

## Two Disasters and the Future of Las Vegas Gaming

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Vegas Strong: But For How Long? Is the Las Vegas Journey to Success Coming to an End?

### The Long Lucky Road of Success

Las Vegas has enjoyed a long run of success. With only brief stops--a fire disrupting casino revenue gains for six months in 1980 and 1981, and a national recession barely noticed in 2007 and 2008--the run was associated with continuous revenue growth at casinos as well as almost uninterrupted population growth. For nearly six decades Las Vegas was the fastest growing city in America.

### Two Bumps on the Road

But then came 2017 and 2018 and two serious bumps on the smooth road of always upward occurred on October 1, 2017. Then the uniquely American phenomenon of a murderous mass shooter gunned down over 500 people--killing 58--at an outdoors concert next to the Mandalay Bay resort. This death count from a casino disaster had only been surpassed by deaths of 85 at a fire in the MGM resort (now Bally's Casino) in November 1980.

A second unexpected bump hit the country's "sin City" with the sudden departure from the scene of the casino industry's most prominent entrepreneur--Stephen Alan Wynn. Wynn had been the unmatched personification of the Las Vegas success record almost from the day he arrived in town as a junior (slot manager) executive at the Frontier Casino, through his positions as a CEO at the Golden Nugget, to being the key developer of several new mega resorts--The Mirage, Treasure Island, Bellagio, Wynn and Encore. He also was a leading casino entrepreneur in Atlantic City as well as in Macao, China.

Wynn's role as the leading figure in gaming was accepted albeit it was surrounded by rumors (always denied) of bad associations as well as some personal misdeeds. The rumors led into a realm of reality in late January 2018 as serious charges of sexual harassment were leveled against him from several of his casino employees as well as others. However, this time things were different. His categorical denials of wrong doing were not given a "Benefit of the Doubt." Surprisingly, he quickly resigned as the CEO of the Wynn Resort Corporation. He hastened to sell all his stock holdings in the enterprise. Expansion plans and plans for two new casino properties were suddenly "up in the air." The greatest agent of casino growth in Las Vegas as well as America was "out of the picture."

Would Las Vegas survive? Could Las Vegas survive these two major broadsides hitting the community in so rapid fashion only four months apart? These are the central questions posed in this presentation.

The Beginnings of the Road—Mobsters, Howard Hughes and Kirk Kerkorian

The meteoric rise of Las Vegas dates from the mid-1950s. That decade saw the emergence of high rise skyscraper casinos. So many came almost all at once that national media doubted that they could all be successful. Life Magazine shouted out in a front cover story picturing the Riviera Resort: Was Las Vegas growing too fast? The answer came year after year to follow: “No.”

While there was little question that new casinos carried within them the influence of organized crime families, this bad force was soon checked by dollars from business magnate Howard Hughes. At a time ( the early 1960s) when the federal government was pressuring the gaming properties with threats that they may even seek to close them down, Hughes stepped forth and began in 1966 to buy one property after another. The “good” reputation of Hughes took pressure off the casinos. But alas Hughes was not a builder, he was a buyer. Moreover his personal afflictions soon overtook his ability to run his new casino empire.

The MGM Fire

Once again it appeared that Las Vegas might be incapable of running itself. Alas a new entrepreneur appeared on the scene, and with his hand came a new rescue for the Strip empire. Kirk Kerkorian was a builder. As the state of Nevada changed laws so that corporations could own casinos, Kerkorian waved his wand and new properties defined a new skyline. Indeed, with his magic, on three occasions, he built the largest casino hotels in the world near the Las Vegas Strip. However, Kerkorian’s empire was not safe from the elements. In November 1980 a fire hit the kitchen area of his MGM Grand—then the world’s largest hotel-casino. Those observing the scene reported to a fire station immediately across Flamingo just yards away from the property. They said it was a small fire. It was not. But soon it was too late. The fire spread through the casino floor next to the kitchen as the area was not protected by sprinklers. The fire knocked out all centrally located alarm systems and a plume of smoke was carried up stairways and elevator shafts. The property was admitst a construction phase and a system of ventilation was open to attack. Nearly 70 of the 85 fire victims died from smoke inhalation. Investigations revealed that construction process defects added to the devastation. It was also revealed that the construction was on a fast-track basis so that new sprinklers would not be a new requirement. Ironically sprinklers would have stopped the fire—more ironically the MGM had sprinklers—ON ITS LAWN.

The MGM came back, rather quickly. Kerkorian's personal wealth and resources allowed him to carry heavy loads of insurance. Six months after the fire his property was up and running again.

