WHERE THERE'S SMOKE

Why casino managers fear smoking bans

BY ANDREW KLEBANOW

The debate continues over closing legislative loopholes that exclude casinos from adhering to states' prohibitions on indoor smoking. Legislators in New Jersey and Rhode Island are currently in various stages of advancing bills that would require casinos to ban smoking in all public areas, including their gaming floors. These same debates have taken place in past years, and they continue as casino employee groups advocate for their rights to work in healthy, non-smoking environments.

Exemptions that exclude casinos from regulations that ban indoor smoking have been in effect for over two decades, and upon cursory examination, simply do not make much sense. In New Jersey, for example, smoking is prohibited in all public buildings, restaurants, bars and hotels, as well as in state parks and on public beaches.

Smoking is also banned on Atlantic City's famed Boardwalk, and the New Jersey Casino Reinvestment Development Authority—an agency that directs reinvestment funds from New Jersey casinos to projects that benefit Atlantic City—announced recently that it will help pay for more police officers on the Boardwalk this summer to enforce that policy.

Yet, anyone who has an urge to light up need only walk into any of the city's nine casinos in order to satisfy their craving.

The question that one must ask is, "Why do casino operators in certain commercial jurisdictions still hold on to the belief that banning smoking will deal a catastrophic blow to their businesses?" Why do they continue to employ lobbyists who in turn advise legislators that closing those loopholes will cause a dramatic drop in gaming tax revenue and the loss of thousands of jobs?

Since the start of the Covid-19 pandemic, more than 150 Indian casinos have pushed smoking out of their casinos. In fact, the nation's highest-grossing Indian casinos—including Foxwoods, Mohegan Sun, Yaamava' Resort & Casino Resort at San Manuel, Pechanga Resort & Casino and Mystic Lake Casino Resort—all have smoking bans that their leaders put into effect at that time. None of them has any intention of letting smoking back into their buildings.

Nevertheless, casino operators in New Jersey, Rhode Island, Virginia, Kentucky, Mississippi, Nevada and Pennsylvania (with Parx Casino as the one notable exception) steadfastly refuse to change their policies. Instead, they direct substantial funds to the cause of defeating legislative efforts to eliminate their smoking exemptions.

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THE THING MANAGERS FEAR

To fully appreciate the reasons for commercial casino operators' collective obstinance toward indoor smoking bans, it is important to understand how casino companies reward their leaders. Casino executives, from the slot floor to the boardroom, generally receive two forms of compensation: a salary, and a periodic bonus

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predicated on the casino's performance.

That bonus is usually tied to an improvement in the casino's net operating income, often referred to as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), from some past time period compared to the current operating period. It may compare the casino's EBITDA performance during the most recent fiscal year to last year's, or Q2 2025 to Q2 2024.

Managers receive their bonuses based on growth in EBITDA, not a decline. Therefore, they are loath to embrace any change in public policy or regulation that may diminish that growth—or worse, result in a decline.

This compensation strategy motivates their entire leadership team. A slot director may have grown accustomed to receiving bonuses and may now be planning to take his family on a Disney cruise this summer after the next bonus check arrives.

The casino's general manager may have promised his/her spouse a new Mercedes when that bonus comes in, and the company's CEO may be planning a sizable donation to his alma mater so the university admissions committee might look more favorably on his daughter's entry to the school's undergraduate program.

The net result is that managers throughout the entire organization are committed to growing EBITDA quarter after quarter, year after year. The elimination of smoking may very well have a short-term impact on gaming revenue, and with it, EBITDA. What history has shown, time and time again, is that while smoking customers may initially protest that they can no longer smoke while playing and thus forgo visits to that casino, they eventually come back.

Recent history also shows that those revenue declines are much smaller than in years past, and that the recovery period is also much shorter. In other words, the customers and revenue come back, and they do so rather quickly.

There may be some short-term financial pain, and it is that pain that managers fear. With smoking banned, the slot director will have to explain to his family why they will not be going on that Disney cruise; the casino GM will have to explain to the spouse why there will be no new car in the driveway; and the casino CEO will have to explain to his wife why their daughter will not be able to rush the same sorority that she rushed 30 years ago.

THE LOBBYING INDUSTRY

In states where smoking carve-outs still exist, there are cottage industries of political lobbyists and consultants whose jobs are to warn legislators of the impact that any decline in gaming revenues will have on gaming tax collections and the possible loss of jobs.

They remind legislators that any short-term decline in gaming revenues would lead to a temporary drop in tax revenues—money that has already been allocated in the next fiscal year's budget. And with any drop in gaming revenue, casino operators may be inclined to cut staff.

BUSINESS STRATEGIES, COMMERCIAL VS. TRIBAL

To fully appreciate why the nation's largest Indian casinos kicked smoking out of their buildings while commercial casinos lobby to keep their smoking areas in place, it is important to understand the differences in their business strategies.

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Commercial casinos tend to maintain far shorter views into the future. They focus on the next quarter or the next fiscal year, and that is what drives their business strategies.

This is not to say that commercial casino operators will never accept the end of smoking loopholes. That day will come, but only after one of two things occurs: their compensation strategies change, or the decline in commercial casino gaming revenue due to the inevitable growth of online gaming creates a situation where brick-and-mortar gaming revenue starts to spiral downward, and they are no longer able to grow property EBITDA.

Even today, senior casino executives acknowledge that a complete smoking ban will ultimately prevail. They also say that "now is not the right time."

What they do not say is the right time will come after they retire.

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