



# TFA

## Monthly Newsletter

### May 2017

#### IN THE NEWS

## Keeping It Fresh

by David Howard

This has become a topical debate among many, many tribes with gaming properties...should we reinvest excess cash back into the casino's maintenance capital expenditures (capex) or distribute to the Tribe to meet other tribal needs? We wish there was a simple answer to this difficult dilemma.

Maintenance capex is often defined in bank credit agreements as "capital expenditures that are used to maintain the casino operations, but not to expand or enhance the operation". Dollars spent just to maintain operations typically yield no incremental return on that investment and do not increase

the bottom line. When the bottom line is already under attack from new and existing competition, shifts in the economy and sometimes even the weather, it's hard to determine where to get the most bang for your buck when reinvesting precious dollars back into your property.

In the face of the aforementioned competition, it's important to keep the casino operation fresh and up to date. While maintenance capex doesn't yield more cash flow, if a property becomes old and tired, casino guests may reduce visits and this negatively impacts earnings. While we don't have a formula for what and where to reinvest,

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### Oneida Nation Announces New Casino in Central New York

4/2/17 – [DailyGazette.com](http://DailyGazette.com)

### Aquinnah Wampanoag Tribe Welcomes Decision in Gaming Dispute

4/17/17 – [Indianz.com](http://Indianz.com)

### New Study: Casino Industry is Essential to Small Business Growth

4/20/17 – [CDCGamingReports.com](http://CDCGamingReports.com)

### Margaritaville Announces Termination of Sale to Alabama Indian Tribe

4/24/17 – [KSLA.com](http://KSLA.com)

### US Supreme Court Rules in Favor of Foxwoods

4/24/17 – [FocusGN.com](http://FocusGN.com)

### High Court Kills Tribal Immunity for Casino Employees

4/25/17 – [CourthouseNews.com](http://CourthouseNews.com)

### New Mexico Gaming Compact Dispute Goes in Favor of State, as Judge Rules Against Tribe

4/25/17 – [Casino.org](http://Casino.org)

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we have seen that starving a casino property of capex for several years usually ends up with a desperate cash flow need down the road. A striking example of this neglect is a property we visited a few years ago where air conditioners had been so poorly maintained that, during hot summer months, workers literally needed to be stationed on the rooftop to hose down the units to keep them from overheating. They had deteriorated to the point of needing a complete system overhaul which was going to cost the Tribe over \$10 million – at that point, their customers were beginning to notice temperature and humidity changes and complain (...and most likely started visiting the competition).

Borrowing for maintenance capex – which is what the above Tribe was facing - is always an option but not one we recommend if it can be avoided by staying on top of ongoing needs.

We recommend establishing a consistent maintenance capital reserve amount of 3-4% of total revenues when the casino is newer, say less than 10 years old. Even if the reserve isn't spent in a calendar year, keep that money in a reserve versus distributing to the Tribe's general fund...there is no doubt it will be needed in the near future. Once a property begins to be over 10 years old, we recommend upping the reserve level to 5-6% as more wear and tear becomes evident and big ticket items like HVAC replacement and the like start to become a

reality. Make sure to include hotel room renovations (every 7 years or so) and slot floor replacement in your annual capex reserve.

While having the disciplined approach to build a reserve fund is easy to say, we realize it is often hard to do. Reserving capex dollars reduces the availability of funds for Tribal governmental programs and other initiatives. However, in the long run, this has proven to be the best fiscal policy for most Tribes' cash flow engine – the casino operations.



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