### The Arrival of Steven Alan Wynn—A longer Run of Success

As Kerkorian rebuilt, a new entrepreneur appeared on the Strip in the person of Steve Wynn. For Wynn a long run of leading Las Vegas gaming was ended only after the MGM took over his properties in 2001 with a hostile stock purchase and takeover.

However, the result left Wynn with a new massive wealth and he put his plans for more new casinos to work—first building the Wynn in 2005 and then the Encore. As his mark again was put on the Strip, but he also gained a foothold in Macao, along with another Las Vegas developer—Sheldon Adelson. Amazingly, these builders and Las Vegas as a whole survived a national economic downturn in 2007 and 2008. While East Coast rival Atlantic City saw five of its 13 casinos close their doors, not a single established Las Vegas casino was closed during the recession.

### The Charismatic Runner—On the Track, Off the Track

Charismatic runs and wins but does not always get the Triple Crown. By the turn of the 21st Century, Steve Wynn had well reestablished his place as the “Charismatic” leader of the casino industry. His Bellagio was indeed the most impressive property on the Strip when it opened in 1998. Just one year later an unlikely horse named Charismatic won first the Kentucky Derby and then the Preakness, two jewels in horse racing’s Triple Crown. But alas not all the jewels were for Charismatic. In the stretch to win the Belmont Stakes and the Triple Crown he suffered a broken leg and lost. Fortunately quick surgery repaired the leg and the horse retired to a stud farm. Wynn’s personal Charismatic story had a similar record of near misses. He too went to the edge several times. While the slot manager at the Frontier, the FBI raided the facility and all managers above him on the hierarchy at the Frontier were indicted. Wynn came out clean.

A rare eye disease has limited Wynn’s vision, but not his drive or other abilities. He was a skiing enthusiast. While on a steep run at the Sun Valley resort in Idaho, he missed a turn and fell fifty feet off a cliff. The fall could have been fatal. Instead he only suffered bruises, and soon he was on the slopes again.

Luck found him in a position first to finance a new hotel in Atlantic City, but then to sell it at a great profit, giving him capital to initiate building the Mirage. With

this project he partnered with fancier Michel Milkin. They began a process of selling junk bonds. When it appeared that they were short of their money goals they sold bond holdings to an unsuspecting public. For his role in the affair, Milkin was indicted and served a prison term. Wynn escaped with a clean slate and no bad marks against him. The Mirage was finished, soon to be the number one casino on the Strip. It was followed by Wynn's building of the Treasure Island and then the Bellagio, which again became the number one property. Victory after victory did find new barriers. Large shares of stocks in Wynn properties were held in others' hands. Wynn himself acted as if he was the sole owner. Kerkorian saw an opportunity. He started a stock purchasing effort offering prices Wynn could not match. A hostile takeover ensued leaving Wynn without any casinos. But not for long.

The hostile sale left Wynn with sufficient revenues to build anew—as building was what he did. Wynn managed to buy the Desert Inn, tear it down and create the Wynn Resort, followed by the Encore, and also a casino in Macao.

### No Triple Crown This Time

Nothing could stop Steve Wynn—but like Charismatic there was to be no Triple Crown. As with horse racing, it is with business, the force of the charismatic is good only if you are moving forward meeting all rival challengers. In 2017, as Wynn planned yet another new property on the Las Vegas Strip and one in Macao and one in Boston, Massachusetts, he was looking at a new line-up of winners—a Triple Crown. But alas like Charismatic the horse, as he entered the stretch run, he too felt his broken foot. Like the horse, this time he was over the ledge, and this time, unlike the horse, he could not fix his situation with quick surgery.

For years—indeed decades, rumors floated about Las Vegas that Steve Wynn engaged in unacceptable acts of sexual harassment and misconduct. Many such episodes found publication in journalist John Smith's book about Wynn (entitled "Running Scared, Straight Ahead"). While a public that enjoyed the success that he brought to Las Vegas overlooked his alleged misdeeds, there were limits. In 2018 amidst a national campaign against sexual harassment of women, several women stepped forth and named Steve Wynn as a culprit. As their numbers increased, Wynn's pleas of his innocence were repeated, but they were not effective. Among his "victims" of activities alleged to have included molestation and even rape, were lower level employees of his casinos. Reports suggested the activities had been occurring over many years—even decades. There was no easy way out. Wynn resigned as the CEO of Wynn, Inc, and as a member of the board of control of the company. Reluctantly he sold all his interest in his casinos. His plans for new casino expansion were set aside.

