

TFA Monthly Newsletter

January 2014

Headline News:

12/29/13: Tribe Wants to Trade \$270M Land Claim for Casino
(elpasoinc.com)

12/18/13: Federal Appeals Court Lifts Injunction Blocking Lansing Tribal Casino Plans from Moving Forward
(mlive.com)

12/14/13: The Menominee Tribe's Struggle: How a Casino Would Help
(jonline.com)

12/12/13: Wilmorite Wants to Build \$350M Resort Near Exit 41 in Town of Tyre
(fltimes.com)

12/10/13: Osage Casino Hotel in Skiatook Opens
(tulsaworld.com)

12/6/13: Governor Signs Karuk Casino Compact
(siskiyoudaily.com)

Financing Your Hotel

by David Howard

When we talk with tribal councils and tribal casino management teams, we are often asked about the merits of building additional hotel rooms to support casino operations. While most agree adding rooms is a good thing, financing them often proves challenging. In particular, our clients want to know, "Can we let someone else build this using their money and not ours?" While it sounds easy – hotel developers and lenders must be looking to help build and finance new hotels – it isn't that simple as numerous factors need to be considered.

The first consideration is always the location of the proposed hotel. You remember the 3 rules of real estate – location, location, location (someone recently told me that real estate developers changed this to timing, timing, timing – but that's another story) – is the proposed

site on fee or trust land? Fee land is much easier for developers and lenders to understand as this is what they are used to. Trust land, however, brings a set of unique issues to the table that many hotel developers and lenders (and their attorneys) aren't familiar with, such as tribal sovereignty and ground leases that need to be approved by the BIA. While these legal issues are identified, they add more complexity and cost to putting a deal together.

Next, where are the guests coming from, and are there other reasons aside from gaming why a guest would stay in the hotel? With tribal casino properties, we've found that a hotel is highly dependent on the casino for its guests. This often necessitates some sort of room night guarantee

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TFA will be attending the NIGA Winter Legislative Summit in Washington D.C. - January 28-29



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

\$2 Billion+
Financing Raised

\$250 Million+
Saved

**All for Native
American Tribes**

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or master lease from the casino or tribe to the third-party hotel developer. While a tribal casino operator would expect to comp a significant amount of hotel rooms to its gaming customers, on slower nights this means the tribe is effectively paying for the rooms without the benefit of the gaming customer. Additionally, many casino lenders' loan documents classify room night guarantees or leases as debt obligations of the casino, meaning that one of the most significant benefits of using third-party developer/financing is not available - if it looks like you borrowed the money for the hotel then there really isn't much advantage.

Third, a third-party owner of a hotel will want to protect their investment and impose rules and restrictions on the tribal gaming operations. In addition to room night guarantees, shared service agreements and potentially even brand / franchise fees, the developer will likely want a limitation or prohibition on the tribe's ability to build additional hotel rooms at or around the casino. This could limit future growth.

A final point to consider is the affect on custom-

er service. Casino managers all know that high levels of customer service and attention are key to differentiating their product in a competitive marketplace. If someone else owns and manages the hotel that is catering to your casino patrons, how can you be sure your guests are receiving the same level of customer service that the casino provides? In other words, any bad experience at the hotel will reflect poorly on the casino.

To make a third party hotel work to the benefit of the casino, all of these factors need to be considered and agreed upon with the developer and their funding sources. At TFA, we have reviewed many of these opportunities for tribes. The legal complications of trust land, the need for room night guarantees, limitations on future expansions and providing the right guest experience are all big hurdles and concerns. Sometimes the end financial result is worth dealing with these additional considerations. Other times, however, the tribe's decision is, we'll borrow or invest the money and build it ourselves.

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