

Promises Made, Promises Broken

AN OVERVIEW OF GAMBLING IN NEW JERSEY AND
RECOMMENDATIONS FOR THE FUTURE

Yixin Liu, Neha Mehta, Paul Siracusa, Annelisa Steeber, and Jared Sussman

EDWARD J. BLOUSTEIN SCHOOL OF PLANNING AND PUBLIC POLICY | NEW JERSEY POLICY PERSPECTIVE

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Executive Summary

New Jersey has benefited from being a frontrunner in many gambling sectors over the past half-century. From horseracing bets to Atlantic City casinos to the State Lottery, New Jersey has promised to support public programs without the need for taxpayer contributions. Overall, the gambling industry has provided substantial support to the State; however, this is only one version of the story. As competition from other states increased and gaming revenues dried up, the State has often been left without this revenue. While the choice to increase gambling always seemed necessary, especially when facing tight budgets, history shows that gambling may not be a reliable source of income for the State, there are many additional costs rarely considered, and the initial decision rarely takes into consideration all of the costs and benefits.

This report examines the major gambling areas in New Jersey—past, present, and future. The history of gaming in New Jersey includes wild successes and stark failures. Importantly, many of the promises made about new gambling endeavors have not matched the reality. Through our investigation we have identified three primary themes that characterize gambling in New Jersey: (1) gambling revenues are often unsustainable in the long-term and should not be relied on in the State budget; (2) gambling is not “pain free,” as is often advertised; and (3) gambling may be an acceptable enterprise, but should not be relied on for more than it can offer and all costs and benefits must be weighed.

Lottery

The New Jersey Lottery’s official website proclaims that the lottery has been “giving dreams a chance since 1971” when the first millionaire drawing was held.¹ While the number of millionaires has risen over time, most people never realize the “dream” since the odds are so small. Typically, this frustration is what people focus on most. Yet, several major faults plague the State lottery.

First, few are aware that lottery net proceeds as a percent of total ticket sales have markedly shrunk, causing lottery contributions to State institutions and education to remain flat. Second, New Jerseyans do not realize that promised lottery contributions to the State merely replace funds that would have otherwise been spent on the same services and that the lottery is the only major revenue source not considered a tax or fee. Third, the lottery’s heavy reliance on ticket purchases from low-income individuals is often not discussed. Finally, the State’s decision to privatize the sales and marketing units of the lottery has yet to payoff. Until officials increase the proportion of lottery revenues given to the State, plainly advertise how the State receives lottery funds, and regain control over how lottery games are marketed to vulnerable groups, the lottery will remain an inefficient operation.

Stadiums and Horseracing

One of the major links between gambling and the New Jersey state government was established in the 1970s through a deal to pay for new sports stadiums with profits from horseracing bets. The dealmakers promised a brand new stadium that do not require either private investment or taxpayer money. At first, this arrangement sent millions to the State. However, as horseracing revenues dried up, the State has been forced to pay millions on remaining debts, and will continue paying these debts through 2026. The story of “free” (i.e. expensive) stadiums paid for with gambling revenues illustrates the long-term costs of oversized promises and state reliance on gambling revenue.

Atlantic City

New Jersey created a casino industry in the 1970s, with the promise that the industry would revive Atlantic City's dying tourism industry and act as a tool that could be used for urban renewal. Nearly forty years later, it is evident that those outcomes were not realized. The casinos completely took over Atlantic City's tourism industry and while letting the rest of the city's economy disappear. The issue of urban renewal was consistently neglected for most of the casino era of Atlantic City. Today, Atlantic City faces major economic problems. The State, the casino industry, and the city should consider the promises that were made to Atlantic City when addressing the issues that they now face.

Online Gambling

For nearly two decades the federal government forbade Americans from placing bets through foreign websites. This policy was unexpectedly reversed in 2011 when the federal government declared that Americans could gamble on websites operated within their own state. Following that decision, legislators in New Jersey promised a tremendous sum of revenue would be raised from legalizing online gambling. Yet, only a fraction of the anticipated amount was realized. Facing lackluster growth and doubts about the helpfulness of Internet betting for Atlantic City, the future of online gambling in New Jersey looks bleak.

