



TFA

Monthly Newsletter

January 2020

2020 Budgeting – What Does the Election Year Mean for Tribal Planning?

By Kristi Jackson

Looking forward to 2020, many businesses and tribes alike are working to finish up budgets for this new year. We've been the beneficiaries of one of the longest bull markets in history – yet, there is sentiment building that this may change. How soon and what will be the effect? It's anyone's guess. We do know, however, that with the pending election in the fall, there are forces at work which may very well impact economic activity in the near to intermediate term. Here is a look at a few overarching themes:

Strong Consumer Spending

Buoyed by recent tax cuts, consumer sentiment and resulting spending have been strong. Unemployment is at near all-time lows and with consumers feeling secure with their jobs, the effect on spending has been felt in most sectors. Considering regional nuances, tribes should feel comfortable that consumer sentiment will carry through 2020.

Increased Cost of Labor

Hand in hand with low unemployment are rising wages. In our current labor environment this upward pressure on labor rates caused by a tight labor market is exacerbated by political pressure to raise minimum wages as many state and local city governments impose minimum wage increases. In many states, government mandated minimum wages will rise to north of \$15/hour in 2020. As wages in the least skilled labor ranks increase, the wages of more senior and/or skilled employees also must raise to keep pace and maintain the differential between bands.

Rising Healthcare Costs

The prospect of a more progressive candidate winning the election could have major implications in this area. The cost burden of a healthcare-for-all plan would be overwhelmingly borne by higher income individuals and corporations. While tribes aren't direct taxpayers, the impact to Indian Health

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12/1/19 – IndianGaming.com

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12/4/19 – TheGleaner.com

Wind Creek Hospitality Submits Plan For \$90 Million Hotel Expansion Of Newly-Acquired Bethlehem Casino Property

12/5/19 – WorldCasinoNews.com

Mohegan Secures Development Partner For Inspire Korea, Awaits Decision On Inspire Athens

12/7/19 – NativeBusinessMag.com

Grounded By Values Of Gratitude & Humility, Brian Parrish Leads Navajo Nation Gaming Enterprise

12/9/19 – NativeBusinessMag.com

NIGA Mourns The Loss Of National Indian Gaming Association Chairman Emeritus Rick Hill

12/16/19 – IndianGaming.org

Norfolk Nixes Plan For Indian Nation In City Limits, Instead Asks Pamunkey Tribe To Open Commercial Casino

12/17/19 – Wavy.com

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Service related funding streams could clearly be affected. We don't know how much, but if there is a healthcare system overhaul, tribes should focus on information related to funding sources. Regardless of the election outcome, the trend in healthcare is for costs to increase faster than the rate of inflation. For small business plans, nationwide average increases in overall healthcare premiums have been over 10%, which can have a material impact on a tribe's ability to meet the healthcare needs of its members.

Global Tariffs

Depending on geography and local economy, tribes may very well feel this impact in 2020. Certain industry sectors have been directly impacted – with the retaliatory effect as China places similar tariffs on incoming goods also a significant factor in global sales. While global trade represents only 10% of the U.S. economy, the impact on specific sectors of the economy – for example on agricultural products – could disproportionately impact rural tribes.

Continued Low Interest Rates

With interest rates at historic lows, now is an opportune time to look at sourcing extra borrowing capacity. Whether or not a tribe has an immediate use for new funds today, by locking down new sources now, a tribe secures access to capital it might find useful should eco-



TFA would like to give a special thank you to **Indian Gaming Magazine** for featuring Kristi Jackson's article on **2020 Budgeting!**

nomie conditions change for the worse in 2020 or beyond. Perhaps the simplest strategy for doing so is to look at revolving loan capacity – securing a line of credit where the commitment is available when the need for funds arises. There is a cost to this – upfront fees, legal costs and an “unused fee” on the undrawn portion – however, knowing you have access to funding in a downturn can bring peace of mind that justifies the modest cost. The U.S. Federal Reserve has indicated that there may be more interest rate cuts next year. This is not to suggest making bets on interest rates, but rather, to take advantage of the low rate environment and borrow some excess as a form of safety cushion.

Record High U.S. and Global Debt Levels

Underpinning all of the above is the rising U.S. and global debt level. The projections for the next several years show substantial increases. The impact is fairly straight forward:

more of our GDP will be dedicated to paying interest on all of that debt. That means that less will be available to make investments in the rest of our economy. While this may not be a pending 2020 concern, the situation has grown to unprecedented levels – at some point U.S. government funding for tribal programs could be at risk.

We observe a healthy economy rolling forward in 2020 driven by the strong consumer. Budgets can therefore include revenue that mirrors recent trends. Caution on the cost side – labor and healthcare principally – is warranted. The election outcome will be fundamental to new policy change – and the impacts measurable should they immediately affect labor, healthcare policy or taxes. As always, protect the downside risk.

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