Financial Impact of the Rivers Casino on Pittsburgh

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Casinos were introduced to the Pittsburgh region because of the historical positive impact on the state economies. Gambling, though common-place, was illegal in Pennsylvania until 1972 when the first lottery was enacted. The success of the lottery lead to increased consideration for expanding gambling in the state, leading Pittsburgh receiving a Category 2 License for a Stand-Alone Casino. The financial impact of a casino operation in the Pittsburgh region, is research and evaluated.

INTRODUCTION

On August 9, 2009 the Rivers Casino opened in Pittsburgh on the North Shore. The Rivers has an unbeatable location, constructed amidst Heinz Field, PNC Park, the Carnegie Science Center, and offers a view of the city’s skyline and Mt. Washington. Recently, the Rivers Casino just celebrated its eighth anniversary. The projected economic impact after nine months of business was $89,127,037. Additionally, the Rivers Casino created 458 jobs in the Pittsburgh area. Aside from creating jobs, the Rivers Casino added to the Pittsburgh community by contributing over $3,350,000 to non-profit organizations, projects, and events. The primary charitable and philanthropic contributions are made to community development, public health and service, and adult education/workforce development. The Rivers Casino also initiated programs like Rivers Community Champions to do monthly service projects throughout Pittsburgh neighborhoods. In 2016 Pittsburgh’s mayor, Bill Peduto struck a deal with Three Rivers Casino allowing a yearly flow of $10 million into city accounts. This means that the city debt would decrease from 16.4% to 9.7%. Along with the decrease in debt, the mayor said this money can help his administration exceed the state-mandated pension fund by $203 million. The deal with Three Rivers Casino would help the city in its long-term fiscal stability. In addition, table games were introduced to Rivers Casino in July of 2010. Since then, many other programs have been introduced, such as rewards programs. These programs are under the Rush Rewards Player Club, and consist of free food, free slot play, and some free monthly gifts. This has helped to keep loyal members participating in casino functions.
EXECUTIVE MANAGEMENT AND THEIR IMPACT

The Rivers Casino was expected to produce enormous things for Pittsburgh. The c-suite and Upper level management had a colorful past in the casino and gaming industry, and bring a lot of color to the Rivers Casino grand opening in Pittsburgh. It is important to recognize their backgrounds of the Rivers Casino’s executives. The CEO, Greg Carlin, has been an active member in the gaming industry for about eighteen years. He is a founder and the Chief Executive Officer (CEO) of Rush Street Gaming, LLC and is also the CEO of other casinos such as the Sugarhouse Casino in Philadelphia and the Rivers Casino in Des Moines (Our Story- Rush Street, n.d.). Additionally, the Chief Operating Officer (COO), David Paten, brings over 8 years of experience to the table. Mr. Paten currently oversees operations for Rush Street Gaming, LLC in Pittsburgh, Philadelphia, Mississippi, and Illinois. Previously, he was a part of executive management in the Flamingo Casino and Hotel, Rio All Suite Hotel and Casino, and Harrah’s East Chicago Casino. General Manager Todd Moyer, to help the opening of the Rivers Casino as he started his career working with the Trump Taj Mahal in the 1990’s (Rivers Casino: Pennsylvania, 2010). From there he successfully operated and oversaw various other casinos before taking on the task of the Rivers Casino in Pittsburgh. The backgrounds of executive management made them perfect candidates to develop the Rivers Casino operation. Since executives and other upper management had this colorful experience, many looked to the Rush Street Gaming, LLC and their previous projects and the success of those projects. One of the most successful casinos they founded was the Riverwalk Casino Hotel in Mississippi. This project happened to finish ahead of schedule, by two months (Rivers Casino: Pennsylvania, 2010). Additionally, the casino opened on budget which is a key concern for the Rivers Casino project. Another successful project of theirs is the Fallsview Casino Resort in Niagara and it is the highest grossing casino in Ontario (Rivers Casino: Pennsylvania, 2010). Introduction Gambling in Pittsburgh goes back as far as the recorded history of the city. The mill workers often gambled to pass time between shifts or earn some extra money (Gambling, 2017). Because of its widespread nature, corruption became rampant in gambling across the city. In attempt to curtail illegal gambling, Pittsburgh created its first lottery in 1972 (Gambling, 2017). However, the city would not see legalized casino gaming until 32 years later. In 2004, the passage of the Pennsylvania Racehorse Development and Gaming Act (HB 2330) allowed “suitable” facilities to obtain slot machine licenses (Ruddock, 2015). In 2010, Pennsylvania further expanded gambling with passage of SB 711 which legalized table games (Ruddock, 2015). Under these bills, Pennsylvania was granted five Category 2 Stand-Alone Casino Licenses, one of which was granted to Pittsburgh which led to the construction of the city’s first official casino: The Rivers Casino (Ruddock, 2017).