North Jersey Casinos

As the State experiences an ever-growing budget crisis and Atlantic City struggles, civic leaders are again looking for non-tax sources of revenue. Developers and legislators are getting very serious about opening the door for new casinos outside of Atlantic City, particularly in North Jersey. With political shifts and recent legislation, these plans could become a reality. However, current proposals leave many unanswered questions and the viability of new casinos is uncertain.

Social Costs of Gambling

Gambling places high costs on society, which include bankruptcy, debt, productivity and job losses, harm to family members, increased crime, and increased health and mental health care expenditures. In fiscal year 2013, New Jersey's problem gambling service budget was just \$850,000. However, New Jersey's annual social cost estimate for problem and pathological gamblers was \$254 million. Current funding levels are insufficient, and if gambling expands in New Jersey, there must be an associated increase in funding for problem gambling services. Without increased funding, the social costs of problem and pathological gambling will further erode the benefits of gambling.

1. Introduction

New Jersey has benefited from being a frontrunner in many gambling sectors over the past half-century. From horseracing bets to Atlantic City casinos to the State Lottery, New Jersey has promised to support public programs without the need for taxpayer contributions. Overall, the gambling industry has provided substantial support to the State; however, this is only one version of the story. As competition from other states increased and gaming revenues dried up, the State has often been left without this revenue. While the choice to increase gambling always seemed necessary, especially when facing tight budgets, history shows that gambling may not be a reliable source of income for the State, there are many additional costs rarely considered, and the initial decision seldom takes into consideration all of the costs and benefits.

Overview of Gambling in New Jersey

Gambling is not a new phenomenon in New Jersey. In particular, lotteries and horseracing have been popular since Colonial times.² The public's opinion of gambling, and the role of the government, has varied considerably over time. The 1776 Constitution did not address gambling at all; the 1884 Constitution prohibited lotteries. Then, in 1897 the State prohibited horserace betting, but then allowed it again in 1939.³ The 1947 Constitution allowed horseracing betting, but made it so that approval for any other gambling must go through the voters.⁴

Since the 1950s, New Jerseyans have approved of new gambling endeavors several times: amusement games passed in 1959 by 59% vote; the Lottery passed in 1969 by 80% vote; non-charity bingo passed in 1972 by 85% vote; the 1974 casino vote failed, but the 1976 casino vote passed with 57% vote.⁵ Online gambling was legalized in 2013 as an extension of the 1977 Casino Control Act. Every time New Jersey has expanded gambling, it has done so with a particular purpose in mind.⁶ Atlantic City casinos were supposed to reinvigorate the tourist town and lotteries were for supporting educational programs.

New Jersey has often been on the forefront of gambling legalization in the United States. It has profited greatly from being the only game in town, so to speak. Gambling revenues are especially enticing because the State does not have to raise taxes. However, as other states also began legalization and competition grew, New Jersey's advantage shrank. Gambling revenues dried up and a need for revenues resurfaced. A need for money or the perception of competition has spurred many of the gambling decisions in New Jersey. The cycle continues to repeat itself.

This continuous cycle is not unique to New Jersey. Richard McGowan elaborates,

The expansion [of gambling] throughout the United States is a threat to each state that currently relies on gambling tax revenues. With limited flexibility of demand, the significant potential increase in supply will hurt states that currently rely on gaming, putting them in danger of budget shortfalls. Gaming tax policies that were once meant to cover state budget deficits may in the future create them.⁷

So, while gambling seems to be the solution to many state problems, the long-term viability of gambling revenues is uncertain. Gambling can help states' budgets, but gambling revenues are unpredictable and reliance on gaming can leave states vulnerable, returning them to their original predicament.⁸ Further,

the State becomes so dependent on “easy” revenues from gambling that, “There seems to be little distinction between casino profitability and the state interest...”⁹

