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# Icahn's Costly Vendetta: The Effects of the Labor Dispute at the Taj Mahal

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Aug. 25, 2016

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## Executive Summary

In October 2014, Carl Icahn, the current owner of the Trump Taj Mahal and the Tropicana, did something at the Trump Taj Mahal that no other casino employer in the modern history of Atlantic City had done—he eliminated health insurance and other benefits for around 1,000 cooks, housekeepers, bartenders, cocktail servers, and other service workers.

Icahn's unprecedented actions provoked a labor dispute between the casino workers and the billionaire.

This report finds that:

- In the first quarter of the labor dispute, hotel occupancy **DROPPED** by 12 percentage points even as the industry **INCREASED** occupancy by 5 percentage points. The drop in occupancy continued through the present quarter.
- One way to measure the Trump Taj Mahal's performance relative to the rest of the industry is by comparing RevPAR (Revenue Per Available Room). In the first half of 2014, the Trump Taj Mahal had RevPAR of almost 60% of the rest of the industry average. In the final three months of 2014, the wheels came off as the Trump Taj Mahal's RevPAR fell to just 40% of the rest of the industry average, a point from which it has not recovered.
- If Icahn had not picked a fight with the casino workers, and the Trump Taj Mahal's RevPAR had remained at 60% of the industry average, it would have translated to about an additional \$20 million **EACH QUARTER** in revenue. In total, between October 2014 and the end of June 2016, the Taj Mahal lost out on over \$150 million in revenue.
- If instead of fighting his employees, Icahn had reinvested in the casino and, starting in the third quarter of 2015, Taj had been able to **INCREASE** its RevPAR relative to the rest of the industry to 75%, it would have meant an additional \$65 million in revenue for the Taj Mahal or a total of \$215 million.
- Icahn has chosen to wage a 22-month battle with 1,000 employees that has cost the Taj Mahal an estimated \$150 million when the conflict could have been resolved for a few million dollars a year. It is fair to ask whether this is a business decision or if one of the richest men in the world has some axe to grind with employees that make an average of less than \$12 per hour.

Read on...

In October 2014, Carl Icahn, the current owner of the Trump Taj Mahal and the Tropicana, did something at the Trump Taj Mahal that no other casino employer in the modern history of Atlantic City had done—he eliminated health insurance and other benefits for around 1,000 cooks, housekeepers, bartenders, cocktail servers, and other service workers.

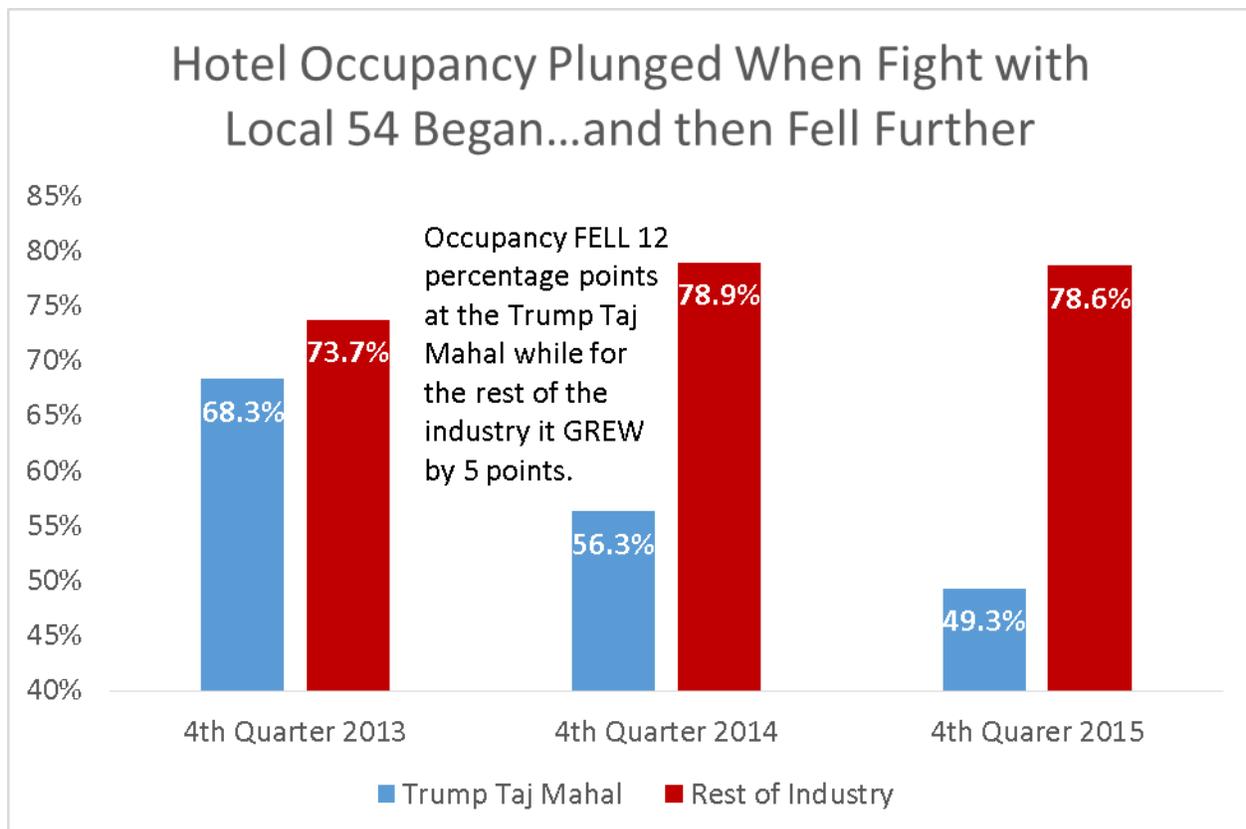
As the *Press of Atlantic City* recently opined, “The Taj dispute threatens the original understanding on casino labor in the city - that even though many jobs were entry-level, not skilled, they would provide decent pay and benefits.”<sup>1</sup>

