

Headline News:

12/21/12: Another round for California Internet gambling bill

(www.latimes.com)

12/19/12: NIGA: Senator Daniel K. Inouye 'Was One of the Giants of Our Time'

(indiancountrytoday.com)

12/18/12: Senecas top off Buffalo casino project

(www.bizjournals.com)

12/10/12: Spectrum Gaming Group Identifies Top 21 Casino Industry Trends for 2013

(www.finance.yahoo.com)

12/06/12: Snoqualmie Casino plan for hotel, growth draws mixed reaction

(www.seattletimes.com)

12/01/12: Mono tribe gets land approval from Bureau of Indian Affairs

(www.sierrastar.com)

Out of the Pot and Into the Frying Pan?

by Jeffrey S. Heimann

First and foremost, Happy New Year to everyone from all of us at TFA, and best wishes for a healthy and prosperous 2013!

As we start the new year, we can be happy that the U.S. averted the inevitable financial crisis that would have occurred had Congress not agreed to a deal to avoid the "fiscal cliff" – literally going over the (timing) edge of the cliff to get the deal done to avoid it.

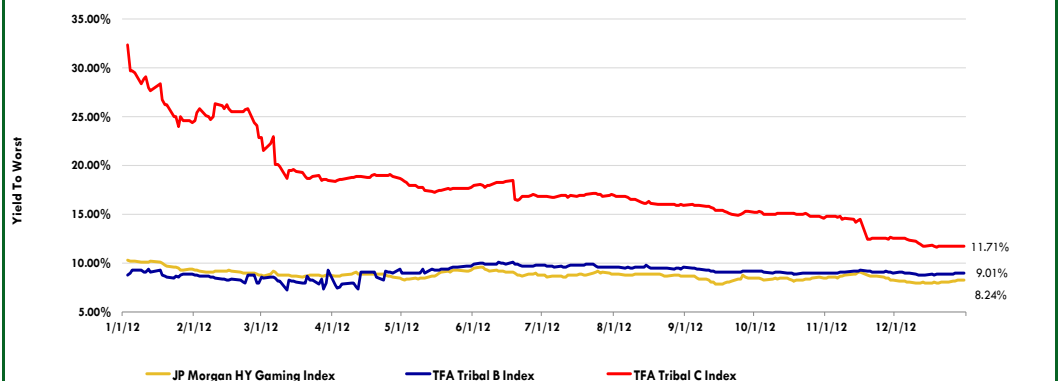
Read the fine print, however, and it is clear that we are not out of the woods. The agreed upon deal eliminates most of the tax increases that were set to kick in on January 1st – making permanent many of the Bush-era income tax levels – but only postpones many of the spending cuts, for which Congress has until March 1st to negotiate any

changes. Perhaps the biggest issue left unresolved, however, is the U.S. government's \$16.4 trillion federal borrowing limit (or debt ceiling), which is estimated to be reached by February or March.

The debt ceiling does not authorize spending programs by Congress; rather, it simply permits the Treasury department to borrow money for previously approved programs. If the Treasury runs out of cash to pay its bills, the impact would be far reaching as the U.S. may not be able to fund Social Security payments, Treasury debt interest and maturities, and essentially all other operations of the U.S. government – including the curtailment of Tribal grants and other programs. In fact, Moody's Investors

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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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Service, a firm that rates government debt, said the deal didn't achieve what is "likely to be needed to support the AAA rating" of the U.S. debt.

These issues remain significantly important for Tribes and their Tribal membership, as well as for their gaming operations and other businesses that support Tribal governments. Similar to the economic impact of going over the fiscal cliff, failing to extend/eliminate spending cuts or fix the debt ceiling issue would also negatively impact the economy. Whether through less disposable income in customers' wallets, the loss of any Tribal-oriented grants, or impacts to the financial markets caused by a U.S. debt default or rating downgrade, Tribes would be affected.

This article is not intended to scare anyone, only to keep readers informed of the on-going risks to the U.S. economy. Much of the risk is tied as much to the brinkmanship being played by the politicians involved as it is around underlying economic issues. That said, knowing that resolution of these issues remains outstanding, Tribes can better prepare for the uncertain outcome: through carefully monitoring spending, making sure grant monies are re-

ceived before commencing a program or tailoring capital expenditures in the event of an economic downturn.

Despite the above concerns, reasons for optimism in the U.S. economy exist. In fact, even Moody's Chief Economist cites three reasons to be bullish about the U.S. economy: a housing revival, the end of deleveraging, and a healthy corporate sector that will be ready to invest in 2013.

Our view for the next twelve months in the Tribal gaming sector in particular is largely positive. We have recently seen Tribal casinos improve top-line revenue performance, continue to benefit from initiatives to control spending and, for those Tribes and casinos that have debt, materially lower interest expense, all of which have helped the bottom line and increased flexibility for Tribal governments. With additional negotiations by Congress to solve the issues that remain, we anticipate that Tribes will be well-positioned to weather any storms so long as they remain aware of the issues at hand and react quickly to any changes in to circumstances.

As always, please feel free to contact TFA to discuss further.

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

Ellie Escamilla
(310) 341-2338
eescamilla@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