CONSTRUCTION OF THE RIVERS CASINO

After more than 30 years, Pittsburgh constructed its first casino on the city’s North Shore. In 2006, Don Barden’s “The Majestic Star Casino, LLC” received the license to open the casino and started construction in late 2007 (Zhuang, 2010). However, construction was halted when Barden “defaulted on a $200 million bridge loan in July [2008] and failed to pay contractors” (Pittsburgh’s, 2008). It would take over a half a year to find some new owner for the city’s casino. “On July 16, Walton Street Capital, LLC and High Pitt Gaming, LP announced that its joint venture, Holdings Acquisition Co., had reached agreement to purchase 75% of the Pittsburgh Majestic Star Casino from PITG Gaming” (Pittsburgh’s, 2008). Finally, the casino project had reached new ownership and was back on track to be completed. This purchase was made official in August 2007 when “the Pennsylvania Gaming Control Board unanimously approved the transfer of the casino license to the new investor group, led by Chicago businessman Neil Bluhm” (Pittsburgh’s, 2008). Debate: Just because Pittsburgh was granted a license to open its own casino by the state legislature, does not mean the venture was met with open arms. Some of the most widely-voiced concerns over the construction of the new casino included “massive traffic jams; rampant crime; the size of the parking garage marred the city’s riverfront; and lights from the casino disrupting the science center’s observatory” (Belko, 2014). These concerns were legitimate, as downtown
Pittsburgh has its own history of traffic problems, and is widely known for having a beautiful view along its riverfront. Anytime a new casino is opened, it does usually lead to an increase in crime, as it consolidates large amounts of money in a centralized location and increase in population, which facilitates attempted crime. However, it does not seem that the concerns over the construction of the Rivers have come to fruition. As explained by Carnegie Science Center’s Co-Director, Ann Metzger, “I have not seen any impact...to [the casino] being next door to us. Our visitors find their way as usual” (Belko, 2014). In fact, the casino has been a plus to the riverfront, as its owners have led construction efforts to build new roads, improve parking facilities, and buy up parking spaces during large events (Belko, 2014). Furthermore, Pittsburgh police have not reported a rise in criminal activity to levels predicted by opponents of the Rivers (Belko, 2014). The Rivers Casino has been an important development tool in downtown Pittsburgh, and has improved the parts of the city surrounding it.

PROJECTED GAMES

Table games are an important component of the Rivers Casino. They were looked forward to by anticipated gamblers in the Pittsburgh area and bring in a new detention to the common slot machines and scratch offs that are popular today. The Rivers Casino was expected to include a wide variety of table games including: Blackjack, Poker, Craps, Roulette, Three Card Poker, Texas Hold'em Bonus, Pai Gow Poker, Baccarat, and Big 6. Blackjack was projected to have the most tables with 42 stations followed by Poker tables having 24 stations (Rivers Casino: Pennsylvania, 2010). There were also various considerations in mind when coordinating table game operations. Forty-two percent of table games were purchased from women, minority, and local businesses totaling to $143 million (Rivers Casino: Pennsylvania, 2010). Additionally, slot machines were also a key component in planning. They were expected to grow the market of gambling in Pittsburgh by attracting younger and older gamblers who are unfamiliar with traditional table games.

