



### After Five Years Have Slots Revenues Hit the Jackpot?

In early August, the Rivers Casino celebrated its fifth anniversary. Before opening on August 9, 2009, the casino's owner at the time projected they would earn \$427.8 million in gross terminal revenues (GTR) in the first year of operations while the Pennsylvania Casino Gaming Board dialed that forecast back to \$362 million. As we wrote after the casino completed its first twelve months of operation, GTR for the Rivers fell well short of either of those figures—only \$222.3 million as of August 9, 2010 (*Policy Brief Volume 10, Number 43*). Revenues have grown since then, but have those initial lofty forecasts been reached?

In calendar year 2013 the Rivers Casino had the third best GTR of any of the ten regular casinos and two resort casinos in the state, trailing only Parx in Philadelphia and the Sands Bethlehem. After the slow start for its first full calendar year in 2010 (\$242 million), the Rivers' GTR rose steadily to \$275.6 million in 2011 to \$282.1 million in 2012 to \$284.3 million in 2013. While the steady growth has been encouraging for the casino, the pace of gains has slowed. The increase from 2010 to 2011 was a healthy 14 percent, but the following year the pickup was only 2.3 percent and then from 2012 to 2013 was less than one percent. For 2014, the Rivers is on pace to collect \$282.8 million which would be a decline of about one half of a percent from 2013's mark.

Of course there have been a couple of developments over the last five years that have impacted the entire gaming industry in Pennsylvania along with the Rivers. The first was the advent of table games, which debuted in July 2010 and offered gamblers an alternative to slot machines. In 2010, the Rivers installed 86 table games and realized roughly \$25.7 million over those first six months. The average number of Rivers slot machines fell from just under 3,000 in 2009 (the maximum allowed by the gaming law) to 2,920 in 2010. Presumably this was to accommodate the tables. But as of 2013 the Rivers operated an average of 2,940 slot machines and 114 table games.

Table game revenues for the Rivers have been steady since the first full calendar year of 2011 when they hit \$67.5 million. In 2012 they rose to \$69.7 million before falling to \$67.7 million in 2013. Projections for 2014, based on the first six months, come in at around \$69.6 million. The main difference with table games is that they are more labor intensive than slots as each table requires a dealer and perhaps more security to oversee many tables full of gamblers. Thus, while the revenues from table games are a welcome addition for the casino, they have also raised the cost of operations. Nonetheless total revenues from the two gaming streams—which reached \$352 million in 2013—has, after five years, still not reached the gaming Board's original revenue forecast and remain well below the Casino's own prediction. Indeed, the early revenue was so far under forecast, the Casino asked to delay its \$7.5 million payment to cover bond service for the Penguins' arena, a payment it agreed to in order to get the license to operate in Pittsburgh.

Another, and very important, development has been the legalization of slots gaming in neighboring Maryland and Ohio. The authorization of slots gaming in Maryland occurred first (2010) and provided competition for Pennsylvania casinos mainly to the east near Philadelphia as three casinos were opened in the Baltimore area. The Rivers should have not been affected much by the Maryland casinos as the closest facility to Pittsburgh is located just outside of Cumberland, opening in 2013.

Ohio slot parlors opened in 2012. Again as was the case in Maryland there wasn't a casino near enough to provide serious competition to the Rivers. The nearest facility was in Cleveland which cut into the revenues of the Presque Isle Casino in Erie (down 23 percent from 2010 to 2013) but did not pose much of a threat to the Rivers. However, a new casino along the Ohio-Pennsylvania border near Youngstown will be opening in September. How much competition the new Ohio casino will present to the Rivers remains to be seen, but it will provide another alternative to gamblers north and west of Pittsburgh and could possibly cut into revenues for the Rivers. Then too, many Ohio gamblers from areas near the new Youngstown casino will now have a much closer option, particularly those gamblers who are slot players only.

After five years the Rivers Casino in Pittsburgh has still yet to reach the original slots revenue projections. The advent of table games has helped them inch closer to their original revenue goal, but that has come with higher operating costs. In the last five years new casinos have debuted in neighboring states, as well as in western Pennsylvania, with at least one more hoping to open soon as an investment group is seeking authorization for a casino in Lawrence County. Media reports note how the Rivers has lived up to its community responsibility by providing funds for the hockey arena, paying their city and county host fees, and other community obligations. Keep in mind that these obligations were part of the deal for winning the Pittsburgh license in the first place and not just a benevolent gesture.

On the other side of the coin, we do not have any data on the possible effects of problem gambling in the region, but the lack of news likely means the impact has not been very large, as of yet anyway.

It will be interesting see how the Rivers Casino, and the industry overall, performs over the next five years.

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**Frank Gamrat, Ph.D., Sr. Research Associate**

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p>
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