

## Numbers Don't Lie

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*When casino executives oppose banning smoking at their casinos, they rely on data and studies done years ago when smoking was widespread. Now that casinos are virtually the only place where you can smoke in public, the newest data should suggest a different conclusion.*



The issue of smoking in casinos is once again at the forefront of debate. This time it is taking place in the state of New Jersey where two identical bills are making their way through the state legislature and are expected to be voted on in June. Senate bill S264 and House bill A2151 will close the smoking loophole that allows Atlantic City's nine casinos to permit smoking. The New Jersey Smoke Free Act of 2006 originally exempted Atlantic City's casinos from the state's prohibition on smoking in all workplaces, retail stores, schools, childcare facilities, bars and restaurants with casinos being the sole exception.

In 2008, a short-lived attempt by the City of Atlantic City to close that loophole was quickly rescinded when gaming revenue plunged by 20 percent in the ordinance's first week. Today, smoking is permitted on 25 percent of every casino's gaming floor although there are no physical barriers to prevent the movement of smoke or smokers from migrating into non-smoking areas. The casinos are opposed to the repeal of the loophole.

Two recent studies support the contention that a complete ban on smoking in Atlantic City's casinos would have a significant and deleterious effect on gaming revenues, tax revenues and employment. A recent study commissioned by the Casino Association of Atlantic City projected significant negative impacts including a

drop of gaming revenue ranging from 4.2 percent to 10.9 percent. Non-gaming revenues would decline from 3.0 percent to 6.5 percent. The study further forecast that these declines would result in a net loss of 1,021 to 2,512 jobs.

The study relied on historical data including the impact of a smoking ban on Delaware's three casinos in 2002, a 2008 smoking ban on Illinois's casinos, and a 2015 prohibition on smoking in New Orleans' two casinos. In addition, the study used data from a 2008 Atlantic City Visitors Profile Study along with recent interviews with casino executives.

In May 2022, an industry update issued by an equity research firm that tracks the gaming industry predicted that a full smoking ban at Atlantic City casinos could negatively impact gaming revenue by as much as 20 percent to 25 percent. This study also evaluated the impact that various state-imposed smoking bans had on casino revenue performance including the 2008 ban in Illinois and its impact on Chicagoland casinos, the 2015 ban in New Orleans and its impact on Harrah's New Orleans, and the impact that a countywide smoking ban in 2015 had on the Mountaineer Casino in West Virginia.

#### [What We Long Thought About Smoking and Casinos](#)

It has long been known that statewide smoking bans have had an immediate negative impact on gaming revenue. This was amply demonstrated in bans implemented in Delaware, Colorado, Illinois, Deadwood SD, and New Orleans, although those markets recovered in subsequent years, and their speed of recovery was based in part on available gaming options in nearby jurisdictions. It was also known that a slot machine in a smoking area generated more money than a machine in a non-smoking area. In fact, there is not a slot director on the planet that would have refuted that statement prior to the pandemic. Machine performance in smoking areas can be attributed to a number of factors including the larger assortment of popular game titles available in smoking zones, and the general belief that smokers are more avid slot players than non-smokers.

Then came Covid.

#### [What We Learned Early in the Pandemic](#)

At the outset of the pandemic in March 2020, casino operators, state health authorities, and Indian tribes worked to improve gaming environments that would allow patrons to safely return. As casinos began to re-open, many chose to institute smoking bans in order to accommodate state mask mandates. By the end of 2020, 160 Indian casinos across the United States implemented smoking bans in their casinos including Foxwoods Resort Casino and Mohegan Sun in Connecticut.

By the end of 2021, several tribes announced those smoking bans would be permanent. These included the Ho Chunk Nation, operator of five casinos in Wisconsin; the Forest County Potawatomi, operator of the Potawatomi Casino & Hotel in Milwaukee; the Navajo Nation, operator of four casinos in New Mexico and Arizona; and the Eastern Band of Cherokee Indians, owner of two casino resorts in North Carolina.

