

**Headline News:**

**12/30/10:** NY Governor submits deal to the U.S. Department of Interior for Stockbridge-Munsee Tribe casino. ([www.timesunion.com](http://www.timesunion.com))

**12/27/10:** Land taken into trust for new Navajo Nation casino in Arizona. ([www.elpasotimes.com](http://www.elpasotimes.com))

**12/27/10:** Ho-Chunk Nation views Beloit casino a high priority. ([www.beloitdailynews.com](http://www.beloitdailynews.com))

**12/23/10:** Federal government approves Cowlitz Tribe's application to operate casino near La Center, WA. ([tdn.com](http://tdn.com))

**12/23/10:** Carcieri "fix" and online poker bill both excluded from proposed legislation. ([www.theday.com](http://www.theday.com))

**Select TFA Mandates:**

**California Tribe:** TFA is engaged as Financial Advisor in connection with an amendment to the Tribe's existing debt agreement.

**Northwest Tribe:** TFA is engaged as Financial Advisor and Placement Agent to raise approximately \$200mm of capital.

**Mid-West Tribe:** TFA is engaged as Financial Advisor in connection with all of the Tribe's financings, including gaming and natural resources.

**2011 Tribal Gaming Outlook**

By Aaron Mugg

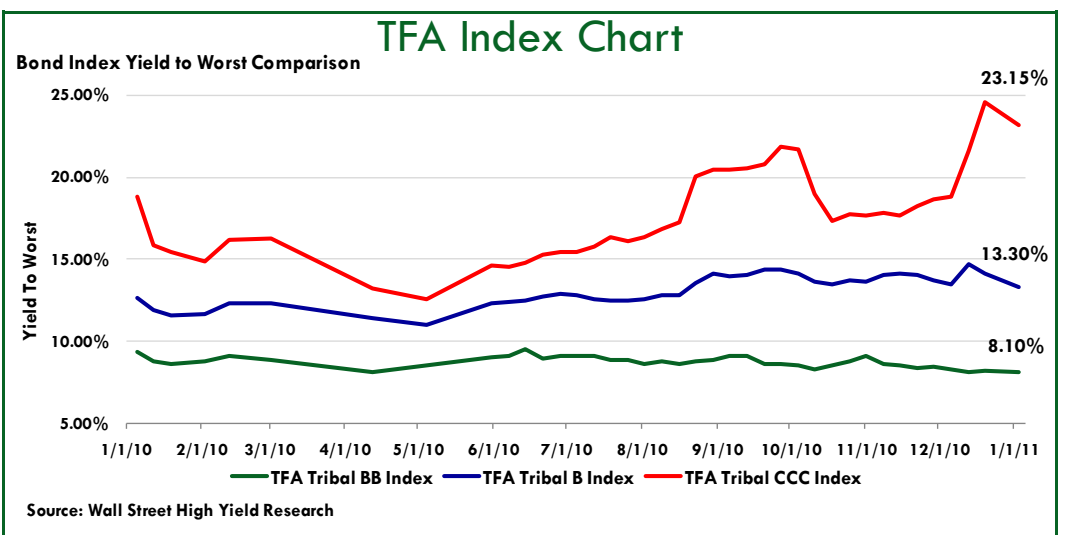
Here we are in the opening days of the New Year and investors are showing their optimism that the economic recovery will be sustained – on the first trading day of 2011, the Dow was up nearly 1% and the Nasdaq was up close to 1.5%. While record amounts of government stimulus have certainly helped foster economic recovery, the outlook by many economists on Wall Street is that the economic condition of the country is still challenged. Employment conditions remain strained with the official unemployment rate at 9.8%. And when including those workers that are temporarily not looking for work and those taking part-time jobs just to make ends meet, the rate is 17.0%. In addition, many workers have had their hours significantly reduced

and/or have not seen a material increase in their paychecks for several years now.

The consumer credit market has tightened considerably since the peak in 2007 when seemingly anyone could get a loan or take equity out of a home. Nowadays, getting a new mortgage or home equity line of credit is difficult, even for highly qualified borrowers, and fewer people have access to home equity lines given the drop in property values. The days of using your home as an ATM machine are clearly over.

State and local governments are feeling the pinch as well. Revenues are down as unemployment and lower wages have led to less income tax collected and lower home

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values have led to lower property taxes. To make up for the shortfall, two outcomes are likely - decreasing expenditures by cutting programs, or increasing revenues via increased taxes. Either way, the consumer ultimately pays.

All of the above and other pressures (e.g., the massive hit most retirement accounts took in 2009) add up to consumers feeling less wealthy and more concerned about money in general. This lack of confidence and uncertainty about the future impacts the consumer psyche and ultimately people's discretionary spending. In economic conditions like these, people are more focused on saving money and controlling their debt. They eat at home more often, choose not to travel and spend less on discretionary items and entertainment activities – especially gaming.

As a result, the squeeze of our economic environment is still being felt by gaming operators – we have witnessed declines in spend per visit over the past several years in nearly all gaming markets. That said, some analysts recently have predicted that the tide has turned. Moody's issued a mildly optimistic report on December 22nd projecting that overall gaming revenue will grow 1-2% in 2011 (an upward revision to their last report). In addition, the Fed's forecast of GDP growth is around 2.5% for 2011. If the above

figures are to be believed, then the recovery in gaming – while smaller than the rate of recovery in the general economy – is encouraging when compared to the last several years.

The relevance of the above to Tribes with gaming operations is two-fold. Clearly, it impacts cash flows at gaming operations that ultimately fund Tribal government budgets. Secondly, it impacts any financing activities of the gaming operations. Banks and investors have the mindset that the revenue of any gaming business will continue to see pressure in the upcoming year. When your lenders require a forecast of your gaming business, they will likely discount revenue projections that rely on unreasonable growth expectations – growth exceeding 2% to 3% must have strong support. *Banks and investors will be focused on realistic expectations and marketing plans that keep customers coming back to maintain/defend current performance.* Further, if you are planning an expansion or property refresh, keep in mind that banks won't lend on the projected incremental cash flow – *banks and most investors will lend only against current cash flows, not those from any expansion.* In this environment, and until we see a material increase in discretionary spending by consumers, a forecast with flat to slight growth is to be expected – and when compared to the past few years, it may be a welcome outcome.

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