

A Quick Barometric Read of Recent Casino Gaming Trends in New Jersey

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* The views expressed are those of the author and do not necessarily represent the views of the NJ Department of Treasury, The Office Of Chief Economist or the State.

Hot from the Oven

- The referendum on the expansion of casino gaming in northern New Jersey was rejected definitively (79% opponents vs. 21% supporters)
- Latest news – Local Finance Board approved the State takeover of Atlantic City (under the Municipal Stabilization and Recovery Act) by the Christie administration -- get financial house in order and adopt policy measures to promote long term fiscal sustainability in Atlantic City

The Back Drop: Nationwide

- Per AGA [1], 2015 set a record with \$38.54B in consumer spending on casino gaming
- 24 states offer commercial gaming (1st year for MA)
 - industry-wide GGR up 2.2% YOY, following a dip in 2014 the first since the Great Recession
 - 350K jobs with \$14.4B in wages, benefits and tips
 - \$8.85B in industry specific gaming taxes

[1] American Gaming Association (2016), *State of the States*.

Back Drop2

- Selected GGR trends in 2015
 - *Maryland + 18.0%
 - *Ohio + 12.8%
 - *Louisiana + 7.1%
- New Jersey had the largest decline (-6.5%), primarily due to 4 casino closures— however, revenues from current operators increased 2.3% YOY; West Virginia (-4.9%) was impacted by casino expansions in Maryland and Ohio

Back Drop: New Jersey

- 2016 marks the 40th Anniversary of the passage of the gaming referendum in New Jersey [2]
- New Jersey offers a wide variety of gambling activities in the state, including lottery, land-based casino gaming, horse racing, and since November 2013, internet gaming (IG); together lottery and casino revenues are expected to contribute over \$1.2 billion in FY2017 (under 4% of state revenues)
- After lottery, casino gaming is the second largest generator of gambling revenues for the State (\$300M+ from casino specific taxes & fees, including license fees for CY2015; the bulk deposited into the Casino Revenue Fund)
- In the remainder of the presentation, I will focus primarily on: (a) the New Jersey casino gaming experience in the face of steep inter-state gaming competition, (b) internet gaming in the State, and conclude with some reflections

[2] New Jersey voters approved the legalization of casinos in Atlantic City in November 1976.

New Jersey's Casino Industry Profile

- The first casino in Atlantic City, Resorts International, opened in 1978, making New Jersey the only state other than Nevada with legalized land-based commercial gaming in the United States
- New Jersey (and Nevada) enjoyed many years of a growing but protected market until the casino fever started to spread across the U.S. [3] since the early 1990s
- There are 7 land-based casinos in Atlantic City (not statewide); the newest casino, Revel AC, opened in April 2012 and closed on Sept. 2, 2014
- Total casino win in 2015 was around \$2.6 billion from slot machines (67.6%), table games (26.6%) and iGaming (5.8%)[4]

[3] Madhusudhan, Ranjana (October 1995). "Implications of Legalized Gambling for State and Local Finances: The Case of New Jersey." In Robert Tannenwald edited, Casino Development: How Would Casino Development Affect New England's Economy? Federal Reserve Bank of Boston, Special Report No. 2.

[4] <http://www.nj.gov/oag/ge/docs/Financials/PressRel2015/December2015PressRelease.pdf> (page 2)

Economic Benefits: Brief Outline

- Casinos are an element of the Leisure, Hospitality and Retail industry cluster, identified by New Jersey Department of Labor as one of the state's key industry cluster ^[5]
- 23.6K casino employees in 2015 with \$580M+ in aggregate salaries and wages paid (38.6K employees with \$1.0B+ S&W in 2008) ^[6]
- Around 25 million in annual visitor volume (34.5M 10 yrs. ago)
- Even though overall activity in the industry has been declining, casinos remain a critical economic engine for Atlantic City and the county with spillovers in dining, lodging, and retailing^[7]

[5] <http://lwd.dol.state.nj.us/labor/lpa/pub/lmv/cluster%20handout.pdf>

[6] http://www.nj.gov/casinos/reports/docs/2015_ccc_annual_report.pdf;
http://www.nj.gov/casinos/reports/docs/2011_ccc_annual_report.pdf

[7] Madhusudhan, Ranjana (January 2012). "New Jersey Casino Industry" in New Jersey Economic Insights, pp. 3-4.