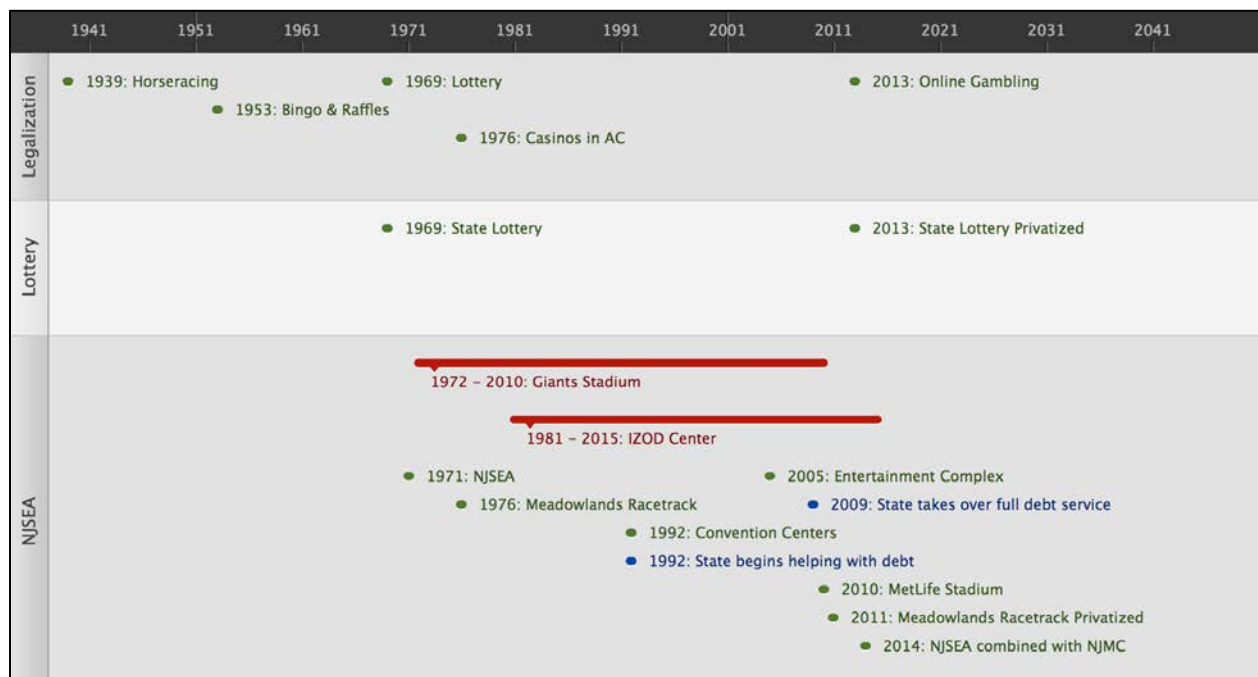
Today, New Jersey is again facing decisions about expanding gambling—particularly casinos in North Jersey and sports betting. Advocates of gambling make big promises about how expanding gambling will boost our economy and save the state budget. However, New Jersey’s history shows that these big promises rarely become reality. As we consider legalizing new forms of gambling, we must look to our past and considerable experience with gambling in New Jersey to inform how we should proceed.

Themes of Report

This report identifies three main themes concerning gambling in New Jersey. First, gambling revenues are generally not sustainable in the long-term. Therefore, they will not save the budget and should not be relied upon so heavily in the state budget. When gambling revenues do not meet expectations, the whole budget suffers. Second, gambling is not “pain free.” For example, many individuals are susceptible to developing a gambling addiction, which, in turn, poses a burden on society. Third, gambling’s costs and must be weighed alongside the promises of huge revenues.

- Gambling revenues are often unsustainable and are relied upon too much in the State’s budget.
- Gambling is not “pain free.”
- Gambling may be acceptable, but should not be relied on for more than it can offer and all costs and benefits must be weighed.

Figure 1.1: A Timeline of Gaming in New Jersey.



Preview of Report

This report analyzes important areas of gambling legislation, policies, practice, and proposals in New Jersey. Each chapter pertains to a particular sector and examines relevant information and provides recommendations relative to the report's themes.

Chapter two explores the lottery's impact on the state budget, reviews the misleading promise that the lottery benefits State institutions and education, investigates the relationship between poverty and lottery ticket purchases, takes a closer look at the risky decision to privatize the State lottery, and puts forth an alternative way to provide more money to the State.

Chapter three examines the relationship between horseracing betting and sports stadiums in New Jersey that has turned into a very expensive deal for the State. It highlights the true long-term impacts of gambling initiatives that carry big promises and seemingly few costs. This chapter also presents examples from other contexts to show that New Jersey's circumstances are not entirely unique.