A major problem with charisma and charismatic leadership like that of Steve Wynn's is that there is no pattern for succession. When it's gone, it's gone. Las Vegas has no entrepreneur to take Wynn's place. There is Sheldon Adelson, but he is in the 80s, and while possessing financial resources, he lacked the personality traits of a Wynn.

Wynn's demise was doubly tragic for Las Vegas in that it followed by less than four months the most tragic event on the Las Vegas Strip in nearly forty years.

### High Caliber High Roller

On the evening of October 1, 2017, a high roller (big gambler) at the Mandalay Bay Resort (owned by the MGM Corporation) sat by a 32 story window of his guest room and fired 1100 rounds (bullets) from several guns onto a crowd of outdoors concert goers. They had gathered to listen to music. Stephen Paddock had gathered over 20 guns, bringing them to his room over several days in suitcases. He was helped by casino hotel bell hops who did not know their contents. Maids had cleaned his room several times, but either noticed nothing or said nothing about the arms which included long rifles and AR 15s. The weapons were equipped with bump stocks which enabled them to be fired rapidly. The shots rang out into the crowd of concert goers over a ten to eleven minute time. Paddock had specifically asked the hotel for rooms overlooking the concert. They changed his rooms to meet his request.

The hotel's oversights that made possible Paddock's rampage were incredible and seemed to have an eerie connections to events of November 1980. The hotel denied all responsibility as they prepared for a new onslaught of law suits. However, unlike the earlier tragedy the hotel only experienced a very brief closedown of business. A security official that was actually shot one time, became unavailable for questions from the public. He disappeared from the scene as he was clandestinely given a room by the hotel. He altered actually travelled to Mexico, and then appeared on a national television program—his only public appearance since the shooting. Las Vegas was left in the lurch facing questions about its future.

### Off-setting Events and Chances to Get Back on the Lucky Road

There were more events in 2017 and 2018 that would appear to affect the destiny of this very lucky city. Two categories of events revolved around sports. The U.S. Supreme Court made a ruling that state governments could decide whether or not betting on individual sports games was to be permitted. Up to 2018 such betting was allowed to occur only in Nevada under a 1992 law that gave the state

special rights to have the betting under a “grandfathered in” notion that also applied in a few other states that allowed minimal sports betting opportunities—but no bets on individual games. Nevada was losing a monopoly for its casinos. Would this hurt revenues in the casinos of Las Vegas. Maybe yes, maybe no. For the latter result, we should consider that Nevada (and then New Jersey also) lost a monopoly on casinos gambling in the late 1980s, as several states for the fiery time allowed casinos to exist on Native American reservations as well as soon on riverboats and in small towns—often with very limited, such as \$5, bets. The results: unexpectedly the casinos of Nevada GAINED revenues with the expansion of casino betting from two states to over 30 states. Indeed one study showed that for each new casino built outside of Nevada, Nevada gaming increased eleven million dollars a year. It is possible that Nevada casinos will find that the legalization of sports betting nation wide (to a projected forty new states) will stimulate and increase in betting that will benefit Nevada.

Another sports story, may however, cancel the negative events of Fall 2017 and the early months of 2018. A previous year found that the National Hockey League awarding a brand new team franchise to the city of Las Vegas. With temperatures that often exceed 110 degrees, few expected that sports fans in Las Vegas would “warm up” to having a team which played its games on ice. However, the new T-Mobile Arena on the Strip and Tropicana Blvd. was prepared for the games. The first game of the 2017-2018 season was played only ten days after the Mandalay Bay tragedy. The new hockey team had never met together for a game. Their players were all “rejects” from existing teams. Nonetheless, the players all came together in a somber recognition of the loss of 58 lives at the concert. Leaders on the team pledged that they were playing for Las Vegas. Most thought it was but a feeble gesture, that a new team could not make a big statement.

They were very wrong. The team won its first game—something the experts thought impossible. Then they kept winning—the first eight games. They were on top of their division and they stayed there—the entire season. They won a spot in the league play-offs, then the first playoff series four games to zero. Then the second series, four to two, and the third series also. They became the first professional sports team to reach a finals playoff series in the history of sports. Only then did their miracle season come to an end as the Washington Capitals won the championship in a four to one series. Still it was an unbelievable season for the Las Vegas Golden Knights. While the city had endured the worst tragedy in almost forty years, the city was restored to a mood of celebration and to thoughts that its future could be bright again. Vegas Strong? We’ll wait and see.