Economic Benefits Contd.

- The casino industry also generates thousands of secondary jobs in Atlantic City and statewide
- The industry provides a fair amount of revenue to the state and local governments from various taxes & fees: around \$350M in CY2015
- Gaming revenues dedicated primarily to support programs for the elderly and disabled citizens and for economic development projects via the Casino Reinvestment Development Authority (CRDA)
- NJ gaming tax rates: 8% Gross revenue Tax (accounts for the bulk of gaming revenues); 15% Internet Gross Revenue Tax; plus a community investment alternative obligation of 1.25% of gross gaming revenues (or an investment alternative 2.5% on GGR)

Issues with Inter-State Competition

- The national gaming market has evolved beyond the well-segmented Atlantic City/Nevada pattern to a fiercely competitive open arena
- Regional competition has increased with expansion of legalized gaming, particularly in the mid-Atlantic region -- opening of new casinos, slot machines, video lottery terminals at racetracks in nearby states (e.g., PA, DE, MD, NY, CT and MA)
 - diversion of business from Atlantic City
 - gaming and tourism declined resulting in loss of employment (peak level around 50K in the late 1990s) and revenues (peak win of \$5.2B in 2006)
 - casino bankruptcies /closings (4 in 2014 and Taj Mahal in 2016) [8]

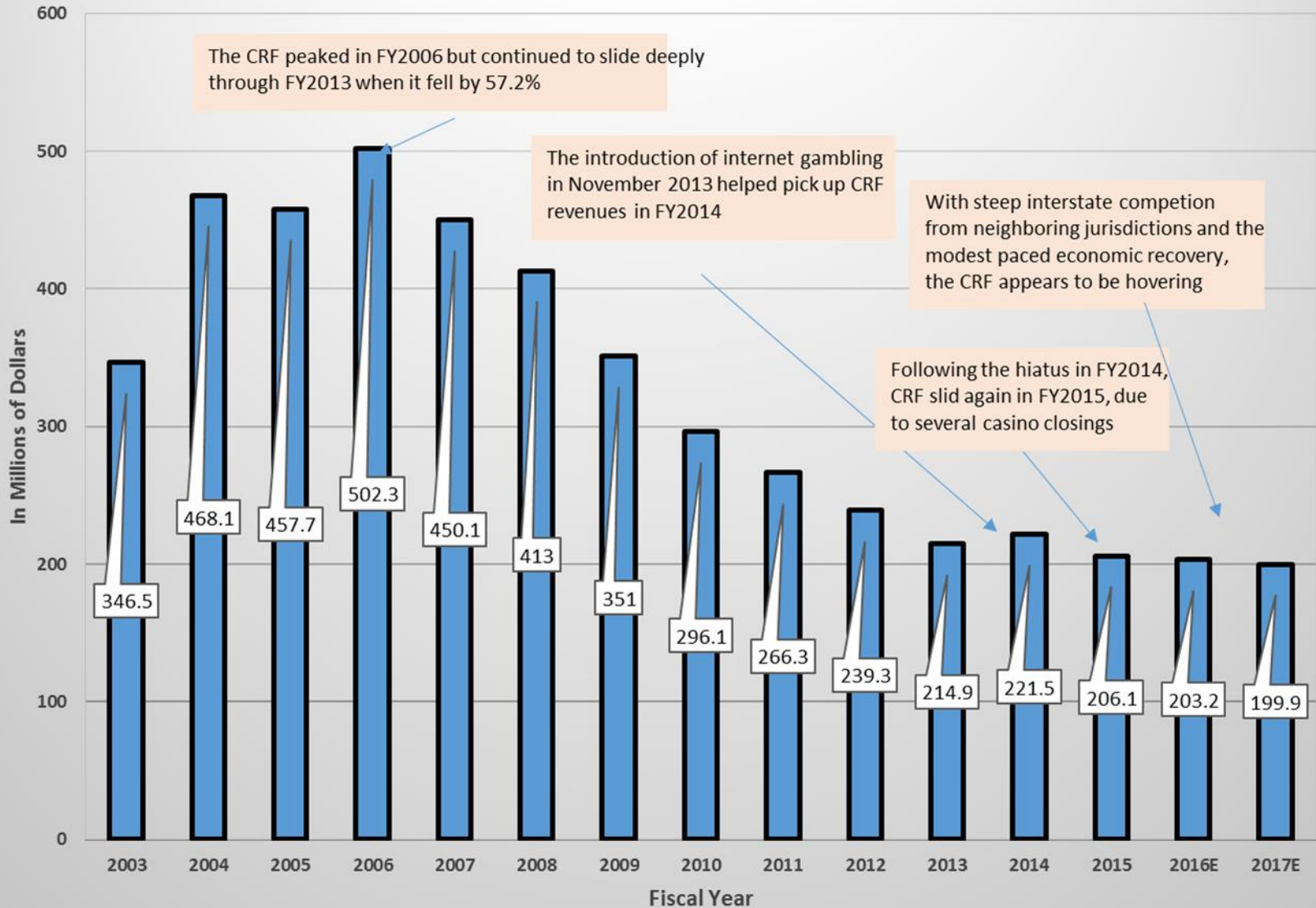
[8] This also adversely impacted AC's property tax ratable base, which is projected to be around \$6.5B for 2016, steeply below the high base of \$20B in 2008.

Issues with Inter-state Competition ..contd. 2

- NJ accounts for the 2nd largest gaming state (in terms of % share in total gaming revenue) in the Northeast, following PA, which surpassed NJ in 2012 [9]
- After peaking in FY2006, casino tax revenues have plummeted more than 50% in FY2016 with gaming revenues declining steadily for seven straight years (see bar chart below)

[9] See http://gaming.unlv.edu/reports/national_annual_revenues.pdf for details.

Annual Trend in Casino Revenue Fund



Latest New Jersey Trends

- Latest casino industry results posted by the Division of Gaming Enforcement (DGE) (Press Release 11/15/16):
- Results for October 2016
 - casino win (\$186.4M) -2.7%
 - table games +3.8% and Slot Machines -5.1%
 - internet gaming win (16.7M) +29.6%
- CY2016 YTD thru October
 - casino win (\$2.04B) -0.5%
 - table games + 1.1% and Slot Machines -1.1%
 - internet gaming (161.2M) + 32.5%

Source:

<http://www.nj.gov/oag/ge/docs/Financials/PressRel2016/October2016.pdf>

iGaming in New Jersey

- New Jersey is the third state after Nevada and Delaware to offer on-line gaming
- After a five-day testing period, New Jersey launched its on-line gaming to the general public on 11/26/2013
- The law permitting on-line gaming was signed by Governor Christie on 2/26/2013
- Five casinos are offering iGaming with twenty websites operating (see next slide for details);
- Some initial challenges: banking, technology and awareness, and the validation of in-state location of players

AUTHORIZED SITES

- ▶ [Borgata Hotel Casino & Spa](#)
- ▶ [Caesars Interactive Entertainment- Affiliate of Boardwalk Regency Corporation](#)
- ▶ [Golden Nugget Atlantic City](#)
- ▶ [Resorts Casino Hotel](#)
- ▶ [Tropicana Casino and Resort](#)

BORGATA HOTEL CASINO & SPA

- ✓ www.Borgatacasino.com
- ✓ www.Borgatapoker.com
- ✓ www.NJ.Partypoker.com
- ✓ www.palacasino.com
- ✓ www.palabingousa.com

CAESARS INTERACTIVE ENTERTAINMENT NEW JERSEY - AFFILIATE OF BOARDWALK REGENCY CORPORATION

- ✓ www.CaesarsCasino.com
- ✓ www.HarrahsCasino.com
- ✓ www.WSOP.com
- ✓ us.888.com
- ✓ us.888poker.com
- ✓ us.888casino.com

GOLDEN NUGGET ATLANTIC CITY

- ✓ www.GoldenNuggetCasino.com
- ✓ nj-casino.goldennuggetcasino.com
- ✓ www.betfaircasino.com
- ✓ www.playsugarhouse.com

RESORTS CASINO HOTEL

- ✓ www.resortscasino.com
- ✓ www.mohegansuncasino.com
- ✓ www.pokerstarscasinonj.com

TROPICANA CASINO AND RESORT

- ✓ www.tropicanacasino.com
- ✓ www.virgincasino.com

The Inter-State Gaming experience?

