TFA CAPITAL PARTNERS

RELATIONSHIPS BUILT UPON
TRUSTED INDEPENDENT ADVICE

TFA Monthly Newsletter

August 2016

What's New?

CFO Roundtable Highlights from Minnesota and Oklahoma

by Kristi Jackson

We were excited to co-sponsor Tribal CFO Roundtable discussions with Joseph Eve last week in Minnesota at Mystic Lake Casino and in Tulsa just after the OIGA conference. (We thank our friends at Joseph Eve, Certified Public Accountants, for the opportunity.) Both sessions included Tribal and casino CFOs, controllers and finance staff and brought on lively discussion of commonly faced issues. In this month's newsletter, we share some takeaways from the morning sessions concentrating on banking and financing:

Financing Trends

Changing Bank Environment: We are seeing lenders moving off of the rock-bottom pricing of the past two years – and *looking for higher yields*. This comes both in the form of less price cutting behavior and slowly increasing pricing margins in recent term sheets, as well as in a slightly *more aggressive risk tolerance* where lenders are able to charge higher rates commensurate with the higher risk. The later point – that lenders are expressing an appetite for slightly higher leverage levels – is interesting to us: in instead of peaking at 2.5 to 3x leverage, banks are willing to lend at 3 to 3.5x leverage. This could mean Tribal projects on the bubble in terms of do-ability may find the necessary capital at still attractive rates.

More Interest in Derivatives: Along the lines of our last monthly newsletter, we are sensing a greater overall awareness of the risk of increasing interest rates among Tribal borrowers. Seeking protection from the effects of higher interest rates, Tribes are explor-

(continued on Page 2)

IN THE NEWS

National Indian Gaming Commission Raises Penalty Amount to Nearly $50k

07/07/16 – Indianz.com

Federal Judge Throws Out MGM Lawsuit Opposing Third Casino

07/12/16 – WestHartfordNews.com

Mohegan Gaming Authority Has "Interest" in Las Vegas' Failed Fontainebleau

07/15/16 – TheDay.com

NIGC: 2015 Experienced Largest Tribal Revenue Gain in a Decade

07/20/16 – ICTMN.com

Oklahoma Tribal Exclusivity Fees Exceed $1.3 Billion

07/27/16 – ICTMN.com

Judge Rules Federal Decision to Take Land Into Trust for Mashpee Tribe Flawed

07/28/16 – CapeCodTimes.com

(continued from page 1)

ing derivative strategies for mitigation. In addition, more banks are requesting (or requiring) that borrowers hedge a portion of their floating rate exposure. The roundtable sessions offered cautionary words and the following advice: *seek multiple viewpoints and bids* from banks involved in your financing, *use a specialized derivatives advisor* any time you enter into a derivative contract to explain the risks and protect your position, and *ask questions* to fully understand the contract you are signing.

TED Bond (Borrowing) Update: Townsend Hyatt, a partner at the law firm Orrick, offered an overview of the updated program and a few pointers. TED Bond allocations are still very much available, with approximately **$1 billion of TED capacity remaining** – meaning that any Tribe may apply for an allocation of up to the greater of $100 million or 20% of the remaining allocation for a specific qualifying project. This can provide a pathway to finance certain non-gaming economic development, infrastructure and other on-reservation projects that otherwise would not qualify for tax-exempt treatment. The recent IRS ruling, which allowed for the **use of TEDB in a delayed draw** situation further, opened up this type of tax-exempt financing for construction projects.

Finally, the group noted caution with regard to using any long-term financing product. Any type of financing that is inflexible and disallows prepayment for an extended time can be problematic. A municipal-style bond, the origins of which were structured around a taxing authority's perpetual right to collect property, use or other forms of tax income, can be regularly and easily repaid with a predictable revenue stream. While Tribes may issue longer-term municipal-style bonds, they do not enjoy the same type of sizeable tax income stream. Tribes may find it difficult therefore to lock into a long-term financing – many of which come with a 10 year or longer no-call period (no ability to prepay for the first 10 years) – and deal with the possible costs of continuing to pay debt service on an obligation that they either no longer need or can afford.

We look forward to the next series of roundtable discussions – and again, we thank Joseph Eve for the opportunity to participate.

TFA CAPITAL PARTNERS

TFA
400 Continental Boulevard
Suite 320
El Segundo, CA 90245
tfacp.com

KRISTI JACKSON
CHAIRMAN
310.341.2335
kjackson@tfacp.com

DAVID HOWARD
CEO
310.341.2795
dhoward@tfacp.com

JEFF HEIMANN
MANAGING DIRECTOR
310.341.2518
jheimann@tfacp.com

WILLIAM CRADER
MANAGING DIRECTOR
310.341.2336
wcrader@tfacp.com

FOLLOW TFA ON: