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### **Is Pittsburgh's Casino Being a Good Citizen?**

When Pittsburgh's casino license was transferred from Don Barden to Neil Bluhm's group, the latter agreed, as a condition of the transfer, to honor all obligations associated with that license—which includes an annual \$7.5 million installment to help pay the debt service on the new hockey arena bonds. The original agreement called for the first payment to be made this October. Casino officials balked at making this payment earlier in the summer and while negotiations with the Sports and Exhibition Authority (SEA) continue, this deadline now looms very close. If the casino doesn't honor this obligation, state taxpayers will be on the hook.

Through an arrangement of leases and subleases, the Commonwealth of Pennsylvania—i.e. the taxpayer—is responsible for paying the debt for building the new Penguins' palace if the casino is unable. As we noted in a previous *Policy Brief* (Vol. 8, No. 54), the bond underwriters were not very confident in the casino's ability to meet their share of the debt payments. Thus, in order to secure more reasonable interest rates the State stepped up to serve as a backstop. The SEA leased the arena to the Commonwealth who then subleased the arena back to the SEA. The bonds were issued as Commonwealth Lease Revenue Bonds and the taxpayers of Pennsylvania would be liable if the casino couldn't pay its share. But here's the catch: any state money has to be appropriated by the Legislature. This is an interesting situation considering the State has yet to adopt a full budget and is facing falling revenues. It seems highly unlikely the Legislature will approve a gubernatorial request to cover the casino's first payment since they were not consulted about the byzantine arrangement that puts taxpayers on the hook.

One of the reasons for the casino's objection to writing the check is that it just opened in August and hasn't had time to earn the money to make the payment. They also argue they need assurances that if other taxes are raised the casino's obligation would be reduced and that if another casino is permitted in the Pittsburgh area it should have to pay a share of the arena bonds. All that is immaterial of course: they are legally obligated to make the payment.

While not legally relevant, the casino's earnings to date are a real issue. During the first five full weeks of operation, the casino has averaged \$4.5 million a week in gross terminal revenues. This is well below their projections of \$8.2 million in weekly revenues. The owners cannot be happy with the revenue to date. And chances are

revenues will not be getting appreciably better anytime soon as fall arrives—a season of slower play at Pennsylvania slots parlors. Since they were unable to open until August, they missed much of the peak summer season.

Of the \$24.2 million in gross terminal revenues generated since the Rivers Casino’s grand opening 55 percent must be paid in special gaming taxes. That leaves roughly \$11 million to cover maintenance and operations expenses, debt service and local taxes such as the payroll preparation tax and eventually property taxes or payments in lieu of taxes. Obviously using \$7.5 million of post tax revenue would account for most their earnings to date. Unless the casino’s weekly revenues pick up dramatically in the last two weeks of September, they may be forced to use reserve funds, ask for owners to contribute additional funds or borrow the money to make the October payment.

Compounding the problem for casino management, they are now getting pressure from state legislators. As a proposal to expand gambling to include table games is being discussed in the Legislature, a local senator has mentioned the possibility of withholding a table games license from the Rivers Casino until they fulfill their community commitments.

With the payment due date fast approaching, there is much hand wringing about who is going to pay up. The taxpayers should not be saddled with this problem, but that is the situation they find themselves in thanks to the complicated lease-sublease arrangement of the Penguins new arena—an agreement reached by the SEA Board and the Governor. When he was awarded the Pittsburgh slots license Mr. Bluhm promised to be a good citizen. Making the October payment would be a good first step in keeping that promise.

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