

ATLANTIC CITY CASINOS REBOUND WHILE WORKERS STRUGGLE

Introduction: Atlantic City Crisis Threatens Casino Industry Recovery

Over the last several months, there have been many discussions about the government of the City of Atlantic City, its finances and its future. It remains true that the casino gaming industry is the economic engine of the City and South Jersey as a whole. Almost 10,000 Local 54 members work in Atlantic City's casino industry. These South Jersey residents continue to struggle under the weight of collective bargaining agreement concessions negotiated to help the casinos weather the economic storm of the past years—a storm that left the industry teetering on the brink.

Those concessions played a large part in helping the remaining casinos regain their financial footing and begin the climb to prosperity. The result is Atlantic City's current paradox: the City itself is in crisis, yet the casino industry just had its best year since 2009. This report shows how the casinos themselves are doing better than they have in years, as economic stability has returned the casinos to profitability.

Lost in the current discussion is the opportunity for those 10,000 South Jersey residents to begin to claw back what was lost to them over the past few years, and the positive effect that economic boost would have on the economy of the region as a whole.

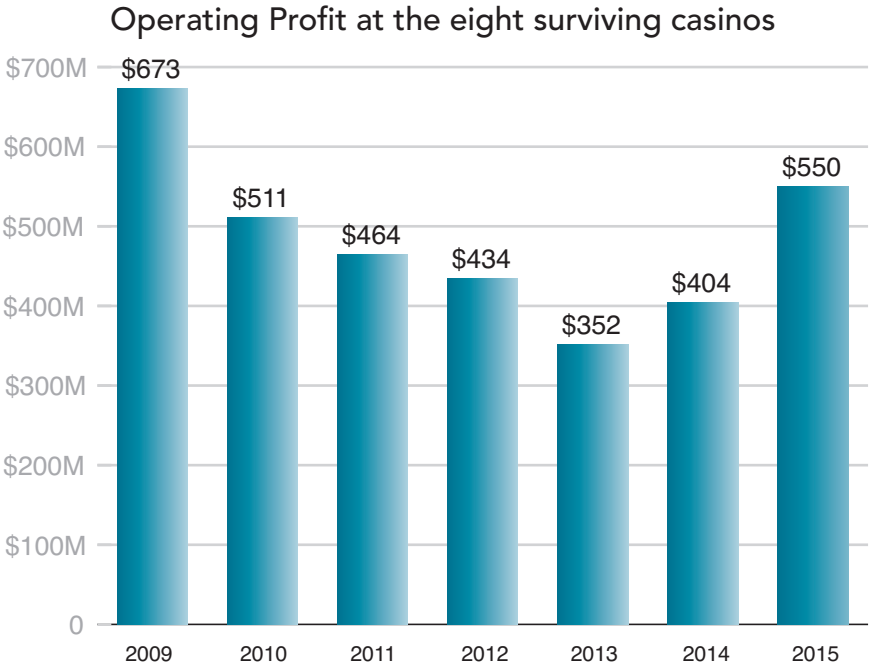
Casino Industry Recovery: Increased Operating Profit for Casino Industry

The crisis in Atlantic City comes at a time when the casino industry is doing better than it has in years. Recently, headlines across the country reported on 2015 operating profit growth of 40% over 2014. The Associated Press quoted the Chairman of the Casino Control Commission as saying "the figures are 'an indication that the market is stabilizing after several years of turmoil.'"¹

Industry-wide Gross Operating Profit at the eight remaining casinos was higher in 2015 than it has been in any year since 2009. According to the Division of Gaming Enforcement, "Gross operating profit reflects earnings before interest, taxes, depreciation, amortization, charges from affiliates, and other miscellaneous items. It is a widely-accepted measure of profitability in the Atlantic City gaming industry."²

Gross Operating Profit has increased by over 56% since 2013. Last year marks the first time since 2008 that all of the casinos in the city had

positive Gross Operating Profit—meaning that it is the first time that revenues have exceeded operating expenses at every casino in almost a decade.



Increased Gross Operating Profits indicates that the companies have cut operating expenses substantially. In fact expenses have declined by almost \$500 million since 2009—of that decline, \$171 million corresponds to decreased pay for employees.³

Casinos are doing better in another way as well. They have significantly less debt and with that lower debt payments.