Chapter four looks into the history of Atlantic City, prior to its designation as "The Sin City of the East," and will attempt to understand the distribution of taxes that would have been used to revitalize the city and the surrounding areas. It will also explore the current actions taking place in Atlantic City in order to determine the best course of action by the State.

Chapter five investigates the realm of online gambling, which was recently legalized in New Jersey. This chapter provides an overview of the difficult path to legalizing Internet betting, examines the ease of wagering online, the taxes imposed, and discusses the false promise of large revenues from online gambling.

Chapter six investigates the proposals for new casinos in northern New Jersey. Advocates argue that they are necessary in order to recapture gambling profits currently going to Pennsylvania and New York. Also, many are suggesting that a portion of the profits could help Atlantic City. However, many unanswered questions remain and it is unclear how long the new casinos could be viable.

Chapter seven ruminates on one of the lesser-discussed topics of gambling, the individual and societal costs of gambling addiction, including bankruptcy, debt, productivity and job losses, harm to family members, crime, and health and mental health care costs. Additionally, this chapter explores the issue of inadequate funding for problem gambling, examines prevalence rates, and considers existing treatment options. Lastly, this section will advance several policy recommendations in order to limit the high social costs of gambling.

2. Lottery

The New Jersey Lottery is a division of the Department of Treasury. A key objective of the lottery is to raise money by selling a variety of ticket games. However, the large amounts of money that this operation generates is rarely scrutinized. Using the Census Bureau's *Annual Survey of State Government Finances*, New Jersey Lottery audited financial statements, and Comprehensive Annual Financial Reports we studied the lottery's impact on the state budget. Moreover, this examination of the New Jersey Lottery reviews the misleading promise that the lottery benefits State institutions and education, investigates the relationship between poverty and lottery ticket purchases, takes a closer look at the risky decision to privatize the State lottery, and puts forth an alternative way to provide more money to the State.



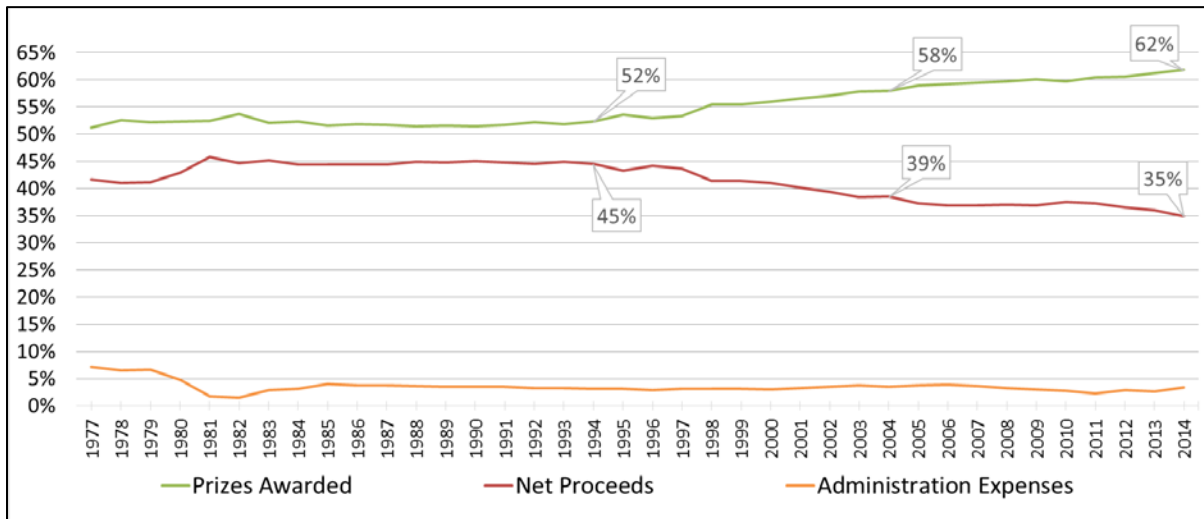
Sylvia Vasquez and her husband, residents of Scotch Plains, New Jersey, pictured with a \$1 million lottery prize won from a \$10 scratch off ticket in February 2014.¹⁰