Icahn’s unprecedented actions initiated an ongoing fight between the casino workers and the billionaire that caused the bankruptcy to be delayed by over a year. On July 1, the conflict reached a tipping point when four other casinos—including another one controlled by Carl Icahn—agreed to new contracts that continue the practice of providing health insurance while the Trump Taj Mahal did not. In response, union members at the Taj Mahal went on strike.

When the July gaming revenue numbers were released, headlines like “Revenue Plunge During Trump Taj Mahal Strike”<sup>2</sup> and “Borgata has best-ever month; Trump Taj Mahal in Strike Slump”<sup>3</sup> appeared across the country.

But as this report shows, the revenue declines in July were just the tip of the iceberg.

## October 2014—the Fight Begins and Occupancy Plummet



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The conflict at the Trump Taj Mahal began with massive press as members of UNITE HERE Local 54 committed an act of civil disobedience and shut down the exit for the Atlantic City Expressway. The effects of the labor dispute at the Trump Taj Mahal can be seen almost immediately.

In the Fourth Quarter of 2013 (October-December), the difference between the hotel occupancy at the Trump Taj Mahal and the rest of the industry (including only those casinos that are currently operating) was a mere five percentage points. One year later, during the first three months of the labor dispute at the Taj Mahal, the difference was 22 percentage points.

Not only did the Trump Taj Mahal fail to capture any increase as a result of the closure of three casinos in September 2014, its occupancy actually shrank by almost 18%.

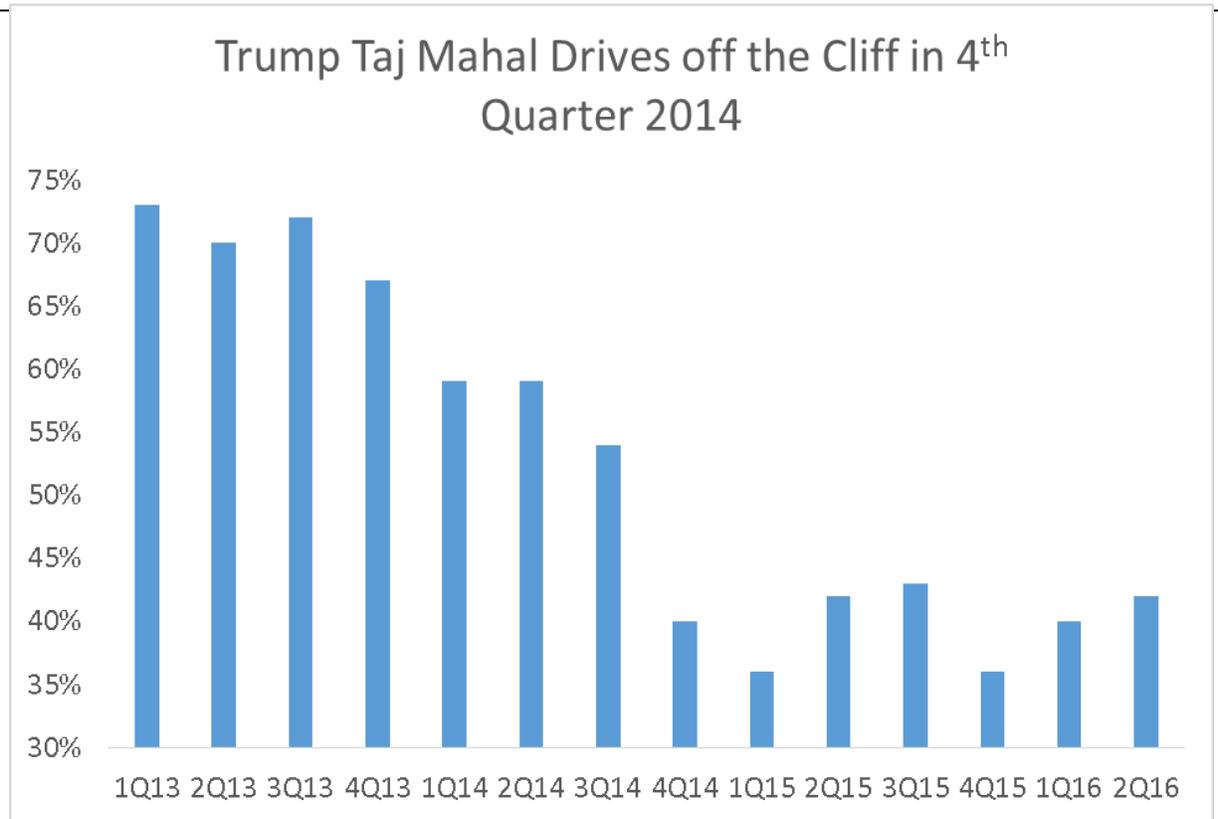
And it continued to fall—to less than 50% in the fourth quarter of 2015.

