WHERE THERE'S SMOKE...

THE IMPACT OF SMOKING BANS ON CASINOS

BY PAUL GIRVAN

We know that smoking will damage your health, but how much does a smoking ban, in the long run, damage casino revenues?

There is no single answer to this question, but only more questions. First of all, what is the competitive environment? Are alternatives within easy reach for smokers? If smoking is allowed in competing casinos, expect the greatest revenue decline. If there are no proximate casinos that allow smoking, a ban will have less effect on revenues. In addition, the extent of the ban is also critical, as partial smoking bans tend to have less revenue impact than a full smoking ban.

WHO HAS THEM? WHO IS CONSIDERING THEM?

Smoking bans have now been in place in some casinos jurisdictions for several years. The table at right shows which jurisdictions have implemented bans, and which year the ban was implemented.

CASINO SMOKING BANS BY STATE

STATE	SMOKING BAN APPLIED TO GAMING	ENACTMENT DATE OF STATEWIDE SMOKING BAN
Arizona	Native American casinos exempted	May 1, 2007
Arkansas	Gaming floors regulated by Arkansas Racing Commission	July 21, 2006
California	Native American casinos exempted	July 1, 1994
Colorado	Yes	March 1, 2006
Connecticut	Native American casinos and private clubs exempted	January 1, 2003
Delaware	Yes	May 1, 2002
Florida	Native American casinos exempted	November 1, 2002
Illinois	Yes	January 1, 2008
Indiana	No	No
Iowa	No	No
Kansas	No	No
Louisiana	No	No
Maine	No	June 1, 2003
Maryland	Yes, and will apply to new casinos	May 1, 2007
Massachusetts	Yes, racetracks and bingo included. Probability is that all casinos will be smoke-free	June 1, 2004
Michigan	No	No
Minnesota	Native American casinos exempted	May 1, 2007
Mississippi	No	No
Missouri	No	No
Montana	Native American casinos exempted	April 1, 2005
Nebraska	Native American casinos exempted	February 1, 2008
Nevada	Does not apply to casinos	November 1, 2006
New Jersey	NJ casinos 75% smoke-free/25% smoking. Last year the city adopted 100% smoke-free in casinos for a week before rescinding (for 1 year) back to 75%/25% due to fear of declining revenue	January 1, 2006
New Mexico	Does not apply to casinos	March 1, 2007
New York	Native American casinos exempted	March 1, 2003
North Carolina	No	No
Ohio	Potential casinos likely to be smoke-free	November 1, 2006
Oklahoma	No	No
Oregon	Native American casinos exempted	June 1, 2007
Pennsylvania	75% of casino floor must be smoke-free, but can go to 50% based on level of play differential between non-smoking and smoking floors	June 1, 2008
Rhode Island	No - Smoking ban for racinos being considered in legislature	March 1, 2005
South Dakota	July 1, 2009 - but does not apply to NA casinos	February 1, 2002
Washington	Native American casinos exempted	November 1, 2005
West Virginia	No	No
Wisconsin	No	No
Puerto Rico	Yes	March 2, 2007
TOTALS FOR 100% SMOKING BANS AMONG GAMING STATES WITH RACINOS OR CASINOS - 8 OF 22 STATES		

UP IN A PUFF OF SMOKE?

It is commonly held that a complete smoking ban will cause a significant impact on revenues, an impact that will lessen over time but still result in a lower stabilized number. To assess the validity of this perception, we turn to Delaware, which was one of the first states to impose a complete ban on smoking on the casino floor.

Delaware is an interesting case study for two reasons. First, the state imposed its ban in 2002, which allows sufficient time to assess the long-term effect of the policy change. Secondly, Charles Town Races & Slots in West Virginia and Atlantic City both permit smoking, thereby offering alternatives for a large part of the Delaware market in the Washington-Baltimore corridor.

