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APPLIED ANALYSIS

DRAFT

MEMORANDUM

TO: Mr. Steve Hill, Chairman
FROM: Jeremy Aguero, Applied Analysis
DATE: March 20, 2018
SUBJECT: Las Vegas Stadium Authority | SB1, Section 36.1(b), 1.5x Debt Service Coverage Finding
CC: Mr. Lawrence Epstein, Vice Chairman; Mr. Ken Evans; Ms. Jan Jones-Blackhust; Mr. Tito Tiberti; Mr. Michael Newcomb; Mr. Dallas Haun; Mr. Bill Hornbuckle; Mr. Tommy White; Ms. Laura Fitzpatrick

Senate Bill 1 of the 30th Special Session of the Nevada State Legislature ("SB1"), Section 36.1 requires that the Stadium Authority Board of Directors make certain determinations before requesting the Board of County Commissioners issue general obligation bonds in support of the stadium project. Among these determinations is that:

> The proceeds of the tax imposed pursuant to subsection 1 of section 33 of [the Southern Nevada Tourism Improvements Act of 2016] that will be pledged to the payment of the general obligations will generate sufficient revenue to meet or exceed the debt service coverage ratio of 1.5 times the anticipated annual debt service for each year of the term of the obligations. SB1, Section 36.1(b).

Notably, subsection 1 of section 33 of the Southern Nevada Tourism Improvements Act of 2016 (the "Act") requires the Board of County Commissioners impose an additional tax on the gross receipts of transient lodging of eighty-eight one-hundredths of one percent (0.88%) within the primary gaming corridor and one-half of one percent (0.50%) within the stadium district but outside the primary gaming corridor. The stadium district extends 25 miles in all directions from the location of the Clark County Government Center as of October 2016. The primary gaming corridor is generally defined as hotels and hotel-casinos in and around the Las Vegas Strip. The additional taxes were enacted by the Board of County Commissioners on November 2016 and became effective in March 2017.

Staff projects transient lodging tax collection annually as part of the budgeting process, monitors collections monthly and adjusts estimates as required during each year. Currently, FY2018 lodging tax revenues are projected to generate $49.9 million. To meet Clark County's anticipated first full year of debt service on the stadium bonds in FY2019, room taxes will need to increase by 0.38 percent, to $50.1 million. To maintain a debt service coverage ratio of 1.5x annual debt service, room taxes will need to grow by an annual average rate of 1.8 percent per year. The highest growth rate required in any year is 1.803 percent (FY2033) and the lowest rate required in any year is 1.7905 percent (FY2039); the standard deviation is 0.00415 percent. The reason for the relative tightness of the range is the manner in which the bonds themselves are structured, including a feature where debt services accelerates over time to take advantage of anticipated revenue growth.

The question presented to the Stadium Authority Board with whether this required rate of growth can be reasonably achieved. The table below reflects the compound annual growth rate in lodging tax revenue for various durations since 2000. The average annual growth rate was 5.3 percent. The lowest rate was reported during the past 10 years (2.9 percent), a period which included the Great Recession.

Lodging Tax Growth Rates
Various Periods, FY2000 thought FY2017

Period	Years	CAGR
1-Year CAGR	(FY16-FY17)	8.0%
3-Year CAGR	(FY14-FY17)	8.9%
5-Year CAGR	(FY12-FY17)	7.7%
10-Year CAGR	(FY07-FY17)	2.9%
17-Year CAGR	(FY00-FY17)	5.3%

*CAGR = Compound Annual Growth Rate

There are several other factors that would also suggest lodging tax revenues will meet or exceed the required growth rate. These include the continued expansion and development of hotels and hotel-casinos within the stadium district; a continuing shift toward convention, meeting and special event travel, which tends to yield higher-than-average daily room rates; the strength of the Las Vegas brand; new construction favoring higher-end properties (with higher average daily room rates); continued service expansion at McCarran International Airport; increasing international visitation; and ongoing investment in non-casino-hotel tourism amenities such as the Las Vegas stadium project itself as well as the MSG Sphere, Wynn's Paradise Park, the expansion and renovation of the Las Vegas Convention Center and several private convention and meeting facilities currently under construction or planned for future development.

Clearly, there are also circumstances that could result in slower than anticipated rates of growth. Generally speaking, these include acts of God; acts of terrorism; war; a deep and protracted recession; litigation that materially reduces the lodging tax base, rate or yield; and a failure of Las Vegas to maintain its competitive position. Many of these circumstances would be considered *force majeure*, or an unforeseeable circumstance causing an unexpected result. Notably, even during periods of tremendous uncertainty, such as the period following the tragic events of September 11, 2001 and the Great Recession, Las Vegas has proven itself both economically resilient and resourceful. The future is by definition uncertain, and that unexpected events are almost certain to occur during the next 30 years that will negatively impact tourism, tourist spending and transient lodging tax growth. That said, given the information available at present, the likelihood of these events or circumstance reducing room tax collections below the required level for any extended period of time appears relatively remote.

To this end, it is staff's recommendation that the Stadium Authority Board can reasonably determine that the proceeds of the tax imposed pursuant to subsection 1 of section 33 of Act that will be pledged to the payment of the general obligations will generate sufficient revenue to meet or exceed the debt service coverage ratio of 1.5 times the anticipated annual debt service for each year of the term of the obligations as required by SB1, Section 36.1(b).