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**Rivers Casino Credit Rating Drops to Dismal Low**

Investors in Rivers Casino are pouring more money into the underperforming facility. The investors include Rivers Casino Chairman Neil Bluhm and the Detroit fire and police pension funds that together are putting up \$108 million to pay for the table games license, retire existing debt and provide liquidity. While this may seem like welcome news to some, it is viewed as a strong negative by the bond rating agency Standard and Poor's (S&P).

Of course this is not the first time S&P has downgraded the company. Since the Rivers Casino opened in August 2009, its financial outlook has been downgraded by the ratings agency three times. In September Holdings Gaming Borrower LP (HGB), the umbrella company that owns the Rivers Casino, was down graded from a B to a B-. Then in November, after four months of dismal revenues at the Casino, that B- was reduced to CCC.

S&P further lowered the credit rating on HGB from CCC to "selective default" (SD) upon the announcement of the cash infusion. As the ratings agency explains in a June 2<sup>nd</sup> release, "the rating downgrade actions reflect our assessment that HGB's recent repayment of its first-loss loan at a discount to par is tantamount to a default given the distressed financial condition of the company and our previously stated concerns around HGB's ability to service its capital structure".

In easier to understand English, the revenues from Rivers Casino thus far have been so disappointing the facility will have difficulty meeting all its obligations. Besides debt service, these obligations include not only the 55 percent gaming tax levy and normal operating costs but the annual \$7.5 million contribution to the new hockey arena as well as millions in property and payroll preparation taxes. S&P is apparently convinced there will not be enough to meet debt service.

Furthermore, S&P notes that a second loan was converted to an unsecured note. This debt, a \$150 million second-lien term loan, was supported by a collateral pledge from the two pension funds. While S&P did not rate the second loan, they noted in the same report "this conversion of the second-lien debt as a restructuring of those obligations that is tantamount to a default. The loss of a collateral pledge, as well as a non cash accrual of interest, reduces the value of this capital..."

Obviously, financial experts who are keeping tabs on the Rivers Casino are less than enthusiastic not just about its performance to date, but also its future revenue streams and its ability to meet its obligations. S&P lowered the issue-level rating on another note from a CCC+ to a CCC.

While S&P has left the door open to any upward revisions to HGB's credit rating, or the rating on any individual debt holding, it does not appear it will happen any time soon. As we noted a previous *Policy Brief (Vol. 10. No. 29)*, casino earnings in Pennsylvania follow a pattern—increasing revenues from early spring through late summer followed by a decline through the end of the year. Through the first ten months of operation Rivers Casino's revenues are on pace to earn less than \$250 million—a far cry from their projections of \$427 million or the gaming board's projection of \$362 million.

Of the \$108 million pumped into the Casino \$16.5 million was used to purchase a table games license. The owners are betting that the addition of table games will jump start revenues for the beleaguered Casino. It's unlikely that the addition of table games will be enough to reverse its fortunes. After all even if table games bump up revenues they will increase costs as well since they are so labor intensive. The investors of HGB may just be throwing good money after bad in an attempt to keep the casino afloat until the economy dramatically improves. One thing is for sure, the credit markets will be judging the Casino's progress.

One must wonder how much more money investors will be willing to pour into the Casino if its revenue stream does not improve dramatically over the next year. Could it be that Harrisburg and the gambling industry over estimated the demand for casino gaming in western Pennsylvania when it approved two licenses in the same corner of the state?

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