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Nuveen, OppenheimerFunds Lose Gamble on Sonoma County Casino.

Nuveen Asset Management and OppenheimerFunds Inc., among the municipal-bond market's biggest high-yield fund managers, gambled on a casino 80 miles from San Francisco, and lost.

In 2013, two years after the money managers acquired more than \$50 million in bonds following a debt restructuring by the River Rock Casino's owners, the Dry Creek Rancheria Band of Pomo Indians, another tribe opened a gambling resort 30 miles (48 kilometers) closer to the city. River Rock suffered a 50 percent decline in revenue and defaulted in 2014.

Native American tribes, sovereign nations under federal law, have issued about \$4.5 billion of municipal bonds, more than half of it in the 2000s, according to data compiled by Bloomberg. About \$1.5 billion defaulted, including more than \$1 billion issued by the Mashantucket Western Pequot Tribe in Connecticut to finance the construction of the Foxwoods Casino.

Earlier this month, the tribe offered the firms 30 cents on the dollar for their debt plus an unspecified amount of cash. If bondholders agree to the terms, River Rock plans to borrow \$50 million from Benefit Street Partners, the credit arm of Providence Equity Partners, to pay off bondholders.

"If you rely on San Francisco traffic to feed your business and you have a bigger, newer casino that opens up halfway between you and where the population is, that will certainly hurt you," said Alex Bumazhny, a Fitch Ratings analyst.

As a sovereign, Native American governments can't file for bankruptcy. Chapter 9 of the U.S. Bankruptcy code is reserved for municipalities.

With bankruptcy unavailable, tribes typically restructure their obligations by issuing new debt to existing creditors in a debt exchange. In this case, River Rock found a new creditor, Benefit Street, and the tribe will use loans proceeds to pay off existing creditors, which isn't typical, said Bumazhny.

"It's unique to see a cash payment," said Bumazhny. "In these situations where there's stress, it's typically difficult to find a lender to lend quite a bit of money in a distressed situation."

Recovery Rates

A 2015 Fitch analysis of defaults by seven tribes involving corporate and municipal bonds found a par weighted recovery rate of 54 percent. Given the small sample size, the variance in recoveries is high.

John Miller, co-head of fixed income for Nuveen in Chicago, declined to comment. Meredith Richard, a spokeswoman for OppenheimerFunds, declined to comment.

OppenheimerFunds's \$5.6 billion Rochester High Yield Municipal Fund is the best-performing high-

yield open-end municipal fund this year, returning 9.35 percent, according to data compiled by Bloomberg. Nuveen's \$14.6 billion high-yield municipal bond fund is third-best, returning 8.2 percent.

David Fendrick, chief executive officer of the Geyserville, California-based River Rock Entertainment Authority, which issued the bonds, didn't respond to a request for comment. Chris Wright, chairman of the board of the Dry Creek Rancheria Band of Pomo Indians, didn't respond to a request for comment.

Terms of New York-based Benefit Street's loan to the tribe couldn't be determined. Benefit Street declined to comment, according to Kelsey Markovich, an outside spokeswoman.

Prior Exchange

The Dry Creek Rancheria Band of Pomo Indians, federally recognized in 1915, live on a 75-acre reservation in Sonoma County, California. The casino, which opened in 2002 and is located in the Alexander Valley, has 1,100 slot machines and 114 tables, according to its website.

In 2003, the River Rock Entertainment Authority issued \$200 million of 9.75 percent corporate notes maturing in 2011 to fund the construction of three parking garages, reservation and casino infrastructure improvements and to fund a settlement with a former developer.

The tribe was unable to refinance the notes before they matured and restructured them in a debt exchange.

In November 2011, River Rock offered existing noteholders the option to exchange old notes for either new 9 percent corporate notes due 2018, new 8 percent tax-exempt bonds due 2018 or a combination, according to Fitch.

Bondholders holding \$196.4 million tendered their securities and received \$190 million in new notes — \$97 million in 9 percent senior notes, \$93 million of 8 percent tax-exempt bonds and \$18.6 million in cash, according to Fitch.

The tribe filed a notice Aug. 12 saying that they plan on making a \$479,000 distribution to bondholders on Aug. 26. Since defaulting May 2014, bondholders have received \$17.3 million in distributions, according to the notice.

Listed Holdings

Nuveen reported holding \$41.5 million of the tax-exempt bonds in the first quarter of 2012, according to data compiled by Bloomberg. OppenheimerFunds reported holding \$29.6 million.

At the end the second quarter 2016, Nuveen reported holding \$32 million and OppenheimerFunds \$21.7 million.

While a 30 percent recovery rate is on the "low end," it seems reasonable given River Rock's new competition, Bumazhny said.

"It's not a bad thing for existing creditors, because obviously cash is a lot safer than new securities," he said.

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by Martin Z Braun

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