

# **Gaming Expansion in New Jersey**

## **Assessing the Impacts on the Atlantic City Region**

**Prepared At The Request Of:**

***Resorts Casino Hotel, Atlantic City, NJ***

**Prepared By:**

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## I. EXECUTIVE SUMMARY

The State of New Jersey is considering the expansion of casino gaming into northern New Jersey. Recent proposed legislation calls for no more than two casinos, each to be located in a different county in municipalities more than 72 miles from Atlantic City. This expansion comes at a time that Atlantic City's gaming industry, after several years of decline owing to an increasingly competitive northeast gaming market, is finally finding its footing. Atlantic City has right sized its gaming industry, is in the middle of several strategic investments and despite potential new out-of-state competition, has stabilized and is poised for new growth. Expansion of gaming to Northern New Jersey could jeopardize Atlantic City's recovery and negatively impact not only the gaming industry, but the entire region.

GGH (Morowitz Gaming Advisors and Global Gaming & Hospitality) was requested by Resorts Casino Hotel (the "Company") to prepare an analysis of the expansion of gaming in New Jersey. Specifically, GGH analyzed the impact of two large scale casino investments in northern New Jersey on the competitive environment impacting New Jersey and Atlantic City and quantified the potential impacts on the casinos in Atlantic City and the overall economy of the Atlantic City region. We did not analyze or quantify the offsetting economic impacts of casino expansion in northern New Jersey because there is simply not enough detail in the proposed legislation to determine those impacts. This analysis therefore focuses solely on the impacts to the Atlantic City region.

Our analysis and conclusions are based on a number of analytical techniques including an in depth qualitative and quantitative analysis of the trends through the date of this report impacting the gaming industry in Atlantic City as well as governmental spending and trends in the region. Our analysis also relies on the development and utilization of a gravity model, which is a modeling technique used throughout the gaming industry to measure the impacts of new gaming supply on existing competitors and the market as a whole.

Atlantic County has grown significantly during the casino era in terms of population and almost all of that growth has been confined to the municipalities and towns in the mainland communities surrounding Atlantic City. This growth was catalyzed and supported by the gaming industry and necessitated much in the way of infrastructure to support this growth including roads, schools and government services. As the industry has contracted, the area has come under considerable stress.

As of September 2015, the casino industry generated \$2.6 billion of net revenue, \$404 million of EBITDA, employed 24,431 employees, over \$590 million in wages (not including tips) and was paying approximately \$381 million in State and local taxes (including property taxes). On a pro forma basis, those amounts are expected to decline marginally with the opening of new out-of-state competitors anticipated in Pennsylvania, Maryland, New York and Massachusetts to \$2.45 billion of gaming revenue, \$356 million of EBITDA, 23,029 employees, \$557 million in wages and \$363 million in taxes. At this point, due to saturation of the U.S. market, it is highly unlikely that

there will be additional out-of-state expansion and the Atlantic City casino industry should stabilize and even potentially grow.

However, if casinos expand to northern New Jersey, Atlantic City's casino industry will contract significantly, losing net revenue ranging from \$624 million to \$1.4 billion with industry EBITDA declining to anywhere from \$162 million to \$195 million. However, the more likely result is that anywhere from three to five casinos will close, causing a spiral downward with net revenues declining by a range of \$1.0 billion to \$1.4 billion, EBITDA declining by between \$162 million and \$170 million, employment declining by between 11,800 and 15,000, wages (not including tips) declining by between \$285 million and \$365 million and industry tax payments declining by between \$128 million and \$158 million.