PROJECTED JOB CREATION

The Rivers Casino took big steps in creating various jobs related to the operation of the Rivers Casino. There is much speculation between proponents and opponents of gambling. Proponents suggest that the creation of a casino helps revive depressed economic areas and aids in the creation of jobs. Opponents propose that the addition of casinos leaves the affected areas worse off due to an increase in drugs and crime. Additionally, potential jobs are taken away from the area as many higher levels are transferred in from other areas. The Rivers Casino was projected to create 458 jobs in the Pittsburgh area (Rivers Casino: Pennsylvania, 2010). Positions include table game managers, security, credit supervisors, and dealers. To fill these positions various job fairs were held, to promote the Rivers Casino. Additionally, 80 new jobs were created in construction of the project (Rivers Casino: Pennsylvania, 2010).

FINANCIAL PROJECTIONS

Historically, projects associated with River Street Gaming, LLC exceeded first year projections. The Rivers Casino projected that in their first year, revenue would total $428 million. The Pennsylvania Gaming Control Board projected revenue of $328 million. Because of this, the annual tax revenue attributed to property tax, economic recovery, and the racehorse industry is around $330 million. Additionally, revenue from the Rivers Casino has contributed to $7.5 million to the new Penguins Hockey arena each year for 30 years (Rivers Casino Revenues Up, n.d). To aid in community development, the Rivers Casino contributes $1.5 million for 3 years to both the Business District development and housing for the Northside Leadership Conference. The Rivers Casino also contributes $3 million for the Hill District (Montari, 2009). Opening, Rivers Casino was not an immediate financial success. In fact, its performance fell well below initial projections. “Rivers was projected to generate $427.8 million in slot
machine gross terminal revenue in its first year but has yet to come close to that number. It produced $284.3 million in such revenue in 2013” (Belko, 2014). It is unclear why the casino has not been able to generate projected revenues, but a likely link between the financial recession and the construction of a business solely meant to take people’s money.

Nonetheless, the Rivers “suffered two bond downgrades in its first year of operation amid concerns that it was not generating enough cash to meet debt obligations, including an annual $7.5 million contribution for the CONSOL Energy Center” (Belko, 2014). It seemed that the Rivers had made promises to the community that it could not keep, and could not accurately forecast its own revenue streams. However, after nearly $108 million in investment revenue and the installment of table games, the casino started faring much more profitably. “The casino now is the third top money maker in the state… [generating] $351.9 million in combined slots and table game revenue…that translated into $161.9 million in tax revenue” (Belko, 2014). The casino turned around its operations, and quickly became one of the most profitable businesses in the area. As such, the Rivers Casino has been able to give back quite generously to its neighborhood. In its first five years, the casino estimated that it paid out $744.7 in state and local taxes and an additional $48.6 million in contributions, including $37.5 million for CONSOL Energy Center, $3 million each to the Hill District and the Northside Leadership Conference, and $531,112 in donations to community groups. It also employs about 1,800 people (Belko, 2014). The casino has generated substantial revenues for both Pittsburgh and the greater Commonwealth of Pennsylvania, and has donated handsomely to its surrounding communities. In turn, these beneficiaries of the Rivers’ profits have had little to say against Pittsburgh’s top revenue generator, and it seems that any old debate topics have been soundly quenched.