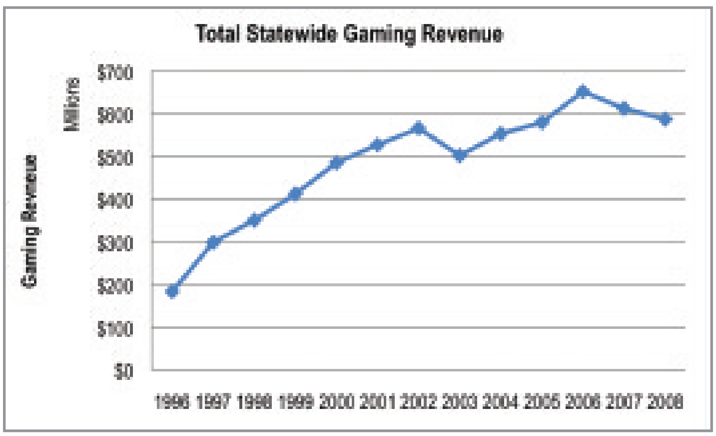
The following charts show revenue for the Delaware properties and for the state as a whole.

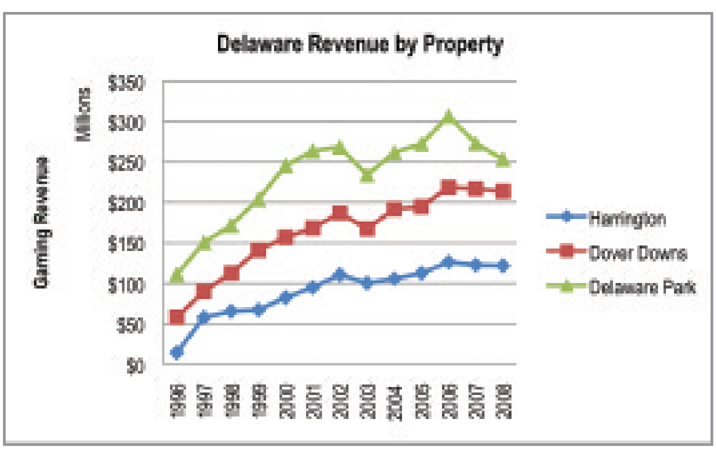
As the table at right shows, there was extreme volatility in the revenue declines on a monthly basis as the customers and operators adjusted to the smoking ban. This volatility in statewide revenues was reflected in a similar vein for each of the operators.

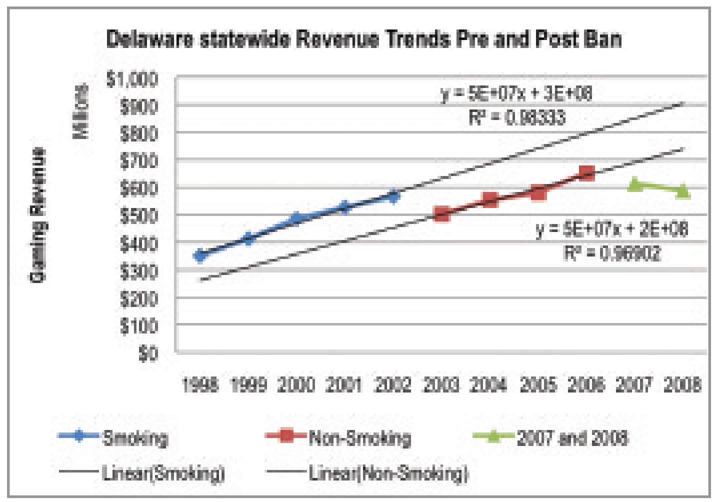
What have been the long-range impacts, and what was the loss in revenues versus where revenues might otherwise have been? To assess where revenues would likely have been versus where they currently are, we have developed a trend line for both the pre- and post-smoking-ban era. These are shown in the chart below.

