



# TFA

## Monthly Newsletter

### April 2017

#### IN THE NEWS

## Opportunity Cost: Evaluating the True Cost of a Delay

by William Crader, CFA

Whether you are pursuing a \$200 million greenfield financing or \$10 million equity investment for an economic development opportunity, many Tribes have experienced the frustration of being stuck in a quagmire of delay waiting to close a financing. These delays can translate into significant costs to the Tribe, whether it delays savings realized from the reduction of interest expense or holds up a project from generating cash flow. Sometimes accepting a deal you can live with versus pursuing the “best deal” can translate to a much better economic outcome for the Tribe.

**Pricing.** Pricing includes any economic term – not just the interest rate – that impacts the marketability of a financ-

ing. Although pricing is a fundamental term of any transaction, understanding the impact of pricing on execution is just as important – especially if timing is critical.

For example, if pricing is a prominent consideration, it is important to understand that savvy capital providers may provide indicative terms with aggressive pricing terms to make their deal look more attractive in order to be the lead lender. These “bait and switch” rates may not actually be supported by the market; i.e., other capital providers needed to close the deal may not be willing to lend at the same aggressive terms. This can translate into a transaction stalling out during the marketing process or worse, it can translate to

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**Hard Rock Group Invests \$300 Million in Former Trump Casino**

3/2/17 – [Bloomberg.com](http://Bloomberg.com)

**The National Indian Gaming Association Mourns the Loss of an Indian Country Warrior**

3/5/17 – [Pechanga.net](http://Pechanga.net)

**Secretary Zinke Vows to Improve Tribal Consultation at Interior Department**

3/9/17 – [Indianz.com](http://Indianz.com)

**Shawnee Tribe’s Panhandle Casino Gets Governor’s Stamp—Tribe Acquires First Trust Land**

3/14/17 – [GrandLakeNews.com](http://GrandLakeNews.com)

**Open for Business: Tribes Invest in Economic Diversification via M&A, Real Estate Deals**

3/18/17 – [MiBiz.com](http://MiBiz.com)

**Stiff Competition**

3/24/17 – [GGBMagazine.com](http://GGBMagazine.com)

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substantially higher pricing given how marketing dynamics work. When capital providers smell blood in the water the outcome can be worse for the borrower than if they started with a more acceptable level to begin with.

Legal negotiations. Utilizing legal counsel with experience in Tribal finance is paramount in obtaining a sound and efficient execution. Make sure as you go through the process, however, that you don't lose sight of the fact that each highly negotiated point in a financing agreement can delay arriving at a workable solution and directly impact closing and funding a transaction. Listen to all sources of advice and avoid wasting time on negotiating points that are largely irrelevant to the big picture of obtaining funding. If you find that a negotiation is taking an inordinately long time – or if you remain stuck on one point for what seems an eternity – pause and ask if you're fighting for the right thing.

Calculating the cost. While the math varies with each situation, most often, the opportunity cost is the revenue (aka distribution to the Tribe) that is foregone with the passage of time before it can start. It is the value of something that must be given up to acquire or achieve something else. A six month delay in starting up a project means that the Tribe won't realize the new income for six months, it is also six months of absolute revenue dollars that the Tribe will never receive. Often, we calculate the cash flow to a Tribe on a daily basis. This can make the negotiation delays seem more meaningful: "for each day we are not

open, we are losing out on 'x' thousands of dollars..."

Bottom line: Time is money. Don't lose sight of the big picture and the Tribal priorities with which you started the financing process. We are not suggesting rushing a process to take something that does not work for the Tribe. However, seeking the "right deal" can mean incredible savings versus trying to hold out for the absolute "best deal". Delays in obtaining financing – and therefore delays in being able to start your business – create a significant opportunity cost that impact a Tribe's potential cash flow.



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