

# RECEIVED

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**Las Vegas  
Monorail Company**

*Wells Fargo Bank, N.A.  
Corporate Trust Services  
Special Accounts Group  
MAC N9311-115  
625 Marquette Avenue  
Minneapolis, MN 55479*

**NOTICE OF EVENTS OF DEFAULT  
TO HOLDERS OF**

**DIRECTOR OF THE STATE OF NEVADA  
DEPARTMENT OF BUSINESS AND INDUSTRY  
LAS VEGAS MONORAIL PROJECT REVENUE BONDS  
1<sup>ST</sup> TIER SERIES 2000 AND 2<sup>ND</sup> TIER SERIES 2000**

**CUSIP NUMBERS:  
25457V**

**1<sup>ST</sup> TIER:**

**AA4, AB2, AC0, AE6, AF3, AG1, AH9, AJ5, AK2, AL0, AM8, AN6, AP1 AQ9, AR7, AS5, AT3, AU0,  
AV8, AW6, AX4, AY2, AZ9, BA3, BB1**

**2<sup>ND</sup> TIER:**

**BC9, BD7, BE5**

Wells Fargo Bank, National Association, serves as Trustee (the "Trustee") under a Senior Indenture, dated as of September 1, 2000 (the "Senior Indenture"), between the Trustee and the Director of the State of Nevada Department of Business and Industry (the "Issuer") pursuant to which the Issuer's 1<sup>st</sup> Tier and 2<sup>nd</sup> Tier Series 2000 Las Vegas Monorail Project Revenue Bonds (the "Bonds") were issued and are outstanding. Payment of the principal of, interest on and accreted value of the 1<sup>st</sup> Tier Bonds, when due was insured by a municipal bond insurance policy (the "Policy") issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the delivery of the 1<sup>st</sup> Tier Bonds. Proceeds of the Policy are not available to pay the principal of and interest on the 2<sup>nd</sup> Tier Bonds.

The proceeds of the Bonds were used for financing (in part) of the acquisition, construction, improvement and/or equipping of a four-mile dual guideway monorail system in Clark County, Nevada (the "Project"). The Issuer loaned the proceeds of the Bonds to Las Vegas Monorail Company, a non-profit corporation organized under the laws of the State of Nevada (the "Borrower"), pursuant to a Financing Agreement, dated as of September 1, 2000, between the Issuer and the Borrower (the "Financing Agreement").

The 1<sup>st</sup> Tier Bonds are special, limited obligations of the Issuer, and the principal, premium, if any, accreted value and interest on, the 1<sup>st</sup> Tier Bonds payable, except to the extent payable from Bond proceeds and certain other moneys pledged therefor, solely from and secured by a pledge of Senior Loan Repayments ("Senior Loan Repayments") to be made under the Financing Agreement after payment of operation and maintenance costs of the Project and other expenses ("Operation and Maintenance Costs") and prior to the payment of debt service with respect to the 2<sup>nd</sup> Tier Bonds. Pursuant to the Financing Agreement, the Borrower is obligated to make Senior Loan Repayments to the Issuer from farebox revenues, advertising revenues and certain other amounts remaining after payment of Operation and Maintenance Costs.

Payment Covenants. The Financing Agreement requires the Borrower to, among other things, pay to the Trustee, on or before the Last Business Day of each month, sums sufficient to fund debt service on the Bonds and replenish the Debt Service Reserve shortfalls (over twelve months). Specifically, Section 4.2(a)(i) of the Financing Agreement requires monthly payments from the Borrower sufficient to pay the following:

1. Into the 1<sup>st</sup> Tier Debt Service Fund, one-sixth of the interest and one-twelfth of the principal next coming due on the 1<sup>st</sup> Tier Bonds;

2. Into the 1<sup>st</sup> Tier Debt Service Reserve, one-twelfth of the total amount necessary to restore the 1<sup>st</sup> Tier Debt Service Reserve Fund to the Debt Service Reserve Requirement for the 1<sup>st</sup> Tier Bonds;

3. Into the 2<sup>nd</sup> Tier Debt Service Fund, one-sixth of the interest and one-twelfth of the principal next coming due on the 2<sup>nd</sup> Tier Bonds; and

