

# **Bond Case Briefs**

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## **The South's Casino Capital Is Selling Bonds in a Bet on Wholesome Fare.**

- **Water park, hotels would replace casino in Mississippi county**
- **County to sell about \$148 million of munis for project funding**

One of the U.S.'s top gambling destinations is issuing bonds next week in order to diminish its reliance on casinos.

Tunica County, Mississippi, is selling about \$148 million in urban renewal revenue bonds to convert the former Harrah's resort into a complex featuring a convention center, two hotels, a water theme park and a youth sports complex.

"This project is intended to create a family-oriented venue as a complement to the existing gaming and tourism industry in the region," according to offering documents for the deal, which is unrated and will be sold to qualified investors in minimum denominations of \$100,000.

The move by the county of almost 10,000 residents to expand its offerings underscores the peril of tying one's economy to gambling. As it says in preliminary offering documents, "In the early days of Mississippi gambling, there was little competition, with patrons trekking from Oklahoma, Missouri, Tennessee and elsewhere." But those days are over, the documents say, because those "and many other states" have their own casinos.

This deal has a lot of moving parts. The basic framework is as follows: The issuer of the bonds is Tunica County. Proceeds of the sale will be loaned to Tunica Hospitality & Entertainment LLC to acquire and redevelop the 2,220-acre property. The issuer will then lease the property from Tunica Hospitality & Entertainment for as long as 30 years, with lease payments covering debt service. The county is going to pay the developer annual fees, while also selling the developer the asset concurrently with the bond transaction.

The county says the resort will open in stages. CBRE Hotels, author of the feasibility study contained in the offering documents, projects revenue at \$35 million in 2022, \$104 million in 2025 and almost \$124 million in 2031. Annual debt service, meanwhile, is projected at \$11.2 million, with annual debt-service coverage at around three times.

### **Buyer's Risk**

And if the money doesn't pour in, in adequate amounts? That's the bond buyer's risk. The issuer doesn't have any obligation to levy special taxes to support the debt. As it says right on the cover of the memorandum, purchase of these bonds "involves a significant degree of investment risk."

The county, which is located on the Mississippi River in the northern part of the state, less than an hour by car southwest of Memphis, Tennessee, "is one of the top six destinations in the United States in terms of gambling revenues," according to offering documents.

But even that ranking may not be enough. Back in 2014, when Caesars Entertainment Corp.

shuttered the Harrah's casino in Tunica, the largest of 10 in the area at the time, a Caesars executive told Bloomberg News, "There's just too much supply in that market."

This was just seven years after the Federal Reserve Bank of St. Louis published an article headlined, "Tunica, Mississippi, Lays Big Bet on the Casino Industry," and referred to the "Tunica miracle."

The feasibility study describes the rise and fall of the casino market in the county.

In 1990, state lawmakers made gambling legal along the Gulf Coast and on major waterways, and in 1992, the first casino in the county opened. Nine others followed, and Tunica became "The South's Casino Capital."

#### Economic Improvement

The local economy does appear to have reaped some benefits. In 1989, it "ranked fourth in the United States in terms of the number of families below the poverty level," according to the CBRE study. It's currently 269th, out of more than 3100 counties, according to U.S. Census data.

But even with that improvement, the feasibility report is a study in dejection: "The Northern Mississippi casino market continues to decline, a trend that began in 2007 due to increased competition" and that accelerated with the 2007-2009 recession. Since 2010, the study says, gaming revenue has dropped at a 6.4% average annual rate in the county.

And yet, casinos still form the basis of the bond issuer's pitch to investors. The executive summary points out that "as of 2020, Tunica County has the highest level of tourism spending of any Mississippi county, and this property will benefit from its location and proximity to casinos."

Gamblers are by nature an optimistic bunch. Perhaps more wholesome fare and the convention business will succeed where casinos have not. That's the big bet the buyers of these bonds are making.

#### **Bloomberg Markets**

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