Unlike some gaming jurisdictions, the state of New Jersey doesn't report the number of gamblers who enter a casino, so hotel occupancy serves as a proxy for that number.

### **Even while occupancy was falling, revenue was falling faster**

One way to measure the Trump Taj Mahal's performance relative to the rest of the industry is by comparing RevPAR (Revenue Per Available Room). RevPAR is a common measure in the hotel industry that is useful for comparing facilities and which incorporates both occupancy and revenue. RevPAR here includes all revenue from gaming, food and beverage, hotel and any other revenue after deducting promotional allowances.

In the first and second quarters of 2014, the Trump Taj Mahal had RevPAR of almost 60% of the rest of the industry average (including only those casinos that are currently operating). It fell about five percentage points in the third quarter, at the same time that Local 54 was fighting to prevent Icahn from closing the Taj Mahal's sister property, the Trump Plaza. But in the final three months of 2014, the wheels came off as the Trump Taj Mahal's RevPAR fell to just 40% of the rest of the industry average, a point from which it has not recovered.



Imagine a scenario in which Icahn had not chosen to strip workers of their healthcare and other benefits, in which there was no battle between Icahn and Local 54, and in which it hadn't taken a year and a half to exit bankruptcy.

In such a scenario, Icahn would have been able to spend \$100 million updating the property and attempting to increase the customer base rather than having to use that money covering operating losses. If these things had happened, it is conceivable that the Trump Taj Mahal might have improved its RevPAR relative to the rest of the industry and returned it to the 65%-80% range that it inhabited prior to 2014.

Even if the Trump Taj Mahal's RevPAR had remained at 60% of the industry average, it would have translated to about an additional \$20 million EACH QUARTER. In total, between October 2014 and the end of June 2016, the Taj Mahal lost out on over \$150 million.

If, starting in the third quarter of 2015, Taj had been able to INCREASE its RevPAR relative to the rest of the industry to 75%, it would have meant an additional \$65 million in revenue for the Taj Mahal or a total of \$215 million.

The *Asbury Park Press* recently wrote:

Icahn has said he's running a business, not a charity. Fair enough. But providing health coverage for employees is part of the cost of doing business, and if your company is letting taxpayers foot the bill and is still "losing multimillions a month," as Tropicana Entertainment CEO Tony Rodio

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said this week, all is not working as it should.<sup>4</sup>

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<sup>1</sup> “Our view: Maybe Taj, union would find accord after casino vote.” *Press of Atlantic City*, July 21, 2016. [http://www.pressofatlanticcity.com/news/top\\_three/our-view-maybe-taj-union-would-find-accord-after-casino/article\\_2f995890-4f2b-11e6-8744-33a3da2456a9.html](http://www.pressofatlanticcity.com/news/top_three/our-view-maybe-taj-union-would-find-accord-after-casino/article_2f995890-4f2b-11e6-8744-33a3da2456a9.html).

<sup>2</sup> <http://www.nbcphiladelphia.com/news/local/Trump-Taj-Mahal-Strike-Revenue-Down-Atlantic-City-Casino-390008921.html>.

<sup>3</sup> <http://abcnews.go.com/US/wireStory/revenue-84-percent-trump-taj-mahal-amid-strike-41335310>.

<sup>4</sup> “Editorial: Taj Workers Faced Long Odds.” *Asbury Park Press*, August 5, 2016. <http://www.app.com/story/opinion/editorials/2016/08/05/editorial-taj-workers-faced-long-odds/88313798/>.