4. Into the 2<sup>nd</sup> Tier Debt Service Reserve, one-twelfth of the total amount necessary to restore the 2<sup>nd</sup> Tier Debt Service Reserve Fund to the Debt Service Reserve Requirement for the 2<sup>nd</sup> Tier Bonds;

December 2007 Payments. As the Trustee has previously informed Bondholders, the Borrower failed to make sufficient payments in December 2007 to satisfy the requirements of Section 4.2(a)(i) and, consequently, on January 2, 2008 there were insufficient amounts available in the 1<sup>st</sup> Tier Debt Service Fund and the 2<sup>nd</sup> Tier Debt Service Fund to pay all amounts of principal and interest coming due on that day.

The Trustee received \$2,096,062.35 in operating revenue for the month of December and transferred an additional \$1,250,054.54 in investment income from the trust accounts into the Revenue Fund<sup>1</sup>. The Trustee also transferred \$417,519.00 from the Surplus Fund into the Revenue Fund. The total of all deposits into the Revenue Fund in December was \$3,763,635.89. The Borrower's requisitions for operations and maintenance in December totaled \$3,838,263.41<sup>2</sup>, leaving a deficit of \$74,627.52 before providing for December's contribution to debt service. Therefore, and as provided for in Sections 5.04 (d) and 5.04 (e) of the Senior Indenture, the Trustee withdrew from the 1<sup>st</sup> Tier Debt Service Reserve Fund and the 2<sup>nd</sup> Tier Debt Service Reserve Fund amounts sufficient to make up the deficiency in the respective Debt Service Funds.

The amounts withdrawn with respect to the December 2007 payments were:

From the 1 <sup>st</sup> Tier Debt Service Reserve Fund:	\$1,620,907.02
From the 2 <sup>nd</sup> Tier Debt Service Reserve Fund:	\$ 762,896.30

January 2008 Payments. The Borrower has also failed to make sufficient payments in January 2008 to satisfy the requirements of Section 4.2(a)(i). These failures to fund debt service and replenish the Debt Service Reserves constitute Events of Default under the Financing Agreement and the Senior Indenture.

The Trustee received \$3,617,752.13 in operating revenue for the month of January, and transferred an additional \$3,234.70 in investment income from the trust accounts into the Revenue Fund. The total of all deposits into the Revenue Fund in December was \$3,620,986.83. The Borrower's requisitions for operations and maintenance in January totaled \$2,943,581.68. This left \$602,777.69 as the sole source of funds to satisfy the requirements of Section 4.2(a)(i) of the Financing Agreement.

The 1<sup>st</sup> Tier Debt Service Fund requires monthly payments of \$1,954,161.98. The deposit in January of \$602,777.69 left a shortfall of \$1,351,384.29 in the 1<sup>st</sup> Tier Revenue Fund.

The 1<sup>st</sup> Tier Debt Service Reserve Requirement is \$20,991,807.50 and is valued as of January 31, 2008 at \$19,370,909.94 leaving a shortfall of \$1,620,897.56. One-twelfth of that amount, or \$135,074.80, is required to be deposited each month. No funds were paid into the 1<sup>st</sup> Tier Debt Service Reserve in January.

<sup>1</sup> Investment income in December included earnings from the Debt Service Reserves, which pay interest semi-annually.

<sup>2</sup> Operations and Maintenance requisitions in December included an annual insurance premium of \$2,100,000.

The 2<sup>nd</sup> tier Debt Service Fund requires monthly payments of \$915,645.83. No funds were paid into the 2<sup>nd</sup> Tier Debt Service Fund in January.

The 2<sup>nd</sup> Tier Debt Service Reserve Requirement is \$14,284,400.70 and is valued as of January 31, 2008 at \$13,521,505.47 leaving a shortfall of \$762,895.23. One-twelfth of that amount, or \$63,574.60, is required to be deposited each month. No funds were paid into the 2<sup>nd</sup> Tier Debt Service Reserve in January.

