

Headline News:

7/30/13: Cuomo Signs Bill Expanding Casino Gambling Across State

(www.buffalonews.com)

7/24/13: Shingle Springs Band of Miwok Indians Compact Approved by DOI

(www.finance.yahoo.com)

7/23/13: 2012 Indian Gaming Revenues Increase 2.7%

(www.nigc.gov)

7/22/13: 2nd Circuit Ok's Tax on Tribal Casino Slots

(indiancountrytoday.com)

7/22/13: Rohnert Park Casino's Impact on Existing Gaming Halls Debated

(www.pressdemocrat.com)

7/17/13: Fitch Affirms San Manuel Entertainment Authority's (CA) Bonds at 'BBB+'

(www.reuters.com)

7/5/13: Foxwoods Restructuring Gambles on Complexity

(www.thedeal.com)

Tribal Gaming Greenfield...Really?

by Kristi Jackson

In an era of chatter about gaming saturation across the country – is there still room for new properties? The short answer is the age-old “it depends”... which, for the optimists among us, is not an outright no. Assuming a project is given a green light, how will a Tribe find financing today?

We have been receiving many inbound calls recently regarding Tribal greenfield projects. Interestingly, these calls have come from two sides: those Tribes looking to start a development, and as importantly, from investors looking to put money to work. In order to marry these into a partnership agreement, a lot of diligence is required and hurdles must be cleared by both sides.

For the Tribes, this rests on the analysis of the gaming opportunity.

Fundamentals such as location, population demographics and competition are at the center of everyone's questioning. For those potential projects that are easily accessed, or, more easily accessed than the competition, and for those to be located in areas where there is little competition relative to demand – projects definitely still make sense. This is true for both large and small opportunities. Graton Rancheria stands at the far end of the large-scale spectrum. The Tribe found all of the required capital plus funding to nearly repay all of its' development partner's initial investment – at a rate of less than 10%. Graton is unique – but well-located smaller projects can also find money, at less than stratospheric rates.

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TFA will be attending the following conferences this summer:



OIGA Conference and Trade Show — August 12-13

NIGA Tribal Economic Development Meeting — August 20

NAFOA Fall Finance & Tribal Economies Conference — September 9-10

Global Gaming Expo (G2E) — September 23-26

Please let us know if you will also be in attendance and would like to set up a meeting with TFA.

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Of extreme interest to us is the level of activity by investors in these start-ups. From the least expensive equipment financing to the higher cost gaming machine based revenue sharing investors – all are looking for places to invest right now. Much of what will govern the ultimate available capital and structure is the predicted cash flow and the perceived risk of the project. One measure of this risk is how much cash flow will be generated by the project compared to how much debt is needed to build the property and get it opened, or its leverage (debt divided by cash flow). If the predicted leverage is less than about 4 times, we think the project can attract financing today. While money may be available, it may be so expensive that the return on the project is not great enough to exceed the cost of the financing or in some cases the projected tribal distributions are so nominal that the Tribe really needs to consider if it is worth pursuing the project.

The prospects for finding financing today are solid and much better since the 2008 credit crisis. The right projects are very much of interest today... really.

Sources of Capital:

Cash – A tribe’s own equity investment, the cash it puts into the deal, is key. If the tribe puts “skin in the game” there is some validation by ownership of the project making a statement to investors. The more cash invested, the less outside financing is required and the stronger this validation – both of which attract investor interest.

Equipment Financing – Often provided by the vendors themselves, or, there are companies which are specifically interested in financing equipment purchases. This is attractive and given that you borrow this money as purchases are made, it is highly efficient and can translate to significant savings of overall financing costs.

Senior Loans – Likely not commercial banks, but rather specialized institutional investors. This is likely the bulk of the start-up capital structure. This group stands first in line to receive repayment from the new project’s cash flows. Interest rates on senior debt for projects today can range from Graton’s sub-10% to over 20%, depending upon the project’s perceived risk profile.

Subordinated Loans – Often the same lenders that provide senior, or, more likely, this will come from a development or other strategic partner. This credit risk is higher than the senior and therefore carries a premium yield. If this is provided by a strategic investor, we see this rate tracked off of where the senior financing is priced – possibly 2 or 3 percentage points higher.

Equipment Revenue Sharing – Typically, this is very expensive financing and Tribes should consider these loans carefully. While on the surface it may seem that funds are provided with fewer covenants, we note that if a property is successful, sharing 20% or more off the top quickly can become stratospheric in rate. However, the cost of this capital needs to be weighed against the anticipated cash return to the Tribe. In some cases it makes sense to use this capital—especially if no other funding sources are available.

Tribe-to-Tribe – A very interesting and growing source of capital for start-ups. Should the investor tribe be interested in diversification, and particularly if you have a tribal connection (geographic or otherwise), there may be an appetite. While many of these deals are structured the same as those from other outside lenders, we have seen the rates be a bit more attractive (some below 10%).

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