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Casino Anniversary: A Disappointing Year

August 9th marked the one year anniversary of the Rivers Casino opening. While the Casino and its supporters claim the last year was a success, analysis of their gross terminal revenues (slot machine proceeds) and credit rating say it is not a time for celebration. To say that the first year was rocky is an understatement.

Gross terminal revenue (GTR) is the amount of money the casino earns pre-tax on slots play. Once the 55 percent in Pennsylvania imposed tax obligations on slots are met, the remainder revenue must cover operating costs and financial costs including the normal taxes businesses pay—for example, Pittsburgh’s payroll preparation tax, property taxes, etc. In addition to the taxes the Rivers is obligated to pay, they are contractually responsible for \$7.5 million annually to pay for the new hockey arena and other community benefits. During the first year, the Casino had difficulty making the arena payment and came to an agreement with the Sports and Exhibition Authority to make the payment in two installments—the first in October 2009 and the second in April 2010.

For the first year, the Rivers Casino produced \$222.3 million in GTR—an average of \$4.3 million per week. Keep in mind that casino management projected it would reach \$427.8 million in the first year. To reach management’s goal they would need to average \$8.2 million weekly. The Gaming Control Board had estimated the Casino would top \$362 million in its first year. The reality is that they only met half of management’s ambitious projection and only two-thirds of the Gaming Board’s. Only one casino in the state averages more than \$8 million per week—Philadelphia Park (now called Parx). In 2010, the Rivers’ monthly average of weekly GTR topped \$5 million only in March (\$5.05 million) and fell just short in July (\$4.95 million).

All this prompts the question: How has their nearest competitor fared since the Rivers’ opening? Since August 9, 2009 the Meadows’ Casino in Washington County has earned \$252.2 million in GTR—an average of \$4.85 million per week. Not only did the Meadows top the Pittsburgh casino GTR by \$30 million more over the last twelve months, but the Meadows also easily exceeded their projected GTR of \$236 million. The Rivers Casino has cut into Meadows’ revenues somewhat but not enough to cause them to come in under forecast.

It appears the Gaming Control Board's predictions of the gaming market in western Pennsylvania may have been overly optimistic, especially the potential in Pittsburgh. Meanwhile, some casinos in the eastern part of the state seem to be doing quite well. In 2010, the Parx Casino in Philadelphia is averaging more than \$8 million per week in GTR while Harrah's in Delaware is averaging more than \$6 million. Both Penn National (Harrisburg) and Sands (Bethlehem) are averaging over \$5 million per week in GTR.

The underperforming Rivers Casino has certainly caught the attention of credit ratings agencies. Standard and Poor's (S&P) has downgraded the credit rating of the Rivers' parent company Holdings Gaming Borrower LP (HGB) three times since the casino's opening. The facility started with a B rating that quickly fell to a B- within weeks of the opening and then to CCC. In June 2010 HGB was downgraded again to SD (selective default) shortly after Casino owners injected \$108 million to pay for the table games license (\$16.5 million), retire debt, and provide some liquidity. S&P expressed concern that the lower than expected revenues mean the facility will have difficulty in meeting all its obligations including its debt service.

Now there are claims that table games, which began operations on July 8th, will boost the fortunes of the beleaguered casino. While casino specific data for the first full month will not be available for a few weeks, it would be a stretch to believe that table games will make up the \$100 million or so per year that would be needed to lift Rivers Casino's after gaming tax revenues to the level anticipated when they opened last year. Table games have a lower tax rate of 14 percent (for the first two years and 12 percent thereafter), but they also have higher labor costs than slot machines.

The first year of operations for Rivers Casino has certainly not gone as planned or hoped for its owners and managers. Below expectation revenues and a sharp drop in credit rating have to be causing concern for all involved. Owners and debt holders have to be worrying that their investment is not going to pan out. County officials have to worry that host fees and tax revenues will fall short of projections. And taxpayers have to worry as they are the fallback for any arena payments the Casino cannot cover.

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