Case study

City of Las Vegas Redevelopment Agency, Nevada

$85,000,000 Tax Increment Revenue Bonds, Series 2009A

BACKGROUND

Last summer the City of Las Vegas Redevelopment Agency chose Stone & Youngberg as the underwriter for a new issue of redevelopment bonds to pay for infrastructure needed to continue development in the downtown area. Since September of 2008, the bond markets have been bi-furcated into high grade general obligation bonds and "other". High grade credits (AA and above) have found increasing market access while other bonds continue to have very limited access. Redevelopment bonds by their nature (passive income stream based on real estate values) fall into "other". Solid credit fundamentals, and historically acceptable structural elements helped the bonds achieve an "A" rating with a stable outlook from Standard & Poor's. Unfortunately, the national real estate market downturn and newspaper headlines declaring Las Vegas as the nation's foreclosure capital reinforced investor skepticism of the sustainability of the project area's assessed values, which grew over 150% to $2 billion over the last four years. Against this backdrop, the financing faced many challenges.

FINANCING EFFORTS

Recognizing the new landscape, we recommended a change to the initial approach. We needed to respond to concerns voiced by the investor community and demonstrate the credit strengths by reaching out to investors much more aggressively. To address investors' concerns, the financing was downsized to substantially increase projected coverage from existing tax revenues and the security of the bonds was strengthened by increasing the coverage required for additional bonds from 125% to 150%. The new financing structure maintained future issuance flexibility for the Agency by having the coverage factor drop back to 125% once assessed values continue to increase in the project area.

To reach out to investors, it was critical to be able to differentiate the Agency's credit from the headlines about the real estate meltdown in the Las Vegas Valley. We recommended the Agency commission an economic trend analysis comparing the historical performance of each real estate sector in the redevelopment project area to the greater Las Vegas Valley, and a projection of these trends into next year. Standard & Poor's reaffirmed their "A" rating for the Agency's bonds with a stable outlook.

Continued on reverse

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Stone & Youngberg organized an on-site investor meeting to present the credit and the findings of the economic study to institutional investors. Understanding that a trip to Las Vegas these days can create its own headlines, we offered phone conferencing and recorded the meeting to make it available to those who could not make the trip, and to our retail investors. We had 15 institutions participate in the presentation. The meeting was followed by a tour of the project area that showed investors the great transformation the downtown area had undergone over the last four years. The coordinated effort to present the Agency's credit successfully differentiated the particular economy of the redevelopment project area from the greater Las Vegas Valley. This effort helped to positively change many of our investors' initial headline-driven perception of the credit.

SOLID INVESTOR RELATIONS + COMMITMENT TO UNDERWRITE = SUCCESS

Stone & Youngberg combined the resources of our Public Finance, Institutional Sales and Trading teams and the Private Client Group for a focused marketing strategy. Following combined marketing meetings with the groups, we began to build momentum two days prior to entering the market by assisting with final credit approvals at institutions and soliciting indications of interest with the understanding that final orders would be allocated based on a priority that rewarded early indications. This helped our underwriter develop a substantial book of orders and build the necessary momentum to successfully price the bonds. Ultimately $51 million or 60% of the bonds were purchased by institutional investors, $17 million were purchased by retail accounts and Stone & Youngberg completed the sale by committing its capital to underwrite $17 million or 20% of the bonds into our inventory.

While the ultimate bond yield of just over 7.70% is seemingly high by recent historical standards over the past five years, in this new bi-furcated credit world, this was a relatively aggressive pricing. By way of comparison, the Agency received an unsolicited offer from a super-regional underwriting firm on March 9, 2009 to place up to $20 million of the bonds for a bond yield of 8.76% and a placement agent fee of $20 per $1,000 of bonds. This private placement alternative would have required strict changes to the call feature and the additional bond test covenant and it clearly demonstrated how other firms are approaching this market in a very different fashion from Stone & Youngberg.

"Stone & Youngberg's knowledge of the market and extensive investor base enabled the Agency to complete a very important financing in an extremely difficult market… This enables us to continue moving forward with the economic revitalization of our downtown."

Mark Vincent
FINANCE DIRECTOR
CITY OF LAS VEGAS

CITY OF LAS VEGAS
REDEVELOPMENT AGENCY

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