds, together with other available authority funds will refund all of the series 2010E revenue refunding bonds outstanding. LVCVA has $501.4 million of general obligation (GO) secured bonds outstanding and $177.4 million of revenue-secured bonds outstanding. The GO parity bonds are a direct GO of the 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 (AV).

During a fall special legislative session, LVCVA's $1.4 billion expansion and renovation project was approved. Senate Bill 1 (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 2049). SB 1 was effective as of Jan. 15, 2017 and has generated $11.2 million for fiscal 2017; fiscal 2018 budgeted revenues are $29.5 million. The LVCVA plans to issue $1.1 billion of new debt for the $1.4 billion project over the next five years; $400 million is being authorized for early calendar year 2018. SB 1 revenues are not pledged to the 2017 revenue refunding bonds.

The authority has a revolving credit agreement and term-loan agreement with JPMorgan 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.

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 senior-lien bonds, by net pledged revenue, is expected to improve in audited fiscal 2017 to 4.2x, which we consider very strong, from 3.9x in fiscal 2016. DSC has been more than 3.0x over the past five audited fiscal years. Pledged revenue (net of O&M) between 2008 and 2010 dropped from a pre-recession 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 budgeted to increase again in fiscal 2018. Fiscal 2018 budgeted room taxes and gaming revenues are projected be $296.1 million, a 5% increase from the 2017 actual results. The LVCVA's use-of-facilities revenue is expected to decrease 8%, which we believe reflects the annual rotation of tradeshows. Total fiscal 2018 revenues, including other financing sources, are budgeted to be $355 million, an increase of 1% from fiscal 2017 actual. The LVCC's leased and confirmed space through fiscal 2026 is expected to draw 7.1 million attendees and generate $6 billion in non-gaming economic impact. Expenditures for marketing, advertising, and special events are budgeted at $162 million, after augmentation, as the LVCVA continues to support its core mission. This is a 6% increase from fiscal 2017, mainly due to the increase in advertising in support of Brand USA, airline development, and various sponsorships.

Las Vegas has been the U.S.'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. The number of events (conventions, events, and meetings) held at the facilities was 73 for the LVCC in fiscal 2017. 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 management believes accounts for 63% 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 post-recession 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 ending fund balance for fiscal 2017 is 23% of expenditures. 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 tradeshow business, and to ensure appropriate cash is on hand to maintain the facility.

The economy is unique relative to other tourism-driven economies. In 2016, 42.9 million visitors came to Las Vegas, a record number and 1.6% higher than the previous year. The city's jobless rate also fell to 5% for 2017, down from a high of 14.1% in 2010 and about equal to pre-recession levels. The occupancy rate, which is nearly 25% higher than the national average, increased 1.4% to 89.1% for fiscal 2016, with a $6 increase in the average room rate. September year-over-year occupancy exceeded 90%. 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 city's occupancy rate--even at the recessionary low--never dropped below 80.1%, which is strong compared with the national average that fell to 55.1%. 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. In October, the city was the site of one of the worst mass shootings in U.S. history. The tragedy could have adverse effects on tourism, the local economy, and pledged revenues. Management has not estimated the overall effect at this time. Current occupancy levels remain high. Visitor volume through October was 35.7 million, slightly below 2016 levels (36.2 million).

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. There is no significant concentration in any single resort or hotel. The 10 largest hotel properties represented 24.6% of the county's total room inventory as of Dec. 31, 2016. Caesar's Entertainment Corporation (Caesars) owned two of the 10 principal room taxpayers, representing 4.5% of the total rooms. Caesars also owns, directly or indirectly, numerous additional properties representing approximately 10% of the county's total rooms. On Jan. 15, 2015 Caesars Entertainment Operating Company and approximately 172 other entities filed for Chapter 11. 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 Company recently exited bankruptcy, which we view as a credit strength. We don't expect substantial increases in hotel-room inventory. Based on developer plans, approximately 4,000 rooms will be added in 2020, mostly from the Genting Group's 3,500-room resort on the strip. Average daily room rates have increased about 30% (over the recession low) without any negative effect on occupancy, which we believe is a credit strength.

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 is aging and has been operating at an annual loss. At the end of calendar 2017, the authority will close the meeting, convention, and theater space, maintaining it in mothballed status. Under the management agreement, the LVCVA will continue 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. On Oct. 10, 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. The authority's capital plan is substantial. $1.1 billion of new debt is planned for the $1.4 billion project over the next five years. Of that, $900 million has been approved by the LVCVA board and the oversight panel, the first $400 million is being authorized for early calendar 2018.

Outlook

The stable outlook reflects our opinion that the stabilized economy and strong visitor-industry trends will continue through the two-year outlook period. Furthermore, the ratings assume LVCVA's DSC and cash balances will remain at levels that we consider strong. The ratings are underscored by Las Vegas remaining a leading destination for U.S.-based and international leisure and business travel, as well as the area's continuing, albeit scaled-back, trend of developing casino resorts and hotels.

Upside scenario

We could raise the ratings if the economy continues to strengthen and diversify, pledged revenues and coverage remain high, and the LVCVA's significant capital plan is completed without losing major shows and without sacrificing the authority's historically strong financial metrics.

Downside scenario

We could lower the ratings, although unlikely in the outlook period, if the area experiences a second significant economic downturn that causes pledged revenue and corresponding DSC to decrease materially or the authority fails to maintain the facilities and surrounding area to maintain its market position.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.