TREND ANALYSIS

When the Rivers Casino first opened its doors, it clearly struggled to live up to the expectations of its owners, the city of Pittsburgh, and the Pennsylvania Gaming Control Board. It fell short in many aspects despite having the maximum number of allowed slot machines upon opening for business (Belko, 2012). Despite these upfront struggles, the Rivers Casino continued operations with the hope of becoming more profitable in the future. In 2012, one of the owners of the Rivers Casino, Ira Schulman, believed the casino was an awful investment because it had lost $200 million in equity since it opened in 2009 (Belko, 2012). However, that all changed with the larger scale installation of table games which lead toward much more prosperity for the Rivers Casino and a general upward trend in revenues in comparison. As the Rivers Casino grew in popularity, its revenues became dramatically larger and this can be seen in the Pennsylvania Gaming Control Board’s annual report. All of the organizations which originally feared the impact of the Rivers Casino quieted their complaints as they began to reap the benefits associated with all of the business that the casino was bringing to area and all of the funds that it in turned donated back to the community (Cato, 2014). The annual reports created by the Pennsylvania Gaming Control Board account for the fiscal year from July until June of the following year. Since 2009, the Pennsylvania Gaming Control Board has been reporting on the Rivers Casino. In its first year of being opened, the Rivers Casino generated almost $176,400,000 worth of taxable revenue (2009-2010 Annual Report). By 2013, the Rivers Casino had approximately $284,300,000 in reported revenue (Belko, 2014). The Rivers Casino used three primary gambling instruments to generate revenue. They used non-banking tables, banking tables, and slot machines. Over the past six years, the slot machines have generated the most revenue for the Rivers Casino. However, since 2012 the revenues generated by slot machines has decreased by almost $20 million. Over the past six years, non-banking table games have relatively consistently generated approximately $6.7 million in gross revenue per fiscal year and banking tables have pretty consistently generated about $63 million in gross revenue per fiscal year. However, even with the relative consistency in gross revenues produced by banking tables, in the 2016-2017 fiscal year, the gross revenues did not reach $60 million.
In recent years, there have been decreases in the Rivers Casino’s gross slot machine revenue and these decreases appeared to be out of the ordinary compared to other casinos in the state of Pennsylvania. This is because throughout Pennsylvania there was an increase in slot machine revenue, especially during the 2015-2016 fiscal year (Lott, 2016). By the time the 2015-2016 fiscal year ended, there was a 2.3% statewide increase in slot machine revenue (Lott, 2016). However, the Rivers Casino experienced a 2.1% decrease during the 2015-2016 fiscal year and a 2.5% decrease the following year during the 2016-2017 fiscal year. Yet, even with these decreases in slot machine revenue, the Rivers Casino managed to be in the third largest revenue generating casino in Pennsylvania (Lott, 2017). Based on the annual reports from the Pennsylvania Gaming Control Board for the past six fiscal years, the Rivers Casino has been gradually decreasing its gross revenues by both table games and slot machines. Though gross revenues from the gambling habits of the Rivers Casino’s customers have remained above $330 million, it is impossible to realize the steady decrease that has taken place since 2013 when the gross revenues were over $350 million.

Overall, the Rivers Casino has been experiencing a downward trend in gross revenues created by gambling over the past four fiscal years. To combat this trend and hopefully increase future revenues, the casino has been looking investigating opportunities to enhance its business model and grow.

TAX

As of 2015, Rivers Casino had paid over 1.6 billion dollars in taxes from slot machines and table games combined since opening in 2009 (Cato, 2014). That money has contributed to many different foundations a projects in the Pittsburgh area. 476.4 million dollars of the 1.6 billion was paid in Pennsylvania state tax (Cato, 2014). In February 2016, a new tax was proposed by Governor Wolf on promotional credit marketing programs (Dotty, 2016). This is an important casino tool that incentivizes customers to increase their real-money wagering and broadens the economic environment (Dotty, 2016). In Pennsylvania, there is a 55% effective tax rate on the gaming industry. This money is frequently used for economic development, tourism, property tax relief, the horse racing industry, and towards the local government (Brainerd, 2015). The breakdown is as follows: state tax, 34%; local share assessment, 4% or $10 million, economic development and tourism fund, 5%; and Pennsylvania Race Horse Development Fund, 12% (Brainerd, 2015). Rivers Casino has consistently given $10 million per year to the city of Pittsburgh as part of the taxes generated from slot machine revenue (Belko, 2016). Rivers Casino filed a complaint with the state Supreme Court to end the collection of the municipal portion because it “imposes unequal rates of taxation” (Belko, 2016). Mayor Peduto stated that Rivers Casino knew about this funding commitment to the city prior to applying for their licence (Belko, 2016). The city allowed the casino to open strictly because of the projected funding. In November 2016, officials came together and worked to
ensure that $10 million in annual local share payments will flow into city accounts (Bauder, 2016). This was expected to continue uninterrupted through 2017 (Bauder, 2016). Peduto promised to lead the city of Pittsburgh out of state fiscal oversight by 2019, and in five years debt service would drop to 9.7 percent (Bauder, 2016). Peduto also intends to use the money for pension funding, which was praised by controller Michael Lamb (Bauder, 2016). A long term goal for this funding is to set up a system similar to the UPMC-funded program “Pittsburgh Promise,” which provides millions of dollars each year in scholarship money for Pittsburgh Public School students (Bauder, 2016). There has not been any recent information published on whether or not this funding will continue past 2017.