- As noted earlier there are three states that offer on-line gaming
- The setup is different in these states
 - For instance, in Delaware, internet gaming is run by their state lottery and it is under the Department of Gaming Enforcement in New Jersey; Nevada only limited to poker
- Scarcity of data on iGaming activity and not too much history
 - Nevada's internet gaming results lumped with brick and mortar casinos
 - New Jersey (on-line provision of all casino games) started reporting since January of 2014

Links to internet/online gaming information:

- New Jersey Internet Results:
- <http://www.nj.gov/oag/ge/igrtaxreturns.html>
-
- <http://www.nj.gov/oag/ge/pressreleases.html>
-
- Delaware Igaming Results:
- <http://www.delottery.com/games/igaming/finalstats2015.asp>
-
- Nevada Monthly Results (No online breakout)
- <http://gaming.nv.gov/index.aspx?page=149>

Emerging Trends in iGaming: NJ

- Currently there are 5 casinos that partner with iGaming providers and offer numerous websites
- NJ's iGaming market is by far the largest (CY16 YTD thru October win = \$160M+; NV limited to 3 operators; DE around 40M)
- iGaming is s.t. Internet Gross Revenue Tax @ 15% on internet gross revenue and deposited to CRF
- It appears that iGaming results got better for casino branded websites such as Borgatacasino.com vs. provider platform websites such as 888.com –possibly due to name recognition

