

Atlantic City Casinos Brace for Smoking Ban

New York (Dow Jones) – A proposed smoking ban for Atlantic City casinos could burn the industry.

The Atlantic City Council is expected to vote Wednesday on the ban, a move that has cost other casino markets a 10% to 20% hit to profits because smokers will go elsewhere to gamble.

Atlantic City casinos have been exempt to existing New Jersey law that snuffed out smoking in public places. Casino operators argue a ban places them at a competitive disadvantage as gamblers opt to bet and puff in rival markets such as Pennsylvania and Connecticut.

„Obviously we’re following the issue very closely,“ said Rob Stillwell, a spokesman for Boyd Gaming Corp. (BYD), which co-owns the Borgata casino hotel in Atlantic City with MGM Mirage (MGM).

„We have to get to the point where we understand the guidelines of the smoking ban. Ideally, we like to have (smoking) remain“ an option, he said.

Indeed, neighboring Pennsylvania is poised to be a formidable competitor after the state legalized casino-style gambling in 2004, authorizing up to 61,000 slot machines at 14 sites. Philadelphia bans public smoking, but other Pennsylvania cities don’t. Gamblers also have smoker-friendly and tribal-operated casinos in Connecticut.

As such, analysts say the casino industry in Atlantic City, which raked in about USD 5 billion in 2006, could take a financial hit of 10% or more if the anti-smoking ordinance is approved.

„Clearly, the implications for the casino industry are negative,“ said Michael Pollock, managing director of Spectrum Gaming Group, a gaming consultant.

„There are more smokers in the general (gambling) population than there are at large,“ he said. „If smokers have options that are viable, they will pursue those options.“

Atlantic City, home to 12 casinos, would be the first major gambling market in the U.S. to ban smoking on casino floors. Delaware imposed a smoking ban in 2003 and suffered a financial sting to the tune of 20% in that first year, said Adam Steinberg, a gaming analyst at Morgan Joseph.

„I absolutely think it could impact their earnings,“ he said of Atlantic City casino operators.

Trump Entertainment Resorts Inc. (TRMP) could feel a pinch as all of its properties are based there, not in Las Vegas. Trump, which operates Trump Taj Mahal Casino Resort, Trump Plaza Hotel and Casino and Trump Marina Hotel Casino, referred all questions to the Casino Association of New Jersey, which also declined to comment.

The casino industry is likely to challenge the ban in courts and stall for a delay. Casino operators have approached council members with compromise plans, such as making half the casino floors smoke-free. Dealers would have to volunteer to work in the smoking section.

„I think from our vantage point phasing things over a reasonable period of time certainly is a consideration,“ said Joe Kelly, president of the Atlantic City Regional Mainland Chamber of Commerce.

He said the industry didn't assume they had a year to prepare for a smoking ban when the state implemented the law last April.

„For every person that walks through a council member’s door to say thank you for the health (benefits), there is the potential for a person to walk through door and say I just lost my job,“ Kelly said.

But Atlantic City Councilman G. Bruce Ward said time has likely run out.

„I sympathize with the industry, however, I find fault with their own negligence...they should have been building porches...verandas,“ to create a convenient smoking exit for customers.

Councilman Ward, citing record revenue in Atlantic City last year, said the argument that Atlantic City would move into an „ice age as a result of a smoke-free workplace just doesn’t cut it.“

Atlantic City’s non-gaming attractions such as restaurants and shopping give it a competitive advantage over the Philadelphia and Connecticut markets, Ward said.

If passed, the smoking ban will take effect on April 15.

Spectrum’s Pollock said to mitigate the negative effects, casinos could seek to attract more adults that don’t like being around smoking. „It requires affirmative marketing,“ said.

Pollock also said casinos are caught between a rock and a hard place given they have to walk a fine line in balancing the health concerns of their workers and their bottom lines. „A legal challenge represents at best a pyrrhic victory,“ he said. To come „down on the side of smoking...no one wants to be in that position.“