The Lottery's Decreasing Contribution to the State

As prizes awarded have grown, lottery net proceeds, or the amount left over after paying out prizes and administration expenses, have shrunk as a percentage of total ticket sales. This downward trend has caused lottery contributions to State institutions and education, which come from net proceeds, to remain flat in absolute terms. A year after voters approved the lottery in 1969, the New Jersey Lottery began operations.¹¹ According to the State Lottery Law, a minimum of 30% of gross revenues from ticket sales must be allocated for contributions to State institutions and education.¹² In addition, for lottery tickets sold over the counter, the State lottery has "designated that a minimum of 45% of gross

revenues be allocated for prize awards, including retailer bonuses.”¹³ To determine if more than the minimum contributions to State institutions and education have been made, we analyzed lottery net proceeds as a percent of total ticket sales. The data in Figure 2.1 comes from the Census Bureau’s *Annual Survey of State Government Finances*. When reporting lottery figures this survey excludes forfeited prizes from prizes awarded and includes networking, vendor, and drawing broadcast fees in its administration expense figures.

Figure 2.1: Net Proceeds Moving Closer to the Minimum Contribution Requirement



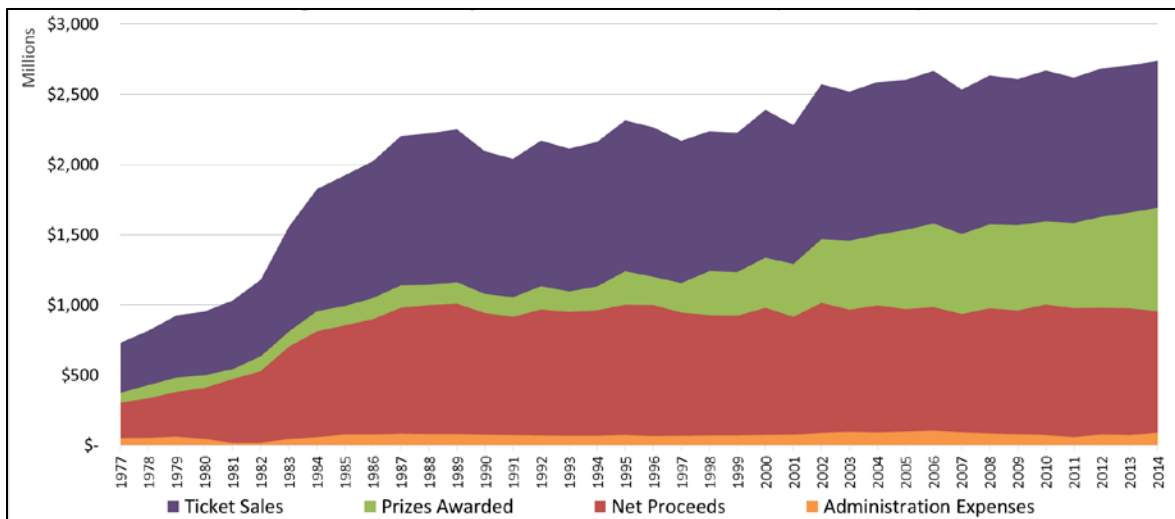
As Figure 2.1 shows, net proceeds as a percent of total ticket sales have fallen from 45% in fiscal year (FY) 1994 to 35% in FY2014, while administration expenses have mostly held steady at under 5% of total ticket sales. Accordingly, net proceeds have been getting closer to the 30% minimum requirement set by the State Lottery Law. At the same time, well over 45% of gross revenues from ticket sales have been allocated for prizes since FY1977. As recently as FY2014 the amount of lottery prizes awarded as a percent of total ticket sales stood at 62%, which was 4% higher than in FY2004, and 10% higher than in FY1994. Accordingly, prizes awarded as a percent of total ticket sales continue to climb as net proceeds fall closer to the minimum obligation.

Lottery ticket sales per person have also increased significantly since FY1977. Today, the lottery sells a variety of number games, including the Pick-3, Pick-4, Jersey Cash 5, Pick-6 Lotto, Cash4Life, Mega Millions, and Powerball, as well as an assortment of instant scratch off games. In 2014 dollars, ticket sales per person 18 years old or above rose from \$129 in 1977 to \$397 in 2014. In terms of lottery returns, in 2014 the average player lost 38 cents for every dollar spent on the lottery, which is less of a loss than in prior years when prizes awarded were lower.^a

Prizes awarded as a percent of total ticket sales continue to climb as net proceeds fall closer to the minimum contribution requirement.

