

Headline News:

10/25/12: Senecas unveil Allegany Casino expansion
(www.wivb.com)

10/24/12: Chickasaw Tribe moves to buy bankrupt casinos
(www.star-telegram.com)

10/16/12: Tribal activities make \$10.8B impact on Oklahoma's economic output, study suggests
(www.newsok.com)

10/15/12: Bernadine Burnette, Vice President, Fort McDowell Yavapai Nation, Chosen as Indian Gaming Advocate of the Year
(www.marketwatch.com)

10/5/12: Casino seeks settlement with creditors after judge blocks bankruptcy
(www.nctimes.com)

10/2/12: Mashantucket Pequot Tribal Nation Reaches Accord with Bondholders
(finance.yahoo.com)

The Fiscal Cliff - What Does this Mean for Tribes?

by Kristi Jackson

While we prepare to vote next week on November 6th for many key national, state and local leaders, including the President of our country, we all are becoming acutely aware of the looming "fiscal cliff" that hangs in the balance. Specifically, the fiscal cliff refers to the many tax increases and spending cuts that automatically go into effect on January 1, 2013. It's hard to fathom that our elected officials won't be able to put aside their partisan agendas and work together to bring a resolution to the table. If they don't come to an agreement this perfect storm of expiring tax cuts (and therefore tax increases) and drastic federal spending cuts is poised to challenge and reverse recent improvements to the US consumer and our economy. What does this mean for tribes and their business enterprises?

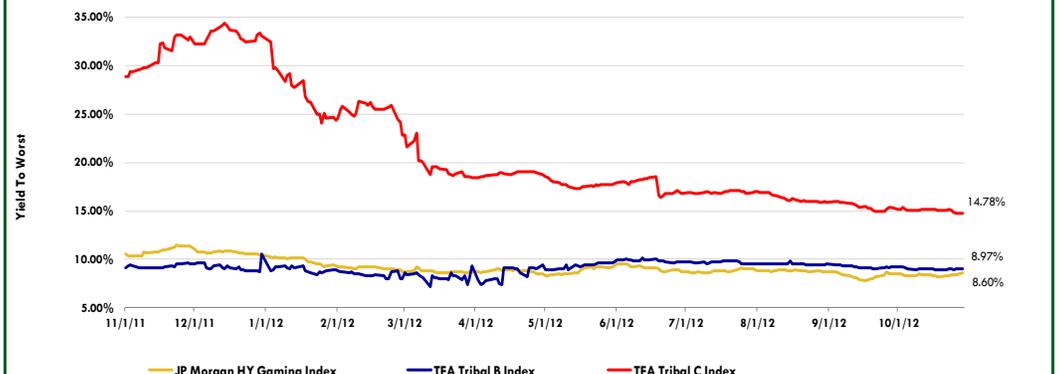
Most economists, and in fact the US

Federal Reserve Board itself, believe that if this situation is not resolved in the weeks following the election, our currently fragile US economy will most certainly fall back into recession. We could stop there in our analysis. One doesn't need a large rearview mirror to recall the effects of the last recession on our businesses and our pocketbooks. Consumers largely retreated - unsure of their own job stability or savings levels - causing businesses across the nation to experience falling revenues. Case in point: according to the Congressional Budget Office, the impact of the fiscal cliff on gross domestic product will be a reduction of 4%.

Four years after the recession, we made it through. For the most part, we saw a massive re-engineering of business spending. Margins improved as expenses were rationalized across

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TFA Index Chart: A Comparison of HY Bond Interest Rates



Source: Wall Street High Yield Research
Notes: Yield to Worst represents the current average interest rate on bonds that comprise each index. Composite Gaming Index represents the average market interest rate of over 80 corporate and Tribal high yield gaming issues



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the board. Tribal gaming businesses, for example, conducted layoffs and cost controls which helped to reduce the expense base of their businesses. In turn, this helped to preserve the much needed distribution stream flowing out of their business enterprises to fund tribal governments. In many cases, the bottom line was held up. We have seen tribal businesses more efficient as a result - they are doing more with less. What is concerning, however, is that there may not be more to cut with another revenue slowdown – most if not all of the excess costs have already been eliminated. Put another way, tribal businesses likely will not be able to expense-cut their way out of a hole the next time. Revenue decreases will likely flow straight through to the bottom line, resulting in lower distributions to fund tribal government needs.

While tax hikes will hit consumers in the pocketbook and result in more conservative entertainment spending, the double-whammy comes from the "sequestration" part of the equation. "Sequestration" is the government's set initiative to reduce spending by \$1.2 trillion, a big portion coming largely from the Department of Defense. While on the surface, one may think this may not be significant... but if your business is located in an area that is near a military base you may think differently.

What can be done? Other than encouraging your local members of Congress and senators to come to a compromise solution to avoid the "fiscal cliff", much will be defensive preparation. Re-evaluate spending and expenses wherever possible. Consider starting any discretionary programs in January versus in November/December in order to react more quickly should a compromise not be reached. Now is typically "budget season" across much of Indian Country - as 2013 budgets are being discussed, remember to weigh this uncertainty into approvals. If a budget is razor-thin and the revenue forecast is stable without mention of any economic downturn, you may want to plan for a more conservative take on the situation. If possible, allow for some cushion in next year's budget - if the unforeseen (albeit politically irrational) ends up coming to fruition, a little preparation may just prevent disappointment or worse, your own "fiscal cliff" later.

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