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Back To Business

After September 11, even the gaming sector faces a changed world.

When Mayor Rudolph Giuliani asked the public to help New York City recover from September 11 by consuming instead of withdrawing, he was really giving all Americans the same wise advice.

In the essential goods and services sectors there was no choice but to keep consuming. But government safety measures and a frightened public kept entertainment- and travel-related businesses paralyzed for weeks. We all know how that affected the gaming industry: fewer planes bringing patrons to Las Vegas, cancelled conventions, postponed construction projects, stock market plunges, tens of thousands of layoffs.

A month after the attacks even the hardest-hit casinos were finally getting back to business -- but not back to normal. Today's gaming scene is one of changed parameters and unexpected connections: Suddenly Atlantic City has the advantage over Las Vegas? Internet betting is tied to terrorism?

Adjusting to this new reality means understanding several key human, economic and political factors.

The first and most obvious is the role of fear. In the week after Sept. 11 concerns of a second wave of attacks froze air travel and closed many centers of business and tourism. Long after the government announced it was safe to move about, individual travelers continued to act on their own doubts, cancelling unnecessary flights and avoiding high-profile tourism destinations.

In that light it makes perfect sense that Las Vegas, one of the farthest gambling markets from New York, would suffer severe repercussions while Atlantic City reported little more than a brief and shallow bump; while a large portion of Vegas visitors arrive by airplane, Atlantic City's core clientele are close enough for ground transportation.

Casinos can't restore public faith in commercial air travel, but they can fight the fear factor in other ways. One is to visibly beef up security measures. In a September 11 *Las Vegas Sun* article, a spokesman for MGM Mirage said that security had been boosted during the Persian Gulf War and after the first World Trade Center attack and Oklahoma City -- and would be stepped up again after September 11.

Some casinos can take even bigger steps: Park Place and Mirage have both put their private jets to work shuttling high-rollers who are reluctant to fly to Vegas on commercial airlines.

The second factor in recovery is human nature, which is to re-establish normalcy. That's why Las Vegas probably won't be jealous of Atlantic City for long, barring another domestic attack or a serious economic recession.

For the weekend of October 6-7, the Las Vegas Convention and Visitors Authority reported 97 percent hotel occupancy, normal for an October weekend and a significant improvement from 67 percent the weekend after the attacks. (Normal occupancy doesn't necessarily translate to normal revenue since room rates have been slashed.)

That won't erase the damage wrought during the first few weeks, nor is it a guarantee of recovery. If military actions continue, compounded by general worries over airline safety, experts predict that air travel will remain in a moderate slump as it did during the Gulf War. Still, it's a reassuring sign that people are currently keeping their vacation plans and making new reservations.

The third issue is the degree to which a particular casino is sometimes often touted as "recession-proof," other resort activities like shopping and dining are not. People might be lured to casinos by cheap travel and hotel deals, but it's also possible that they'll spend less on shopping and dining than in the past.

The irony is that "entertainment destination" has been the mantra of many casino companies since the mid-90s. They didn't just build gambling houses; they built complexes including movie theaters, shops and theme parks. Many experts are awaiting the financial numbers in those areas before declaring a real recovery.

Fourth is the relationship of casinos to their communities, which is one reason why isolation is a bad idea despite the risks of interdependence. Many states and cities legalized casino gambling during times of economic hardship, precisely because they were promised tax revenue and jobs. If casinos weren't funding roads, education and tax relief, they would not have made such inroads into the nation's economy and mainstream consciousness.

That makes the cuts resulting from Sept. 11 especially painful. By the beginning of October, Las Vegas casinos had laid off 12,000 to 15,000 people. Within two weeks some employees were being recalled, but it wasn't known how many.

Vegas has taken the biggest hit in sheer numbers, but any community tied to recreation or travel will suffer in kind. Ontario's Casino Windsor was a casualty of cross-border security measures, losing 50 percent of its revenue and laying off 600 employees by mid-October.

Not all of the economic impacts were immediate; some multi-million dollar construction projects have been tabled or postponed as well. Mandalay Resort Group delayed the opening of a new Vegas convention center to 2003 instead of 2002, and Park Place postponed construction of a \$475 million hotel at Caesar's Palace. (On the

flip side, Harrah's Atlantic City says plans for a new hotel tower and garage will continue as scheduled.)

These losses must be recognized as the consequence of a nationwide tourism slump that hurts vacation spots like Hawaii and Florida even more than gambling destinations like Las Vegas. It's not an argument against reliance on gaming revenue; let's hope the anti-gaming side doesn't manage to twist it into one.

Fair or not, many casinos could also be judged by what they do in the coming months. Those that hoist anchor (literally or figuratively) will certainly be slammed by the towns they leave behind, even if that was the best (or only) business decision. But those that have earned the good will of their communities and respond by standing tough have a chance to strengthen that bond.

Finally, there is the impact of September 11 on pending gaming legislation, which has become a complete wildcard. After September 11 it seemed that federal action on Internet gambling and NCAA wagering would sit on the back burner, at least for a little while. Some observers even speculated that Internet gaming would expand if travel continued to be a challenge.

Au contraire; In early October Rep. James Leach (R-Iowa) introduced a section on Internet gambling to the Financial Anti-Terrorism Act, a measure covering financial transactions and international mail inspection. Supporters of the new language claimed a connection between Internet casinos and terrorist money laundering. But media reports indicate that debate in the House Financial Services Committee included underage gambling and other non-terrorism related arguments. The Committee approved the bill 62-1 on October 12.

Industry observers say the financial restrictions only apply to "unlawful" Internet gambling, which wouldn't override pending legalization in states like Las Vegas -- but the more serious charge is that a national security measure may have been used to promote an unrelated agenda. At the time of this writing the Senate's version of the measure did not include the Internet gambling clause and White House officials had said they didn't want to see it in the final bill.

Also at the time of this writing, we don't know whether the conflict that started in September was winding up or winding down. Nor could we say that we'd returned to business as usual. The only thing we could, or can, do is to face these new developments with a combination of human compassion and a sensible, long-term business view.

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