The total monthly revenue received in January was \$3,620,986.83 against a total requirement (to cover all monthly expenses, maintenance, debt service on both tiers of Bonds and monthly replenishment of both Debt Service Reserves) of \$6,012,038.89.

Remedies under Senior Indenture. The Senior Indenture provides for certain remedies available to the Trustee upon the occurrence and continuance of an Event of Default, including, without limitation, declaring the full amount of outstanding interest and principal on the Bonds immediately due and payable, instituting legal or equitable proceedings against the Director and the Borrower, seeking the appointment of receivers, engaging consultants and exercising the rights and remedies of a secured party under the Uniform Commercial Code of Nevada. However, the Senior Indenture further provides that the Insurer of the 1<sup>st</sup> Tier Bonds is entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Senior Indenture. The Trustee has retained the law firm of Lewis and Roca LLP to represent it and is in frequent contact with the Borrower, the Issuer and the Insurer.

Downgrade of the Bonds by Moody's Investors Service. On January 29, 2008 Moody's Investors Services issued a Rating Update for the Las Vegas Monorail Corporation, indicating a downgrade of the underlying rating on the 1<sup>st</sup> Tier Bonds to Caa2 from B3. The Bonds are still (as of the date of the Rating Update) rated Aaa based on bond insurance provided by Ambac, although Moody's noted that Ambac's Aaa rating remains on review for possible downgrade. A copy of the Rating Update is attached to this Notice.

Any party in receipt of this Notice may direct questions by telephone to the Trustee at (503) 886-1411, or by mail addressed to:

Wells Fargo Bank, National Association  
Corporate Trust Department  
MAC# N9311-115  
625 Marquette Avenue, 11<sup>th</sup> Floor  
Minneapolis, MN 55479  
Attention: Gavin Wilkinson

**Bondholders should not rely on the Trustee as their sole source of information. The Trustee makes no recommendations and gives no investment or legal advice herein or as to the Bonds generally.**

Dated: February 11, 2008

WELLS FARGO BANK, NATIONAL ASSOCIATION, as  
Trustee



Moody's Investors Service

Global Credit Research  
Rating Update  
29 JAN 2008

Rating Update: Las Vegas Monorail Corporation, NV

**MOODY'S DOWNGRADES THE LAS VEGAS MONORAIL PROJECT REVENUE BONDS UNDERLYING RATING TO Caa2 FROM B3**

**AFFECTS \$445.8 MILLION IN FIRST LIEN BONDS**

Las Vegas Monorail Corporation, NV  
Transportation  
NV

**Opinion**

NEW YORK, Jan 29, 2008 -- Moody's has downgraded the underlying rating on the Nevada Department of Business and Industry's \$445.8 million Las Vegas Monorail Project Revenue Bonds, First Tier Series 2000 underlying rating to Caa2 from B3. The bonds are rated Aaa based on bond insurance provided by AMBAC, whose Aaa rating remains on review for possible downgrade. The underlying global scale Caa2 rating reflects ridership and revenues, which are significantly lower than forecasted levels. Moody's estimates that debt service reserve fund (DSRF) balances are sufficient to cover First Tier and Second Tier debt service through 2009 barring a reduction in operating revenues. At current ridership and revenue levels, a payment default is anticipated by 2010 once reserves are exhausted. Dramatic revenue growth is needed to support operations and First Tier debt service. The rating also considers that the Las Vegas Monorail (Monorail) serves many Las Vegas Strip hotels, attractions, and the well-utilized convention center and helps alleviate traffic congestion.

The bonds were issued in 2000 to finance the construction of a monorail system on the east side of the Las Vegas Strip through a loan agreement between the issuer and the Las Vegas Monorail Corporation (LVMC), a non-profit public benefit corporation governed by a five-member Board appointed by the Governor. The project was additionally financed through the issuance of \$146 million Second Tier bonds and \$48.5 million Subordinate Bonds, which are not rated by Moody's. Moody's will continue to maintain an underlying rating on the First Tier bonds.