## The MMRC Research Study

Primary Reason for Choosing a Casino	
Primary Selection Factor	Total N= 1,481 %
Location/Closest casino/home	32
<b>Smoking Is Not Allowed</b>	<b>26</b>
Complimentary Hotel Room	9
Other	8
Free Play Offers	7
Competitive Gaming Machines	6
Competitive Player's Rewards Program	5
<b>Smoking Is Allowed</b>	<b>4</b>
Food Offers	2
2x or 3x Point Days	1
Complimentary Shows	< 1

Source: MMRC

In 2021, Mike Meczka of Meczka Market Research/Consulting (MMRC), the gaming industry's foremost research provider, presented the results of a research study conducted among gamblers in the Pacific Northwest to gauge their opinions regarding smoking, post-lockdown. The results, first made public at the NIGA conference in Las Vegas in 2021 revealed that the importance of smoking had diminished dramatically in light of the pandemic. The study found that "location, proximate to one's home" was the primary reason people chose a particular property (32 percent), followed by "smoking is not allowed" (26 percent). "Smoking is allowed" was cited as a primary reason among only 4 percent of the sample.

## The Pennsylvania Story

While market research is important in understanding shifts in consumer attitudes towards smoking, it does not measure the impact of those attitudes on actual property performance. A more accurate measure is gaming revenue performance in markets and properties that have implemented smoking bans and how their performance compared to nearby properties that did not have smoking bans in place. Two markets in eastern Pennsylvania offer a good comparison.

In June of 2020, casinos in Pennsylvania re-opened with mask mandates and property-wide smoking prohibitions in place. In June of 2021, those smoking bans were lifted. Two casinos, the Mount Airy Casino Resort in Mount Pocono, and Parx Casino in Bensalem chose to keep their smoking bans in place.

In order to better compare individual property performance for the periods pre and post smoking bans, the authors looked at four distinct operating periods. Period 1 includes gaming revenue from July 2018 through February 2019. Period 2 includes gaming revenue from July 2019 through February of 2020 (the last full month prior to the start of the pandemic). Period 3 includes July 2020 through February of 2021 (the height of the pandemic), and Period 4 includes July 2021 through February 2022, the eight-month period after the state-mandated smoking ban was lifted.

## The Poconos Market

Mount Airy Lodge and Casino competes with Mohegan Pocono, both located in northeast Pennsylvania, approximately forty miles apart. They compete for a share of the greater Scranton/Stroudsburg/Wilkes Barre/Binghamton gaming market. When the smoking ban was lifted, Mohegan Pocono chose to rescind the smoking ban while Mount Airy kept the ban in place.

Looking at the table below, the far right column compares Period 4 (July 2021-February 2022) to Period 2 (July 2019-February 2020). In Period 4, Mount Airy experienced a 0.4 percent increase in gaming revenue while Mohegan Pocono saw a 1.7 percent decline in net gaming revenue.

Mohegan Pocono vs. Mount Airy - Net Gaming Revenue Summary									
REVENUE IN MILLIONS	Period 1	Period 2	Period 3	Period 4	Percentage Change				
	Jul '18 - Feb'19	Jul '19 - Feb'20	Jul '20 - Feb'21	Jul '21 - Feb'22	P2 v P1	P3 v P2	P4 v P3	P4 v P2	
Mohegan	\$ 148	\$ 150	\$ 102	\$ 148	1.7%	-32.0%	44.6%	-1.7%	
Mount Airy	\$ 124	\$ 123	\$ 110	\$ 123	-1.0%	-10.8%	12.6%	0.4%	

Source: C3 GAMING, Pennsylvania Gaming Control Board

If smoking was a deciding factor in why people chose a particular casino, it was not evident in these properties' most recent performance. In fact, it appears that the non-smoking property was able to gain a modest amount of market share over its primary competitor that chose to reinstitute smoking.

## The Greater Philadelphia Market

The greater Philadelphia casino market is comprised of Parx Casino in Bensalem, Valley Forge Casino Resort in King of Prussia, Harrah's Philadelphia in Chester, Rivers Casino Philadelphia, and Live! Casino & Hotel, with the last two located within the city limits of Philadelphia.

Two issues make it difficult to get a clean comparison of individual property performance. First, Live! Casino Philadelphia opened in January of 2021. A new casino normally attracts gamers from other properties, causing a shift in market share. Second, the City of Philadelphia re-instituted its mask mandate and smoking ban on August 11, 2021, which in turn forced Rivers and Live! Casino to once again prohibit smoking until March 7, 2022.

Harrah's Chester, located outside of the city limits, did not have to comply with the smoking ban, and continued to allow patrons to smoke from June 28, 2021 until now. Likewise, the Valley Forge Casino also allowed smoking in their casino after the state lifted their ban in 2021. The Parx Casino decided to keep their smoking ban in place and continues to do so.

