TRIBAL FINANCIAL ADVISORS
INCORPORATED

Providing Tribes Clear Solutions in an Ever Changing Economic Environment

TFA Monthly Newsletter

July 2013

Headline News:

6/27/13: Senate Approves Casino Compact (North Folk) (www.sierrastar.com)

6/21/13: Moody's Downgrades Downstream Development Authority's CFR (www.moodys.com)

6/13/13: Governor and Ramona band sign casino deal (www.pe.com)

6/13/13: Cuomo, Seneca Nation of Indians announce landmark agreement (www.wnypapers.com)

6/8/13: In Colusa, a Tribe Uses Gambling to Reclaim Its Culture (www.sacbee.com)

6/1/13: Oneida Casino Betting on $28 million Facelift (greeenbaypressgazette.com)

5/30/13: Gov. Brown Signs Bill Ratifying Amended Compact for Shingle Springs Tribe (www.marketwire.com)

Construction Disruption

by Kristi Jackson

Planning for an expansion activity regardless of the venue or business can be a cumbersome and time consuming exercise. There are myriad details to consider. What do your customers desire? What should be built? When should construction commence? What will it cost? Who will build it? How long will it take? What is the expected return? How will you pay for it?

These are the obvious. What is not so obvious is to determine the effect of disruption on your existing business while the construction is underway. Will customers come less frequently? Will construction cause them to stay for a shorter time? Will you lose them permanently due to trial at a competitor's facility? Or, will there be no effect at all?

We have financed literally hundreds of construction projects over our collective careers. While not true in all cases, it is certainly the norm to expect a certain amount of disruption. We have seen anywhere from a modest 2-3% revenue decline to a much more dramatic situation where an entire casino operation was offline for over a week as actual machines were transferred between building locations and re-installed. Clearly, as the project takes longer to complete, and is more significant in scope, there is more of a chance for a disruptive effect.

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TFA will be attending the following conferences this summer:

WIGA Northwest Indian Gaming Conference & Expo — *July 15-17*
NIGA Legislative Summit — *July 23-24*
OIGA Conference and Trade Show — *August 12-13*

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

El Segundo, CA • Charlotte, NC
(310) 341-2332
www.tribaladvisors.com

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This is certainly the case with how lenders view a project. Lenders typically take a conservative view when projecting a borrower's cash flow. In most instances, they give no credit for the growth contribution from an expansion and will rely solely on the historical cash flows for their underwriting decision. This conservatism is magnified when a lender also discounts historical cash flows by a disruption factor – sometimes arbitrary at a 5+% decline for a period of time – whether or not the borrower's project team agrees this is the case.

Knowing that a lender makes this "haircut" adjustment, it is wise to offer mitigants to the threat of disruption when seeking the loan initially. One way to offset disruptive effects is related to design, planning and construction. A prime example of mitigating disruption is master planning casino development, which accounts for future expansion and helps minimize disruptions during incremental development. We have seen other projects, including property facelifts, take place during off business hours (i.e. 2:00 AM to 7:00 AM). Yet in other cases, a rolling process of a room-by-room renovation minimized total area disruption and often provides a side benefit of some sort of excitement for the customer – "what is behind that temporary wall?"

While many Tribes will approach lenders with the position that there will be no disruption, a lender will test this assumption to see that the borrower's cash flow profile could be stressed and still repay their loan – this is often referred to as a downside analysis and directly relates to lenders' conservative nature. TFA understands most tribes and casino management teams have already completed the hard work of planning an expansion project and have strategically considered ways to minimize disruption – it's important to your business. Clearly and succinctly highlighting these strategies to lenders can help them understand the risk to cash flows. In doing so, Tribes can position themselves for the most flexibility and the most available capital for their expansion financing.

Tribal Financial Advisors

Kristi Jackson
(310) 341-2335
kjackson@tribaladvisors.com

David Howard
(310) 341-2795
dhoward@tribaladvisors.com

Jeffrey Heimann
(310) 341-2518
jheimann@tribaladvisors.com

William Crader
(310) 341-2336
wcrader@tribaladvisors.com

Mitchell Brown
(310) 341-2338
mbrown@tribaladvisors.com

Braxton Sato
(310) 341-2337
bsato@tribaladvisors.com

TFA Tribal Board of Advisors

Rick Hill
Chairman, Tribal Board of Advisors
(310) 341-2796
rhill@tribaladvisors.com

VaRene Martin
varene@nafoa.org

Valerie Spicer
vspicer@tribaladvisors.com

Kip Ritchie
kritchie@tribaladvisors.com

John Tahsuda
jtahsuda@tribaladvisors.com

Tom Rodgers
tom@carlyleconsult.com

Daniel Tucker
ssilva@sycuan-nsn.gov

El Segundo, CA • Charlotte, NC
(310) 341-2332
www.tribaladvisors.com