**RECENT DEVELOPMENTS**

Based on the 2008 budget, 2007 operating revenues are expected to be 13.5% lower than the 2007 budget while 2007 operating expenses (excluding depreciation and amortization) are expected to decrease by only 3.8% compared to budget. The reduction in revenues can be attributed to the loss in monorail ridership to double decker buses along the Las Vegas Strip that Clark County introduced in January 2006 and the \$2 increase in per ride fares implemented in January 2006. Another factor challenging operating revenues in 2007 are advertising revenues, which are expected to be \$3.5 million lower than reported in the 2007 budget as several advertising deals did not materialize.

To combat the reduction in ridership, LVMC implemented a sizeable fare decrease to \$9.00 from \$15.00 for the 24 hour unlimited pass in May 2007. Since reducing the 24 hour unlimited pass fare, ridership has increased 25% to 30%, which closely approximates the percent of riders lost to the double decker buses. After introduction of the double decker buses in 2006, ridership on buses increased significant by 6,000 to 8,000 per day compared to that in 2005.

Given the low operating revenues, LVMC was not able to comply with the rate covenant requirement. As a result, LVMC is in consultation with Ambac regarding obtaining a consultant to analyze revenue and ridership. In addition, all operating cash is under the control of the Trustee, who will release funds to LVMC to meet its financial obligations, upon request. The rate covenant requires net revenues to cover First Tier debt service 1.40 times, and 1.10 times coverage for all debt, including second tier and subordinate debt.

In January 2008, the Wells Fargo Bank, National Association, as Trustee, withdrew funds from the First Tier

and Second Tier debt service reserve funds. Because operating revenues, after covering operating expenses, were not sufficient to cover the First Tier and Second Tier debt service payments, the Trustee withdrew \$1.6 million from the First Tier debt service reserve fund and \$762,896 from the Second Tier debt service reserve fund.

#### FINANCIAL POSITION

LVMC's 2008 budget assumes that both debt service reserve funds will also be drawn to cover debt service in 2008. Operating revenues in 2008 are expected to increase slightly less than 2% over the estimated \$32.5 million expected in 2007. Although the 24 hour pass fare reduction is expected to increase ridership, ticket revenues are expected to increase 1.15% only due to the lower fare. In addition, the LVMC is continuing to pursue new advertising revenues, including the development of partnerships with travel and ticket brokers in order to bolster operating revenues.

Moody's expects that operating revenues and the debt service reserve funds are sufficient to cover any operating deficits and debt service through 2009 barring a reduction in operating revenues. The First Tier bonds have a \$40.4 million DSRF, of which \$21 million is in the form of a surety provided by Ambac. The Second Tier bonds have a \$13.5 million DSRF. Each DSRF is exclusively for each tier. There is no cross default between the First Tier and Second Tier bonds. Beyond 2009, absent a significant increase in operating revenues or a debt restructuring, Moody's expects that LVMC may have a debt payment default.

#### LEGAL SECURITY:

The bonds are secured by a first lien on the net revenues of the Monorail system, only.

#### CAPITAL PROGRAM: NO BORROWING PLANS AT THIS TIME

The LVMC is operating reliably and currently has no significant capital projects planned. No borrowing is expected, though a possible extension of the Monorail to Las Vegas McCarran International Airport (Senior lien airport revenues bonds rated Aa2) is actively being considered.

#### THE LAS VEGAS STRIP IS A HIGH VOLUME TOURIST AND CONVENTION DESTINATION

Moody's recognizes that Las Vegas and particularly the Las Vegas Strip continues to be an attractive destination for tourists and convention attendees with 38.9 million visitors in 2006. Furthermore, Las Vegas has the ability to accommodate the largest conferences. Approximately, 6.3 million visitors attended conferences in 2006. Total occupancy rates for the past three years have exceeded 89%.

#### Outlook

The negative outlook is based on Moody's expectation that ridership and revenues will likely remain significantly below original forecasted levels. LVMC will need a significant ramp up in ridership and revenues in order to meet operating and debt service obligations over the next several years.

What could change the rating - UP

The rating could improve if ridership and revenues grow dramatically over the course of the next year and are sufficient to pay annual operating expenses and debt service.

What could change the rating - DOWN

The rating could drop further, absent an improvement in ridership and growth in revenues necessary to support operating expenses and First Tier debt service.

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