DONATIONS

The Three Rivers Casino donates large sums of its earnings to over thirty-six different charitable organizations every year. Since 2009, table game and slot machines has brought in about $1.6 billion, which part of what was collected was contributed to donations (Cato, 2014). Their yearly contributions have totaled to about $10 million. The most popular contributions made by the Three Rivers Casino includes: Mario Lemieux Foundation, Consol Energy Center, Riverlife, and the Northside Leadership Conference (Rivers Casino License Renewal, 2011).

Mario Lemieux Foundation and Pittsburgh Penguins Foundation

Each year the Mario Lemieux Foundation and the Pittsburgh Penguins Foundation pairs up with Three Rivers Casino in an annual Pittsburgh Penguins’ Alumni Association’s Charity Poker Tournament. Their efforts are to raise money for the philanthropies of the Mario Lemieux Foundation and the Cystic Fibrosis Foundation. The tournament has a $200 entry fee which then gives the players an unlimited $25 buy of chips. A major draw to join the tournament is that the entire Pittsburgh Penguins’ roster takes part in the event. Also, winners of the tournament are given Penguins memorabilia which includes signed jerseys, sticks, pucks, photos, and tickets (Romano, 2014). The tournament has raised over $115,000 yearly towards the Cystic Fibrosis Foundation which helps the patients affected by this rare disease (Romano, 2014). The foundation helps patients by working to find a cure for the disease through drug development and giving specialized treatments to patients with different strands of the disease. It continues to make great strides towards finding a cure and increasing the average lifespan of their patients. Since the start of the foundation in 1955, it has increased the average lifespan of patients to which is now more than half its population is eighteen years or older (About Cystic Fibrosis, 2017). With the proceeds raised by the tournament more patients can benefit from better or new treatments. The Mario Lemieux Foundation raises money in pursuit to find a cure for cancer, specifically for kids. They dedicated this money to cancer research, patient care, and Austin’s Playrooms. Austin’s Playrooms were created by Mario’s wife Nathalie because as they had a son born premature there was not a comfortable place for the family to begin the bonding process with their baby. Since then Nathalie implemented this to the foundation and there are now thirty-three Austin’s Playrooms in area hospitals (About the Foundation, 2017). Along with cancer research and Austin’s Playrooms the foundation uses the money raised from the tournament to help fund its annual Fantasy Hockey Camp.

