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Atlantic City: The Fall of the Boardwalk Empire

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Gambling as an engine of economic development turned out to be a bad wager, and the famed New Jersey city is paying the price.



(Photo: AP/Wayne Parry)

A boat sails past the Atlantic City casino zone on February 12, 2016.

Four decades ago, Atlantic City rolled the dice on the city’s future—and lost. In 1976, visions of dollars sloshing into municipal and state coffers lured New Jersey voters into establishing casino gambling into Atlantic City. It was the ultimate Faustian bargain: Gambling industry investments would save the fading grand dame of the Jersey Shore. What could go wrong?

In fact, everything. Atlantic City ushered in the era of “gaming,” as the industry likes to call it, on the East Coast—but today, city and state officials are bickering over last-ditch proposals to pull the city back from the precipice of bankruptcy. Atlantic City made a bad bet, yoking its economic aspirations to a single industry in a market that has since become saturated with casinos all up and down the East Coast. The empty casino buildings along the city’s fabled boardwalk stand as grim totems to the perils of seizing on gambling as the antidote to municipal distress.

A fiscal calamity of this magnitude should be the catalyst for collaboration. But when the governor is Chris Christie, all bets are off. The crisis finds Christie picking fights with his colleagues; this week he called Atlantic City Mayor Don Guardian, a fellow Republican, “**a liar**.” Worse, Christie is spending a lot of time outside New Jersey to campaign with GOP presidential hopeful Donald Trump, one of Atlantic City’s most notorious casino moguls and a man whose casino bankruptcies helped speed the city on its downward spiral.

(Asked about the turmoil in Trenton, Guardian takes the high road. “Chris Christie has been elected as governor by the people of the state of New Jersey,” Guardian tells *The American Prospect*. “The only name that you’ll hear me call him is ‘Governor.’”)

It wasn’t supposed to be this way. Voters approved casinos in a statewide referendum, after initially rejecting them, amid considerable industry hype. The gambling industry would provide jobs and send money back into the community that had been in a steady decline after World War II—that was the theory, anyway. “I drank the Kool-Aid,” says Frank Nero, former New Jersey economic development official who was the mayor of the northern New Jersey town North Plainfield at the time. Atlantic City had the only casinos outside Las Vegas; it also had unemployment, crime, and decaying neighborhoods. “Casinos promised economic renewal,” Nero says.

But that rosy scenario never materialized. Whites fled as African Americans continued to move into the city and take up public-sector and service jobs. Poverty and crime increased. The casino industry’s business model—to drain dollars as quickly as possible from the pockets of people who, for the most part, can least afford to lose them—meant that residents had less to spend on local businesses and communities, which suffered in turn.

“The only reason that casinos were able to get passed in A.C. was because the folks that run the casinos just feasted on the desperation of that community,” says Les Bernal, national director of Stop Predatory Gambling, a Washington-based nonprofit advocacy organization.

Casinos did well for a few years, and millions of visitors poured into the city. No one expected that the casinos themselves would fall on their own hard times as they did once casinos started opening in Pennsylvania, Delaware, New York, Connecticut, and on Native American tribal lands. Once the Great Recession hit, the casino market was already oversaturated, and four of the 12 casinos in Atlantic City went belly up. (Four of Trump’s holdings went bankrupt and few locals have kind things to say about him.)

According to Guardian, the crux of the problem is a flawed casino-revenue distribution formula that brings in hundreds of millions for the state, but delivers casino revenue to Atlantic City only in the form of property taxes. When the city was more flush with money, casino operators’ dollars flowed into casino improvements rather than into urban redevelopment projects. Atlantic City could have improved its outlook by attracting new industries or even boosting its tourism offerings.

But prior to Guardian’s election as mayor in 2014, the city had suffered a leadership void for decades, plagued by a procession of corrupt or inept mayors; the city missed multiple economic development opportunities to beef up its tourism offerings, provide job training for residents, or even to join forces with other South Jersey municipalities on regional development strategies.

“Shame on all of us; we should have been better prepared,” says Guardian. “We been making mistakes for some 50 years.”

Implausible as it may seem, what Atlantic City needs and has never had is an economic development czar who could bring together the multiple stakeholders to rebuild the boardwalk empire. That includes not only usual political suspects and casino operators who’ve long dominated life in Atlantic City, but the neighborhood leaders and small-business owners in the city’s African American, Latino, and Asian communities who have been left out of discussions for decades.

This being Jersey, he or she may have to come equipped to knock heads, figuratively speaking. “The conversation has to expand,” says Bryant Simon, a Temple University history professor who has studied Atlantic City. “The people at the table need to change.”

According to a Federal Reserve of Philadelphia 2009 study of the city, Atlantic City’s rates of poverty and unemployment have long been higher than state averages, and high-school graduation rates, lower. Today, about 35 percent of the city’s 40,000 residents live in poverty. The majority-minority city never had any sort of “social compact” that required casino companies to provide job training and to hire local residents. Many of the city’s initial casino hires were experienced casino workers from Las Vegas or the Caribbean.

There is plenty of blame to parcel out in the Atlantic City saga. But coming up with a rescue plan has brought out the worst in New Jersey’s already combative politicians. Christie wants to strip city officials of their powers, leaving them essentially figureheads, and unions of their collective-bargaining rights proposals, which are widely considered to be unworkable. State legislative leaders have pushed their own plans, which Christie has categorically rejected. “The state’s system for managing municipal fiscal distress effectively failed with Atlantic City,” says Marc Pfeiffer, assistant director of the Bloustein Local Government Research Center at Rutgers University. “It didn’t act soon enough or strong enough, and now we have got this immense problem that it appears will take extraordinary measures to fix.”

The financial markets responded as markets are wont to do when uncertainty reigns: Moody’s Investors Service promptly downgraded Atlantic City’s bond rating and warned that other Garden State municipalities might be in for similar bond market treatment if the state leaders can’t end the impasse soon.

Yet as grim as the situation is in Atlantic City, the cautionary tale hasn’t persuaded other states or localities to abandon gambling as an economic development strategy. These include New York state, which has already approved three new casinos, and Florida, where Miami is flirting with the idea of casino development.

But for Guardian, the casino hand has played out and he isn't waiting for Christie to play nicely in the sandbox or a czar to parachute in. He reeled off several new job-creating and revenue-generating projects: a Stockton University satellite campus; a South Jersey Gas headquarters; a call center that will provide 300 new jobs. There are "wow venues," as the mayor calls them, too, an entertainment center in a former casino and 250 units of fresh market-rate housing.

Meanwhile, Atlantic City may be in fiscal turmoil, but the casino industry continues to vacuum up money. The city's remaining eight casinos pulled in more than \$500 million in profits in 2015, a more than 40 percent increase over the previous year. They've spent millions on upgrades to their facilities. They've also agreed on a new formula to distribute gambling revenues to the city. But Atlantic City remains on the hook for property-tax givebacks (although the casinos have recently agreed to embark on a plan to help the city pay down that debt) and further belt-tightening. "Instead of investing in real forms of economic growth that produced wealth for everybody, they invested in the biggest vulture that there is," says Bernal.

Even more troubling is that New Jersey has failed to learn the lesson served up by the Atlantic City debacle. A casino referendum that would site two more casinos in northern New Jersey will come before voters in November, 40 years after Atlantic City embarked on its ill-fated wager.