DELAWARE STATEWIDE REVENUES BY MONTH AFTER THE SMOKING BAN

MONTH	2002 COMPARED TO 2003
January	-7.9%
February	-27.9%
March	-11.4%
April	-17.1%
May	-10.4%
June	-10.8%
July	-8.5%
August	16.9%
September	-32.1%
October	-9.5%
November	11.2%
December	-21.5%







NOTE: As can be seen, we have eliminated 2007 and 2008 from the totals, as these have been affected by various external factors such as the gasoline price spike, the weakening economy and external competition from Pennsylvania slot parlors.

Rather than comparing the decline to the previous year's revenues, this method shows the true impact from a smoking ban on Delaware.

REVENUE POTENTIAL LOST AS A RESULT OF THE SMOKING BAN IN DELAWARE

	% of Revenue Potential Lost	$Lost (Millions)
2003	-20.00%	$125
2006	-18.13%	$145

It is clear from the data that the smoking ban had an immediate negative impact on revenue. In the first year after the smoking ban the statewide impact was approximately 11 percent.

EFFECT OF THE SMOKING BAN ON DELAWARE 2002-2003

	% DECLINE FIRST YEAR OF SMOKING BAN
Delaware Park	-12.80%
Dover Downs	-10.42%
Harrington	-9.12%
Statewide	-11.29%

Where did this revenue potential go? It is highly likely that it accrued to Charles Town Races & Slots, which is almost equidistant to a large portion of the Delaware market. As the table on the next page shows, revenues at Charles Town increased dramatically between 2001 and 2004.

It is not possible to isolate how much of this is due to diverted gamers from Delaware properties, since the Charles Town property was continually expanding and upgrading during this period. However, it can be safely assumed that a significant portion of the lost potential revenues at Delaware properties accrued to this expanding property as it became a much more attractive option for smokers in the Baltimore-Washington corridor.

The lesson to be learned here is that operators must assess the impact of a smoking ban on the likely future revenue potential of their property—not just on prior-year revenues. If they do not, they will underestimate the impact of a smoking ban, which in turn may weaken their case for some form of smoking ban exemption.

CHARLES TOWN GAMING REVENUES

	Gaming Revenue	Positions	% Change in Gaming Revenue
2000	$107,063,209	1,516	
2001	$162,338,743	1,976	51.6%
2002	$220,985,043	2,299	36.1%
2003	$295,275,827	3,077	33.6%
2004	$360,236,654	3,620	22.0%
2005	$414,124,376	4,028	15.0%
2006	$448,022,619	4,120	8.2%
2007	$463,367,841	4,739	3.4%

RECENT BANS AND THE PROXIMITY EFFECT

Colorado and Illinois both imposed smoking bans in 2008. The recession and high gas prices (remember those?) make it difficult to isolate the impact of the smoking bans, and thus to compare with Delaware. However, they illustrate how the degree of impact will depend largely on the presence and proximity of casinos that permit smoking.

Colorado imposed a smoking ban on casinos in January 2008. With no proximate smoking permitted, gaming alternative Colorado experienced a revenue decline of only 12.3 percent from the prior year, even with the combined impact of recession and gas prices.

In Illinois, a smoking ban at casinos was implemented January 1, 2008. Revenues statewide declined by 21 percent, and admission by 11 percent. As was the case for Colorado, it is not possible to isolate the exact impact from the smoking ban.

ILLINOIS GAMING REVENUES AND ADMISSIONS

	Admissions	% Change	Revenue	% Change
2005	15,323,166		$1,798,907,000	
2006	16,180,360	6%	$1,923,527,000	7%
2007	16,525,437	2%	$1,983,383,000	3%
2008	14,637,054	-11%	$1,568,725,000	-21%

However, if the theory holds true that the further a smoking-restricted casino is from a smoking-permitted casino, the less is the impact on revenues, then we should be able to discern some variations among the Illinois properties. In Illinois, a large portion of the state's gaming population has access to casinos where smoking is permitted in Missouri, Wisconsin and Indiana.