Consol Energy Center

Three Rivers Casino took part in an agreement with the city of Pittsburgh that it will pay $7.5 million each year over the course of thirty years for Consol Energy Center, now known as PPG Paints Arena. By the end of the thirty years the Three Rivers Casino will have saved taxpayers $225 million (Romano, 2014). The casino was able to reach its October, 2014 contribution through a total revenue of $31 million. These funds from August, 2014 came in with $24.8 million from slot machines and $6.2 million from table games. To date the Three Rivers Casino has contributed a total of $67.5 million, which has greatly helped the taxpayers of Pittsburgh with the expenses of the arena (Rivers Casino, 2017).
**Riverlife**

Riverlife is known as a group that focuses on Pittsburgh’s riverfront development. Initially this group was worried about having the Three Rivers Casino added to the North Shore. Before the casino opened the group thought it was going to create problems with crime around the riverfront. Instead, the Three Rivers Casino has turned itself to be a model of the riverfront community. The casino was built to include a design that pleased the riverfront with an amphitheater along it, glass-front building and beautiful landscaping. To help Riverlife keep up with a beautiful riverfront, the Three Rivers Casino holds an annual Party at the Pier (Cato, 2014).

**Northside Leadership Conference**

This organization is made up of fourteen different neighborhoods, each with its own characteristics. The Northside Leadership Conference was made up of seven business lines consisting of real estate development and project management, business development, workforce and employer services, public realm, public safety, health and wellness, and communications and advocacy. Each of these business lines are used in a way of addressing concerns within the Northside community. By addressing these concerns, the community promotes the Northside’s vitality, quality of life, and image (About Us, 2017). To help with these efforts the Three Rivers Casino contributed $1 million annually for three years (Rivers Casino License Renewal, 2011).

**FUTURE PLANS**

Since 2006 when The Rivers Casino was built, part of the plan was to have a hotel as part of the casino complex. The Rivers Casino, as of January 2017, planning on building hotel. It will be located on the east side of the North Shore, still attached to the hotel. The exact spot will be the vacant parking lot that is located by the Carnegie Science Center. This hotel would be a $50 million dollar hotel, and has already been approved, even by the Carnegie Science Center. With this hotel plan starting to come to life, more business for the casino should come about from those who are not in the immediate Pittsburgh area. Along with this, it will look attractive to casino regulars because hotels are becoming more common for casinos to have. The hotel is said to take around a year to build, give or take a few months. Since it is expected to cost around $51.5 million dollars, it will have various luxury hotel features that will be included. Some of these features of the hotel will include a lobby bar, spa, and restaurant that will all be inside of it (Ruddock, S). This will all be attached to the casino, along with the seven-story hotel. The initial plans state that the hotel will include over 200 guest-rooms. With regards to the specific design of the hotel, glass walls are supposed to be placed on the first few floors so. The design of the hotel has been finished since April of 2016, but they have just been waiting to break ground on the project. In the press release, Rush Street Gaming stated, “The contemporary hotel design uses expansive windows on every level to maximize riverfront views and to integrate distinctively, yet seamlessly, into existing North Shore Architecture. Rivers Casino Hotel will also include a fitness center, new restaurant, and lobby bar. A spa will be added to the existing casino facility to accommodate hotel and casino guests” (Ruddock, S). By creating around 1,400 construction jobs during the project, the Pittsburgh job market could be helped by the expansion. Along with this, over 100 jobs will be permanent positions for The Rivers Casino. With regards to the revenue that the new hotel will bring in, $4.7 million is expected in county hotel and sales tax revenue (Belko, M). This number is expected to come in within around five years. For gaming tax revenue, around $29.2 million is expected as well within the first five years that the new hotel will be open (Belko, M). Overall, it is supposed to increase the state and local tax revenue by an average of 6%. This would mean that annually, an additional $10.5 million would be added in tax revenue, just because of a new hotel.

**The Rivers**

Casino has been continuously planning to add one new game each month. It was not specified if this game was a slot machine or table game, but they have a continuous goal to try to add at least one each
month (Rivers Casino Pittsburgh Help). This is in addition to the existing 2,900 slot machines and 100 table games that the casino already offer. Other casinos in the Pittsburgh area, such as The Meadows Casino, have had expansion plans going on as well. The Rivers Casino will have to continue their plans to keep up with the growing market of casinos in the region. Even though the two casinos are just an hour apart, The Meadows is the main competitor for The Rivers Casino. The Meadows already has a hotel, and is planning on building an event center, since 2016.

REFERENCES


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