### Impacts of North Jersey Expansion on Atlantic City Casinos

(In 000's except Employees)	TTM 9/15	Baseline	No Closures	3 Closures	Impact	%	4 Closures	Impact	%	5 Closures	Impact	%
<b>Revenues</b>												
Gaming	\$ 2,474,066	\$ 2,285,898	\$ 1,594,254	\$ 1,194,844	\$ (1,091,055)	(47.7%)	\$ 1,006,471	\$ (1,279,427)	(56.0%)	\$ 856,580	\$ (1,429,318)	(62.5%)
Non-gaming	999,387	964,683	790,253	641,193	(323,490)	(33.5%)	562,394	(402,289)	(41.7%)	521,453	(443,230)	(45.9%)
Gross Revenue	3,473,453	3,250,581	2,384,507	1,836,037	(1,414,544)	(43.5%)	1,568,865	(1,681,716)	(51.7%)	1,378,034	(1,872,548)	(57.6%)
Promo	860,232	797,443	556,161	406,222	(391,221)	(49.1%)	352,985	(444,458)	(55.7%)	302,595	(494,848)	(62.1%)
Net Revenue	2,613,221	2,453,138	1,828,346	1,429,815	(1,023,323)	(41.7%)	1,215,880	(1,237,259)	(50.4%)	1,075,439	(1,377,700)	(56.2%)
<b>EBITDA</b>	404,545	356,226	161,108	186,283	(169,943)	(47.7%)	186,529	(169,697)	(47.6%)	193,942	(162,284)	(45.6%)
% Margin	15.5%	14.5%	8.8%	13.0%	(1.5%)	(10.3%)	15.3%	0.8%	5.6%	18.0%	3.5%	24.2%
Gaming as % of Gross	71.2%	70.3%	66.9%	65.1%	(5.2%)	(7.5%)	64.2%	(6.2%)	(8.8%)	62.2%	(8.2%)	(11.6%)
Occupancy	80.9%	81.6%	80.3%	85.5%	3.9%	4.7%	88.6%	7.0%	8.6%	90.4%	8.8%	10.8%
ADR	\$ 102.37	\$ 102.26	\$ 96.95	\$ 107.79	\$ 5.52	5.4%	\$ 113.93	\$ 11.67	11.4%	\$ 120.65	\$ 18.39	18.0%
# of Employees	24,431	23,029	16,318	11,205	(11,824)	(51.3%)	9,353	(13,676)	(59.4%)	7,990	(15,039)	(65.3%)
Salaries & Wages	\$ 590,710	\$ 556,675	\$ 394,907	\$ 271,619	\$ (285,056)	(51.2%)	\$ 227,341	\$ (329,334)	(59.2%)	\$ 192,156	\$ (364,520)	(65.5%)
Average Salary	24.18	24.17	24.20	24.24	0.07	0.3%	24.31	0.13	0.6%	24.05	(0.12)	(0.5%)
<b>Taxes</b>												
Gaming Tax	\$ 175,322	\$ 165,667	\$ 117,720	\$ 90,740	\$ (74,927)	(45.2%)	\$ 78,082	\$ (87,585)	(52.9%)	\$ 67,883	\$ (97,784)	(59.0%)
CRDA Fee	19,390	28,574	19,928	14,936	(13,638)	(47.7%)	12,581	(15,993)	(56.0%)	10,707	(17,866)	(62.5%)
Property Tax	151,162	124,979	90,000	90,000	(34,979)	(28.0%)	90,000	(34,979)	(28.0%)	90,000	(34,979)	(28.0%)
Parking Fee	3,620	3,344	2,332	1,748	(1,596)	(47.7%)	1,473	(1,872)	(56.0%)	1,253	(2,091)	(62.5%)
Room Fee	11,897	11,997	11,809	8,706	(3,290)	(27.4%)	7,009	(4,988)	(41.6%)	6,433	(5,564)	(46.4%)
<b>Total</b>	\$ 361,391	\$ 334,561	\$ 241,789	\$ 206,130	\$ (128,430)	(38.4%)	\$ 189,144	\$ (145,416)	(43.5%)	\$ 176,276	\$ (158,284)	(47.3%)

Based on our analysis we have concluded that the expansion of gaming in northern New Jersey will have significant and far reaching impacts on the Atlantic City region. The major impacts are summarized as follows:

- Gaming revenue declines of \$691 million to \$1.4 billion
- Three to five additional casino closures
- Total job losses to the region ranging from 23,000 to 30,000 and regional unemployment rates of 25% to 30%
- Foreclosure rates (already among the highest in the nation) increasing significantly
- Lost regional and state economic output of \$1.5 billion to \$2.0 billion
- Potential increases in New Jersey State transitional and school subsidies to municipalities and school districts of \$134 million to \$367 million
- Reductions in Atlantic City Expressway tolls of \$11 to \$15 million
- Reductions in state tax payments by Atlantic City casinos of \$86 million to \$111 million
- Potential for \$100 million of reduced spending at Boardwalk based small businesses

These impacts are summarized in the following tables.

**Summary of Regional Impacts on Jobs, Income and Economic Output**

	Job Losses	Income Loss	Loss in Economic Output	Unemployment Rate
Direct Casino Impacts	12,500 to 16,000 jobs	\$372 million to \$490 million		
Vendor Impacts	5,000 to 7,000 jobs	\$185 million to \$242 million		
Total Regional Economic Impact from Casino	17,500 to 23,000	\$556 million to \$733 million	\$664 million to \$888 million	20% to 25%
Spending Outside Casinos	5,600 to 7,300	\$153 million to \$201 million	\$364 million to \$477 million	
Total Regional Economic Impact with Casinos and Boardwalk	23,000 to 30,000	\$709 million to \$934 million	\$1.0 billion to \$1.36 billion	25% to 30%

**Summary of Direct Casino Toll and Tax Related Impacts**

	SJTA Tolls	Gaming Revenue Tax	Luxury Tax	Room Tax	Parking Tax
Total Impact	\$11.4 million to \$14.9 million	\$75 million to \$98 million	\$5.6 million	\$3.3 million to \$5.6 million	\$1.6 million to \$2.1 million

**Summary of Potential Government Impacts**

	Transitional Aid Range	School Aid Range	Total
Government Impacts	\$31 million to \$54 million	\$103 million to \$313 million	\$134 million to \$367 million Annually

**Potential Reduced Economic Output Beyond Atlantic County Region**

	Decline in Economic Output Outside Atlantic County	Annual Impact Per Non-Atlantic County Resident
Multiplier Impacts of Atlantic City Economic Decline to Rest of State	\$275 million to \$369 million	\$32 to \$43
Direct, Indirect and Induced Impacts of Vendor Spending Declines Outside of Atlantic County	\$185 million	\$21
Total Decline Outside Atlantic County	\$460 million to \$554 million	\$53 to \$64

Our analysis, methodology and conclusions are detailed in the accompanying report and economic impact study and magnify the importance of studying the overall impact of gaming expansion in New Jersey. The key issue is that casinos in northern New Jersey will not just impact Atlantic City. They will impact the wellbeing of an entire region of the State of New Jersey. In the absence of other significant economic catalysts, the Atlantic County region could become a significant and permanent ward of the state of New Jersey.