Peoria, located in the center of the state, has the least access to smoking-permitted casinos jurisdictions. It follows then that the Par-a-dice in Peoria should have experienced a smaller revenue decline as a result of the smoking ban than properties in Chicago, which have access to smoking-permitted casinos in Indiana and Wisconsin.

In fact, this was the case, as the table at right shows. However, as can be seen from the table, there are few examples which permit a straightforward comparison. In the case of Illinois, the waters are muddied by expansions at the Casino Queen in East St. Louis and at Rock Island, which as a result did not see the sort of revenue declines experienced elsewhere in the state.

REVENUES DECLINE 2007-2008 PEORIA AND CHICAGO AREA CASINOS

Property	% Decline 2007-2008
Par-a-dice, Peoria	-12.1%
Alton Belle	-27.9%
Empress Joliet	-23.4%
Harrah's Joliet	-21.9%
Harrah's Metropolis	-25.6%
Aurora	-19.3%
Grand Victoria, Elgin	-22.4%
E. St. Louis	-15.1%
Rock Island	-4.1%

It is also likely that the removal of the loss limit in Missouri and casino expansion in northern Indiana also impacted some of these declines. On the whole, though, the experience of Illinois supports the case for the proximity effect of smoking bans.

IMPACT ON PLAY

Based on tracked play pre- and post-ban from a couple of casinos, which will remain anonymous to protect the integrity of the data, we have been able to discover some illuminating facts.

Analysis based on weekly pre-smoking ban visitation versus weekly post-smoking ban visitation found that the total impact for smokers was a decrease of between 19 percent and 24 percent on trips, 13 percent to 17 percent on time played per trip, and 14 percent to 18 percent on win per trip, for a total impact on rated revenue for smokers of minus 33 percent-37 percent.

Looking at post-ban trends and comparing them with a similar period the previous year, it was found that the total impact on win per trip and on total gaming revenue was between minus 17 percent and 20 percent.

When viewed against the prior trend for total gaming revenues the decline post-ban was 21 percent to 25 percent, similar to that experienced in Delaware.

It would seem from this data that a portion of the decrease in trips by smokers was replaced by non-smokers, and that actual playing time decreased as smokers left the casino floor for a smoke break, resulting in a decline in win per visit. This decline in win per visit could also be related, at least in part, to a possible differential in value between non-smokers and smokers.

MOVING ON — OPPORTUNITY KNOCKS!

For some time now, the industry's focus on smoking bans has to a great degree centered on the likely decline in revenue that results from a smoking ban, whether partial or complete, regardless of the geography. There can be no doubt that there is a negative impact. But is there a silver lining?

The proportion of the U.S. population that smokes has steadily declined. Very long-range trends follow a similar pattern. Over time, then, the impact of a smoking ban should decline, albeit at a very low rate. This long-range trend of declining impact was noted in the analysis of Delaware, the only state with sufficient time under a smoking ban for these longer-range trends to show up in a significant way.

More immediately, although it certainly is something that has not been in the forefront of casino executives' minds, are the potential up-side opportunities related to a smoke-free casino.

Again, geography plays a key role. In a market where there is a significant density of casinos serving essentially the same population base, the opportunity exists for a casino to target non-smokers and thereby differentiate itself.

The fact that the majority of casino patrons are non-smokers would suggest that such a strategy would meet with success. For example, J.D. Power and Associates in a July 2008 survey of Southern California gamers found that 85 percent of gaming customers at Indian casinos in Southern California would prefer a smoke-free environment. In a national survey conducted by the Innovation Group, 45 percent of respondents considered a smoke-free environment extremely important compared to only 25 percent who considered a smoking-permitted casino as extremely important.

So, while most casinos cater to non-smokers by designating non-smoking areas on the casino floor, there is the potential that an entirely smoke-free casino could represent a significant competitive advantage in certain markets where there is no ban on smoking (or even a partial ban) and where there is a high density of casino development equally proximate to the customer.

Of course, any decision to voluntarily go smoke-free would require substantial market and consumer research to verify casino customer preferences for that particular jurisdiction.

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