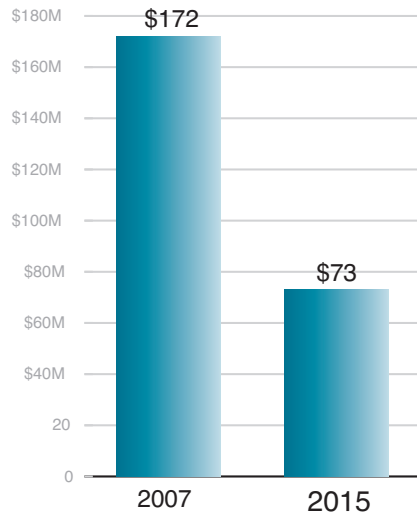
Decreased Debt Levels and Interest Payments

During the mid-2000s, casino companies in Atlantic City had high levels of debt and corresponding high levels of interest payments. As the result of a series of bankruptcies, sales, foreclosures and refinancing, the operators who were not in bankruptcy in Atlantic City at the beginning of 2016 (Borgata, Golden Nugget, Resorts and Tropicana), have reduced their total debt from a height of over \$2.3 billion in 2007 to just over \$0.8 billion at the end of 2015—a reduction of over 63%.⁴

The four properties that were in Chapter 11 at the beginning of the year are poised to see dramatic reductions in their debt levels as well, when they start operating under their plans of reorganization.⁵

As the debt levels have decreased, there has been a corresponding decline in the annual interest payments that the companies have had to make. Those interest payments have been reduced by over 57%, from \$172 million per year to \$73 million per year.

Industry Interest Payments Drop by Over 50%
Total from Borgata, Golden Nugget, Resorts and Tropicana



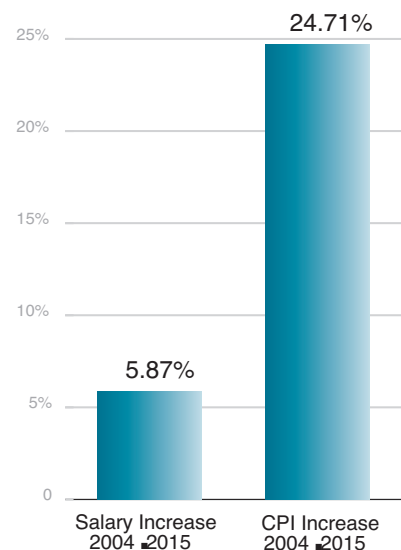
With increased profits and decreased interest payments, the casinos are in better financial positions than they have been for some time, but the improved financial position of the companies hasn't translated to improved financial positions for the workers who make the beds, pour the drinks and serve the food in the casinos.

Workers Made Concessions to Shore Up Casino Industry

In the struggle to save Atlantic City, the casino workers have sacrificed during the prolonged downturn. UNITE HERE Local 54 members, who work in about 40% of the almost 24,000 jobs that remain after the closure of four casinos in 2014, have negotiated contracts that led to hardship for their families in order to ensure the financial stability of the casino companies.

Over the course of twelve years, workers with the most seniority have seen just \$0.80 per hour in raises. Wage freezes over that time period were all too common. The result is that today, the average wage among Local 54 members is \$11.17 per hour. At the same time, the cost of living has jumped almost 25%.⁶

Senior Housekeeper Salary Increase Lags Rise in Cost of Living



The lack of wage growth isn't the only reason casino workers are struggling. In the 2011 contract negotiations, workers made additional financial concessions to help the casinos stay afloat, including significant reductions in paid time off, overtime and severance contributions.

On top of near-stagnant wage growth, these concessions have significantly impacted take home pay for casino service workers.

Workers also have seen changes to their health plan which is overseen jointly by employer and union trustees. In order to keep the plan affordable, changes have been made to the workers' benefits that include phasing in eligibility for dependents and requiring that spouses with jobs that offer health benefits receive their benefits through their job.

Conclusion

The current crisis in Atlantic City threatens the recovery that Atlantic City casinos are experiencing, and the thousands of men and women who work in the industry. Even though the casino industry in Atlantic City is in the midst of a recovery, presently that recovery is leaving the women and men who work in the industry behind. After sacrificing wages and benefits to preserve the health of the industry over the past decade, the industry is choosing to export profits out of town rather than share with the people who stuck with the industry during hard times.

¹ Parry, Wayne, "Atlantic City casino operating profits up 40 percent in 2015." AP, April 8, 2016. http://www.philly.com/philly/business/tourism_casinos/20160407_ap_abc12ecca3f24de2951fdc253faf0460.html.

² NJ DGE, "DGE Announces Quarterly and Year-End Date Results," April 7, 2016, p. 3.

³ NJ DGE and CCC, Annual Reports.

⁴ We include here both the Current Portion of Long-Term Debt and Long-Term Debt. We haven't included Harrah's because, while it is not in bankruptcy, it does not report debt on the property level.

⁵ Trump Taj Mahal reduced its debt to \$92 million, and the Caesars Corporation could shed \$10 billion in debt. Quarterly Report for Taj Mahal 4Q2015, notes, p. 3, and <http://www.wsj.com/articles/caesars-entertainment-operating-unit-files-amended-reorganization-plan-1444303487>.

⁶ Based on US. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items[CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis <https://research.stlouisfed.org/fred2/series/CPIAUCSL>, March 3, 2016. October 2004-October 2015.