

# ***POLICY BRIEF***

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## **Pittsburgh Casino Not Off to a Good Start**

The Rivers Casino on Pittsburgh's North Shore just finished its first two full weeks of operations (August 10<sup>th</sup> through August 23rd). Wagering and revenue data are available to the public through the Gaming Control Board web site. During the grand opening week of August 10<sup>th</sup> through August 16<sup>th</sup>, players wagered \$59.7 million and the casino kept \$5.3 million of that as gross terminal revenues. During the second week wagering fell to \$55.8 million with the casino's take only \$4.66 million.

Out of gross revenue at least 55 percent goes to special gaming related taxes with the remainder used to cover operating and financial costs including the normal taxes businesses pay. Whatever is left after these expenditures is net profit for the casino.

Looked at on an average daily basis, the first two full weeks of operation brought in casino gross terminal revenue of \$0.71 million. And while that sounds like a lot of money, it must be viewed in the context of the owners' expectations. And by that gauge, the first two weeks—and especially the grand opening week—must be viewed as a disappointment for the owners. One would reasonably expect the grand opening week to show a really strong level of wagering as gamblers from around the region checked out the new slots venue.

The two week performance has to be disappointing for the owners because they are projecting gross revenues of \$427.8 million for the first year of operation. Meanwhile, the Gaming Board has estimated \$362.4 million gross revenues for the first year. To reach \$427.8 million the casino would have to average \$1.17 million per day for 365 days, a rate 65 percent higher than the average daily rate for the two first weeks of operation. If the two week average daily rate were to be sustained, the casino would bring in \$260 million during the first year—only 61 percent of their projected gross revenues. That would seriously hurt not only the casino's bottom line but also the projected tax revenues for the state and County. Pittsburgh is guaranteed \$10 million so it will not see a reduction.

The president of the casino was quoted as saying after the first full week, "we're satisfied with how we fared this week, particularly in light of the fact we haven't run any player promotions." This is very faint praise for a venture that has a lot riding on it—host fees for the City, helping pay for an arena and a community benefits agreement. When the

president of the casino says “we’re satisfied” with the first week’s performance, it is important to read between the lines. If things had gone as hoped, the comment would have been much more effusive—such as “we are very happy” or “we are ecstatic”.

Moreover, the insinuation that player traffic was slow because there had been no player promotions seems a little disingenuous in light of the deluge of local electronic and print media publicity regarding the grand opening of the casino. It was a dominant, headline story for several weeks leading up to the opening. Further, the casino engaged in an aggressive marketing campaign by sponsoring Pittsburgh Pirate telecasts and airing commercials on radio and television. They even have a sign on a moored barge at the Mon Warf which is visible while crossing the Fort Pitt Bridge. One can reasonably assume that most of the public, especially those with an interest in gambling, knew about the opening.

Nor can the Steelers’ preseason opener on August 13 be blamed for the poor first week. Even if revenue from casino wagering on Steelers opening day had been the same as the average of the other days of the first week, the daily average gross terminal revenue would have been only \$0.80 million—or \$293 million at a yearly rate, still far below both the owner’s and the Gaming Board forecasts. Nonetheless, with all the Pitt games and Steelers games coming in the fall, as well as the likely negative impact of the G-20 meeting on people’s willingness to try coming into the City, the casino can look forward to many weekend dates that will be decidedly subpar.

Then too, there is strong competition from the Meadows Casino just down the road in Washington County. During the Rivers Casino opening week, the Meadows Casino had wagers of more than \$71.5 million and gross terminal revenues of more than \$5.2 million. It’s worth noting that the Meadows’ has a higher payout rate than most other casinos. Their payout rate of 92.5 percent is more than a percentage point higher than that of the Rivers Casino at 91.1 percent.

The opening of the casino in Pittsburgh almost certainly siphoned some wagers from the Meadows Casino. During the eight weeks before the Rivers Casino’s grand opening, the Meadows Casino averaged \$85.2 million in wagers per week—an average daily gross terminal revenue of \$0.93 million. Their first week of head-to-head competition saw a drop of \$14 million in play (a 16.4 percent decline) at the Meadows compared to the previous two month average. However, during the second week of the Rivers Casino operations, the Meadows wagering increased to \$73.9 million and the casino’s take was \$5.4 million, a 17 percent decline from the period just preceding the Rivers Casino opening. Still, for the two weeks, Meadows gross terminal revenues averaged \$0.76 million compared to \$0.71 million at the Rivers Casino.

Undoubtedly, the Meadows management expected some loss of business. If the August 10-23 period is an indication of future performance, the Meadows’ gross terminal revenues will be \$276 million, about \$60 million below the annual pace they were setting in the prior two months—but still far better than the owners’ forecast of \$236 million.

At the same time, if the annual gross revenues at the Rivers Casino falls short of the owners' \$427.8 million projection to the tune of as much as \$168 million suggested as a possibility by the first two weeks' gross terminal revenue, the casino bottom line will incur a huge hit relative to expectations. Consider the impact of a first year gross of only \$260 million to \$270 million. Out of this they must pay \$147.8 million in various gaming related taxes set by the 2004 gambling law, including an extra \$4.8 million to the City over and above the 2 percent municipal host fee in order to make the statutorily required \$10 million minimum payment. Then there is the \$7.5 million payment they are obligated to make to the new Penguins arena. All told, that would leave the casino owners with about \$105 to \$110 million to pay all expenses instead of the \$184 million or so if they were to achieve the forecast of \$427.8 million. Depending on operations and debt service costs, this large gap between actual versus projected revenue could spell the difference between making a good return on investment and a very poor one.

Of course it's early yet and a lot can happen over the next twelve months. Maybe things will pick up substantially at the casino. But for that to happen there will almost certainly have to be a major upturn in the region's economy. Then too, a lot will depend on how successful the Meadows and West Virginia's gambling venues are in mounting effective competitive strategies. Still, the first two week's numbers cannot be reassuring in view of the obstacles to gaining traction that will be in place for the next several months.

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