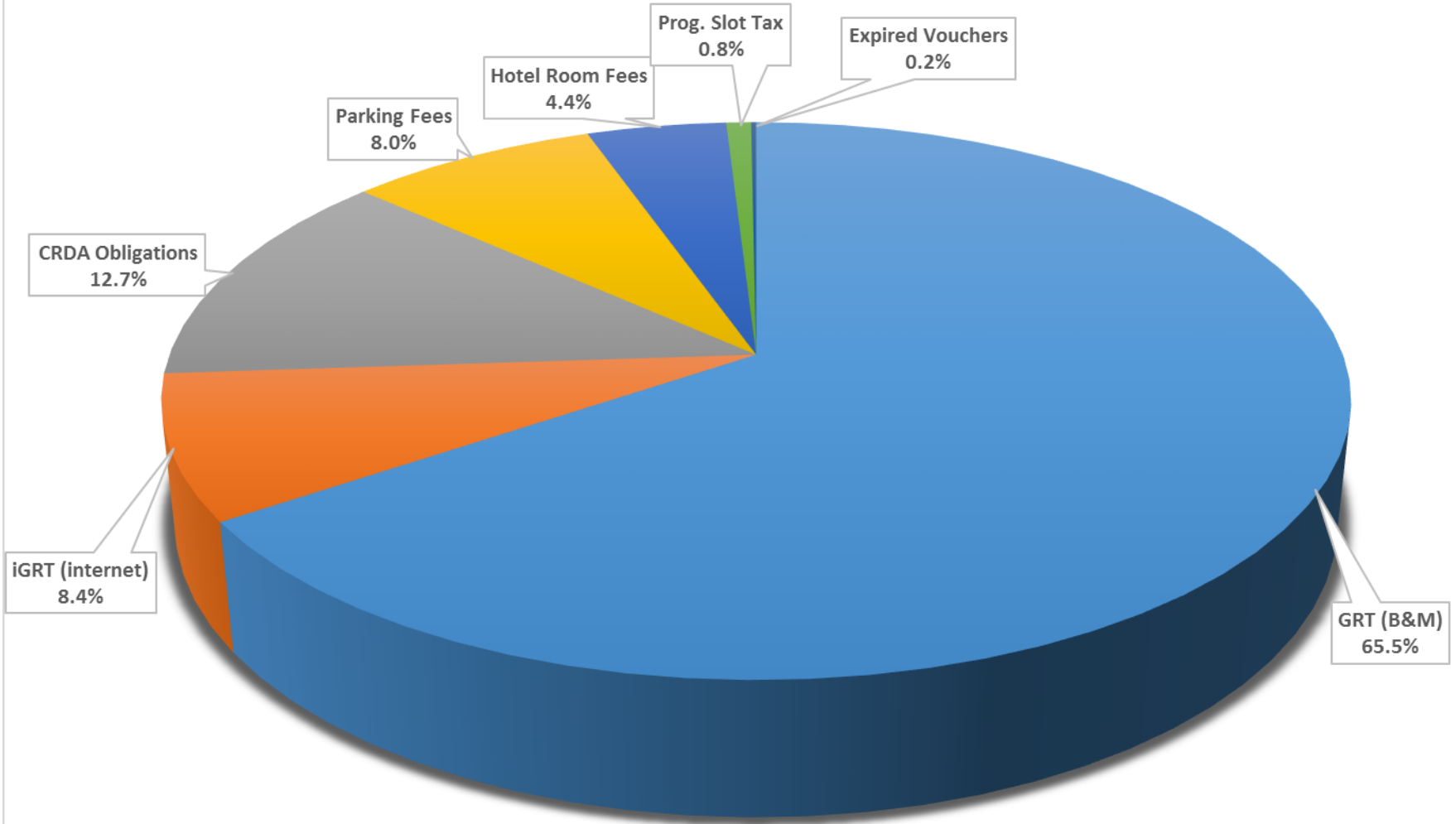
Emerging iGaming trends contd. 2

- CY2015, latest full year result summary (Pie chart)
- Over \$266M from casino taxes and fees, of which, close to three-fourths from B&M casinos (65.5%) and rest from iGaming (8.4%)
- Distribution: 89% B&M and 11% iGaming ... CY2016 YTD shows an increase in iG share has increased to around 14%
- The pace of growth appears to be increasing as well: %YOY change in CY2015 was 21% and it increased to 32.5% for CY16 YTD through October over year-ago

Wrap Up and Observations

- There appears to be continuing growth in the iGaming sector in NJ
- Reality: although iGaming appears to be a growing segment, it represents a relatively smaller slice of the gaming industry (see revenue pie chart)
- In general, the moderate-paced economy along with increased interstate competition will remain a drag for the gaming industry (latest Taj Mahal shut down)

Casino Taxes and Fees: CY2015



■ GRT (B&M) ■ iGRT (internet) ■ CRDA Obligations ■ Parking Fees ■ Hotel Room Fees ■ Prog. Slot Tax ■ Expired Vouchers

Reflections

- Major steps in NJ to strengthen the gaming industry's prospect
 - Emphasis on making AC a destination resort
 - Marketing efforts and image building
 - Push for non-gaming activities to attract more tourism
 - Pioneering newer horizons --iGaming

Reflections ... Contd. 2

- Although casino gaming generates employment, income and revenues for S+LGs, it is not likely to be the magic bullet
- Given the tight fiscal environment, casino fever is likely to continue and inter-state competitive pressure is expected to remain a challenge to policy makers
- Casino gaming's role as a stable and productive revenue source for S+LGs is likely to remain limited, especially in the slow economic recovery mode that we are in now

Reflections ... contd. 3

- The success of casino gaming as an economic development tool in any jurisdiction would hinge on a well coordinated development plan with public-private partnership and provision of non-gaming attractions as well
- Policy trade-offs will need to be recognized
- No such thing as a free lunch – social costs of gaming expansion should be considered

Reflections and Beyond

- Inter-state compacts with revenue sharing should be explored as a potential growth driver ... other states are also likely to benefit from NJ's iGaming infrastructure and expertise (inter-state lottery games such as Mega Million and Power Ball are illustrations)
- Other new frontiers should be pursued ...on-line sports betting (matter in court?) and tech friendly innovations in gaming products
- Regardless of underlying motivation, it is important to keep the integrity of the gambling industry intact and minimizing social costs
- **What Next?**
I believe that not only gaming fever will continue, iGaming flue is on the horizon as well.



A view of the Atlantic City skyline in 2010 (John Munson / The Star-Ledger), taken from:
http://www.nj.com/politics/index.ssf/2016/11/whats_next_in_state_takeover_of_atlantic_city_and.html.