^a The amount spent on lottery tickets by individuals 18 years old or above was computed by gathering historical Census Bureau population estimates for the State, calculating the percentage of individuals at least 18 years old based on the State’s age distribution in 2013, and then, for each year, dividing total ticket sales by the 18 years old or above population. To calculate lottery returns per person two steps were taken. First, for each year total prizes awarded were divided by the 18 years old or

Figure 2.2: Lottery Net Proceeds Remain Flat (2014 dollars)



In 2014 dollars, increases in ticket sales and prizes awarded are clearly visible in Figure 2.2 while net proceeds have fluctuated between \$900 million and \$1 billion since FY1986. Since net proceeds make up the vast majority of contributions to State institutions and education, Figure 2.2 shows that lottery contributions to the State have remained flat for a long period of time. It is possible that net proceeds leveled off because the New Jersey Lottery tried to keep its business growing by retaining and attracting more players through increased ticket sales and prizes. This change could likewise be due to the lottery activities of other states. In order to stay competitive with other states' lotteries, the New Jersey Lottery may have sought to increase prizes paid out instead of enlarging its state contribution. Notably, Census Bureau data shows that New York and Pennsylvania are also increasing the percent of their ticket sale revenue dedicated to prizes.¹⁴

The Lottery's Large Impact on the State Budget

The lottery is one of the largest revenue producers in the State, even greater than several major taxes. Before lottery net proceeds are sent to the State several items are added, including miscellaneous revenue, bad debt expense, investment income, changes in net assets, and, for FY2013, a one-time accelerated payment. Comprehensive Annual Financial Reports (CAFRs) included these extra items when reporting lottery contributions to State institutions and education. Accordingly, lottery contributions to State institutions and education reported in CAFRs from FY1987 to FY2013 were used in the following graphs. Since earlier CAFRs from FY1977 to FY1986 were not available, lottery net proceeds were used as a proxy for the lottery's contribution to the State. Excluding the extra \$120 million payment made to the lottery in FY2013 the difference between lottery net proceeds and final state contributions averaged about \$4.5 million since FY1987. These small variances were accounted for by adding any differences to each year's total revenue amount. Furthermore, tax figures and total revenue amounts were obtained from the Census Bureau's *Annual Survey of State Government Finances*. Since the Census Bureau adds

above population to obtain prizes awarded per person. Next, prizes awarded per person were divided by ticket sales per person, which yielded the amount of money a person 18 years old or above loses on every dollar spent on the lottery.

administration expenses to lottery net proceeds when reporting a state's lottery net revenue, administration expense amounts were removed from total revenue figures.

Figure 2.3: Lottery Contributions for State Institutions and Education Holding Steady Among the “Big 4” Revenue Producers

