

# **Bond Case Briefs**

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## **As Casinos Falter, Mississippi Sells Debt Backed by Gambling Tax.**

Mississippi, the poorest U.S. state, is selling its first bonds backed by gambling taxes after its share of the winnings fell to the lowest since 1997, two casinos closed and its neighbors began looking at expanding into the business. Investors may still like the odds.

The \$200 million of bonds carry Standard & Poor's fifth-highest credit rating because the state's gaming revenue covers the debt service 10 times over, even though it's fallen almost 30 percent from the 2008 peak.

Potential competition from neighboring states, along with closures of a Harrah's casino in Tunica and another on the Gulf Coast, may lead the the state to dangle higher-than-average yields to draw buyers to the offering on Wednesday, said Burt Mulford at Eagle Asset Management.

"There has been a trend of decline in this sector in terms of state gaming revenue," said Mulford, a manager of tax-exempt funds for the St. Petersburg, Florida-based firm, which holds \$2.4 billion of municipal bonds. "It'll come at a very wide spread, at least initially, and because it's a name a lot of managers don't own, they're going to want to add it."

Mississippi joins states across the U.S. that have seen their share of gambling money dwindle as others expanded the industry to bring in cash after the recession. Last year, casino revenue dropped in 10 of the 12 biggest gambling states, including Mississippi, according to data compiled by the University of Nevada, Las Vegas.

With more than \$2 billion in revenue from 28 casinos, Mississippi's industry ranks sixth nationwide. That's drawn the attention of its neighbors: Alabama and Georgia pushed to legalize gambling in the last legislative session, said Jon Griffin, who tracks the issue for the National Conference of State Legislatures in Denver.

Alabama sought to establish a lottery and authorize casino gambling. Georgia lawmakers proposed a constitutional amendment to overturn its casino ban. Neither effort succeeded.

"Legalized gaming in Alabama could severely affect gaming revenue" because Mississippi's Gulf Coast casinos drew 2.5 million visitors from its neighbor in 2014, according to the offering statement. Gambling on the Mississippi River, a center of the state's casino industry, has already suffered from expanded options in Arkansas, with visitors from the state and Tennessee declining more than 50 percent in the past four years, the statement says.

### **Declining Revenue**

In addition to the two casinos that closed last year, the Isle of Capri Casino in Natchez will shutter next month, according to bond documents. Offsetting that, a new one is set to be built by the end of 2015 along the Gulf Coast with more than twice as many slot machines and seven times as many table games.

Mississippi's tax revenue from gambling fell in the 2014 budget year to about \$164 million, a 17-year low, from as much as \$230 million in 2008, according to offering documents. For the 12 months ended June 30, the collections totaled \$167 million.

The state's view on the gaming industry "is it's going to be stable for quite some time," Mark Valentine, director of the bond advisory division in Mississippi, said in an interview. "It's not like there's just one or two casinos."

Almost two-thirds of the 23 million visitors to Mississippi casinos in 2014 came from another state, according to bond documents. While that keeps cash in the pockets of its citizens, it also makes Mississippi more vulnerable to competition, said Howard Cure at Evercore Wealth Management.

## **Hurricane Katrina**

"If you attract people from all over the country, you're taxing tourists, which is always preferred from a political point of view," said Cure, head of municipal research in New York at Evercore, which oversees about \$6 billion. "But there's definitely a saturation point to this. I usually stay away from these type of pure gaming-secured-type debt instruments because of those risks."

Mississippi's gambling revenue is also vulnerable to bad weather. After Hurricane Katrina struck in 2005, the Hard Rock Casino didn't open until almost two years later, according to offering documents.

Proceeds will be used to repair and replace bridges. In particular, as much as \$18 million will go toward the Vicksburg Bridge, which spans the Mississippi River into Louisiana. It's the most-heavily traveled bridge in the state to be considered "structurally deficient," according to Mississippi's transportation department.

The state's 23-year history in the casino business has given it a leg up on states trying to capture its market share, said Mulford, the investor at Eagle Asset Management. He said that provides some cushion for the bonds, which mature from 2016 to 2035.

Twenty-year tax-exempt revenue bonds with a similar rating yield about 3.7 percent, compared with about 3 percent for top-rated debt, according to data compiled by Bloomberg.

"The trend is down," Mulford said. "But they have such excess coverage in their ability to cover debt service that they're in a good position to cover declining revenues."

## **Bloomberg News**

by Brian Chappatta

September 20, 2015 — 9:01 PM PDT Updated on September 21, 2015 — 6:28 AM PDT