The table below again divided each property's performance into four distinct eight month periods.

Philadelphia Market - Net Gaming Revenue Summary								
REVENUE IN MILLIONS	Period 1	Period 2	Period 3	Period 4	Percentage Change			
	Jul '18 - Feb'19	Jul '19 - Feb'20	Jul '20 - Feb'21	Jul '21 - Feb'22	P2 v P1	P3 v P2	P4 v P3	P4 v P2
<b>Parx</b>	\$ 397	\$ 412	\$ 330	\$ 412	3.8%	-19.9%	24.9%	0.0%
Valley Forge	\$ 86	\$ 95	\$ 67	\$ 92	10.3%	-29.4%	37.5%	-2.9%
Harrah's	\$ 167	\$ 164	\$ 128	\$ 124	-1.6%	-22.0%	-3.1%	-24.5%
Rivers	\$ 201	\$ 204	\$ 108	\$ 150	1.6%	-47.3%	38.9%	-26.8%
Livel	\$ -	\$ -	\$ 19	\$ 139	n/a	n/a	626.6%	n/a
<b>Market Total</b>	<b>\$ 851</b>	<b>\$ 876</b>	<b>\$ 652</b>	<b>\$ 917</b>	<b>2.9%</b>	<b>-25.5%</b>	<b>40.6%</b>	<b>4.7%</b>

Source: C3 GAMING, Pennsylvania Gaming Control Board

Both Parx and the Valley Forge Casino are located in suburban areas north of Philadelphia and are approximately 30 minutes apart by car, and compete for the same northern suburban market. Comparing Period 4 (July 2021-February 2022) to Period 2 (July 2019 – February 2020), Parx's gaming revenue remained flat while Valley Forge declined 2.9 percent. It would appear that smokers did not leave Parx in droves to play at Valley Forge.

Harrah's Chester is located on the southern edge of Philadelphia, an approximate twenty minute drive from Live! Philadelphia. Harrah's Chester and Rivers were significantly impacted by the opening of Live! Casino. Nonetheless, Harrah's was not able to stem a near identical percent decline in net gaming revenue as Rivers despite offering a smoking environment. Smokers from Philadelphia did not flee to the smoking property even though it was available twenty minutes away.

#### [More Recent Events](#)

On April 29, 2022, Rivers Casino Philadelphia, the third highest performing property in the state, announced that it would voluntarily ban smoking on its property effective immediately.

With few exceptions, Indian casinos are not obligated to publicly disclose gaming revenues and few in fact do so. Some tribes do report per capita distributions, the lion's share of which are derived from gaming revenues. In May 2022, the Eastern Band of Cherokee Indians, operators of Harrah's Cherokee Casino Resort reported its semi-annual per capita distribution per enrolled member. For the months October 2021-March 2022 (all smoke-free), the distribution was the highest amount ever recorded for the same prior year periods. It exceeded the June 2019 amount (pre-pandemic while smoking was still permitted in its casinos) by 22.1 percent. It tracked with the amount distributed in December 2021, which covered the months April 2021-September 2021 (all smoke free). That distribution was up 22.5 percent over the December 2019 period when smoking was still permitted.

The pandemic has had a profound effect on consumer attitudes and behaviors across a wide range of industries, including casinos, and casino customers have come to accept certain changes once thought unthinkable. Hotels have all but abandoned daily housekeeping for multi-night stays and lodgers have come to accept it. Casinos have shuttered buffets, first to adhere to Covid protocols, and then to discover that these money-losing operations did not enhance profitability. Gaming customers accepted that too.

As New Jersey legislators debate the merits of closing the smoking loophole, they should not rely on projections based on data from 2002, 2008 or 2015, or consumer attitudes from a visitors profile conducted in 2008. They need to look at current trends occurring 50 miles from Atlantic City. Data from Pennsylvania clearly indicates that banning smoking no longer causes a dramatic drop in gaming revenue. In fact, non-smoking properties appear to be performing better than their counterparts that continue to allow smoking.

Casino operators must also realize that when they state in their marketing material that they care about the health and safety of their customers and employees while continuing to allow indoor smoking, they are at the very least being disingenuous. And they must also recognize that their customers and employees know it.

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