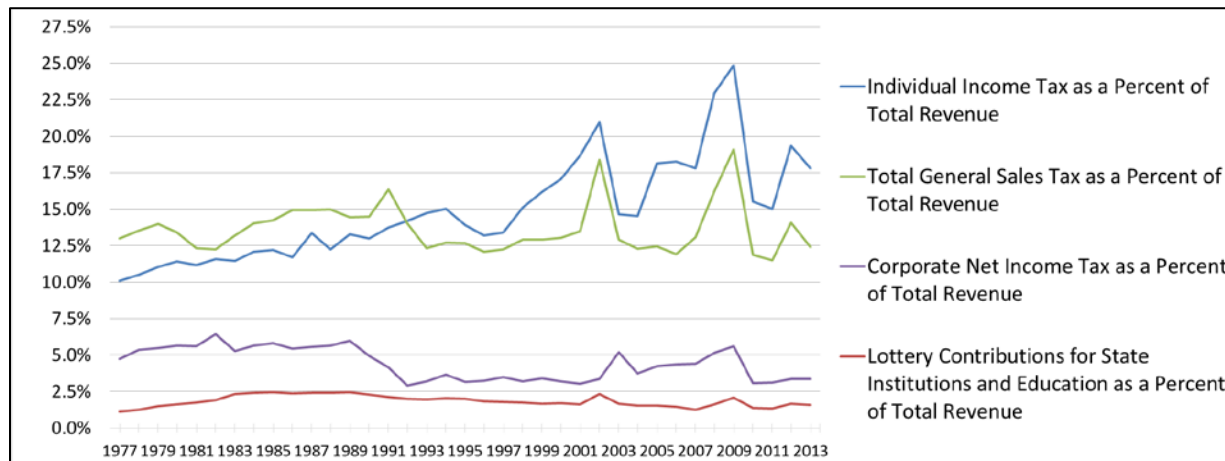
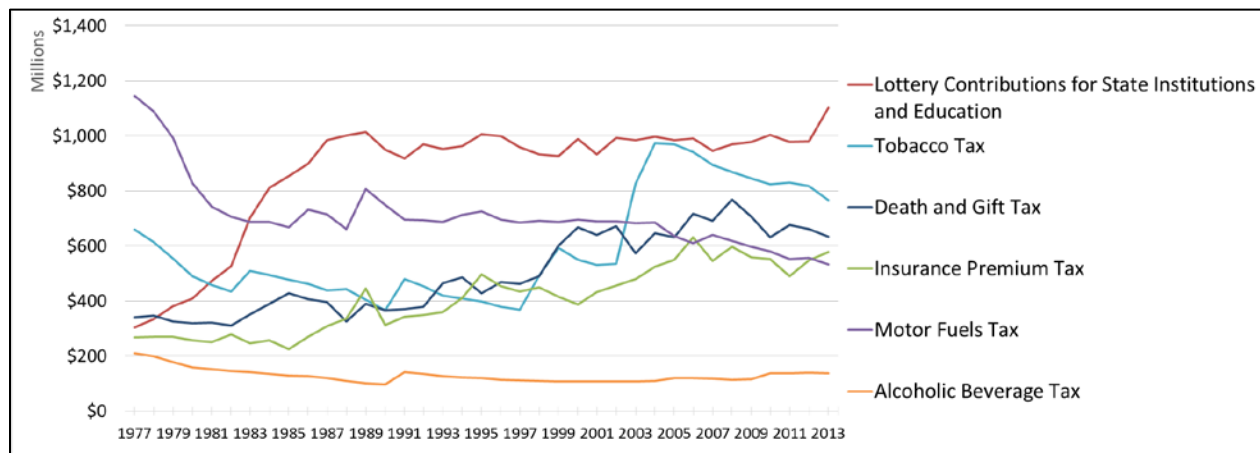


Figure 2.3 compares the “big 4” revenue producers as a percentage of total revenue from FY1977 to FY2013. The “big 4” revenues are the individual income tax, total general sales tax, corporate net income tax, and lottery contributions for State institutions and education. Over 36 years, lottery contributions to the State made up between 1 and 2.45% of total state revenue. These contributions were close to the corporate net income tax, which brought in around 5% of total revenue since FY1977. Interestingly, the individual income tax and the total general sales tax were especially volatile after FY2000, when there were deep recessions. In FY2002, the individual income tax made up 21% of total revenue versus 18.4% for the total general sales tax. However, in FY2003 the individual income tax dropped to 14.6% as the total general sales tax fell to 12.9%. A similarly large change occurred in FY2008. Compared to the other three major revenue producers, lottery contributions for State institutions and education were stable, even in the face of economic downturns.

Over 36 years, lottery contributions to State institutions and education made up between 1 and 2.45% of total state revenue.

Figure 2.4: Lottery Contributions to State Institutions and Education are Greater than Many Other Major Taxes (2014 dollars)



As the fourth largest revenue source in New Jersey, lottery contributions for State institutions and education are greater than other major tax sources such as the tobacco tax, death and gift tax, insurance premium tax, motor fuels tax, and the beverage tax. Observing Figure 2.4, lottery contributions to the State rose quickly between FY1977 and FY1987. After FY1983, it moved beyond the motor fuels tax and became the fourth largest revenue source in New Jersey. Interestingly, though the sale of alcohol and lottery tickets are regulated by the government, only sales of the former are considered a “tax revenue.” The lottery therefore is an unofficial source of tax revenue for the State.

Tracking Where the Money Goes

The funds the State obtains from the lottery are mainly earmarked for higher educational services. From FY2003 to FY2013, higher educational services received more than 50% of lottery contributions to the State. The second largest recipient of lottery funds has been the Department of Human Services, which took in more than 20% of lottery contributions to the State from FY2003 to FY2013. Meanwhile, the Department of Education received about 10% of lottery contributions each year while the Department of Military and Veterans’ Affairs and the Department of Agriculture received less than 5%.¹⁵

Operating aid for senior public institutions, tuition aid grants, and operation of State psychiatric hospitals are the top three programs among the five key areas. Operation of State psychiatric hospitals falls under the Department of Human Services and operating aid for senior public institutions as well as tuition aid grants is part of higher educational services. Operating aid for senior public institutions,

From FY2003 to FY2013, higher educational services received more than 50% of lottery contributions to the State.

which include public research universities and State colleges and universities, is the largest of the top three programs, spending more than 35% of lottery contributions to the State each year after FY2005 while tuition aid grants spent between 9% and 17% of lottery funds each year and operation of State psychiatric hospitals spent around 15%

of lottery funds per year.¹⁶ Still, the lottery’s contributions to State institutions and education only replace monies that the State would normally allocate from the General Fund.

The Problem with Earmarking Funds

The New Jersey Lottery advertises that the revenue it generates for the State benefits education and institutions.¹⁷ However, this claim is misleading. As noted in a recent State CAFR the “monies derived from the sale of State lottery tickets” are deposited into the State Lottery Fund.¹⁸ After prizes and administration expenses are paid out, the available fund balances (net proceeds plus miscellaneous revenue, bad debt expense, investment income, and changes in net assets) are then funneled to the General Fund in “support of the amounts annually appropriated for State institutions and education.”¹⁹ Whether or not lottery funds to the State are restricted, contributions to State institutions and education merely replace monies that would have otherwise been spent on the same services. As such, lottery funds only increase the amount of discretionary funds available to the legislature.²⁰

Whether or not lottery funds to the State are restricted, contributions to State institutions and education merely replace monies that would have otherwise been spent on the same services.

Examining state spending and lottery receipts in New York, Carl McCall, the State’s Comptroller, remarked that while lottery receipts are “indeed deposited into a special fund, and that fund is used for education” the “lottery is simply part of the pool of resources that is divided among various competing needs in the state budget process.”²¹ Earmarking lottery earnings, McCall asserted, serves primarily as a public relations device.²² Finally, McCall’s report pointed out that the lottery has often been a “source to close budget gaps rather than acting as a supplement for aid to schools.”²³

McCall’s statement is true for New Jersey too. The New Jersey Lottery emphasizes that its mission is to “raise revenue for maximum contribution to education and institutions.”²⁴ Earmarking funds, however, does not mean that additional funding is provided. The New Jersey Lottery states that they accomplish their mission by providing “entertaining products through a dynamic public business” that, among other things, is built upon honesty.²⁵ Given that lottery funds help close budget holes the worthy promise of the New Jersey Lottery is anything but forthright. To be more transparent with the public the lottery should clearly explain the process of how funds are passed on to the State.

The High Cost for Low-Income Players

The people hurt the most playing the lottery are low-income. A national survey of all 37 state lotteries in FY1998 conducted by the National Opinion Research Corporation (NORC) found that players with income of less than \$50,000 “spend more than others, and the lower-income categories have the highest per capita spending.”²⁶ Additionally, blacks spend more than whites, Hispanics, and others.²⁷ The NORC survey also revealed that the top 20% of players accounted for 82% of total ticket sales and lottery ticket purchases dropped sharply among people with more education.²⁸

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The article *Hitting the Jackpot or Hitting the Skids: Entertainment, Poverty, and the Demand for State Lotteries* gave two possible explanations for why the lottery would be popular among low-income citizens. In terms of economic value, low-income individuals

may view lotteries as a chance to profoundly enhance their standard of living.²⁹ As for entertainment value, lower income individuals substitute playing the lottery for other forms of entertainment.³⁰

To prove these two hypotheses this study examined lottery data from 39 states over 12 years (1990-2002), showing a strong positive relationship between lottery ticket sales and poverty rates.³¹ What is more, the study found no relationship between movie ticket sales, which is another inexpensive form of entertainment, and poverty rates. Accordingly, lottery tickets are viewed as more than a form of entertainment, namely as a means to increase income.³²

As a normal good, lottery ticket purchases increase with disposable income. However, lottery tickets can be an inferior good for low-income people, meaning that demand and income move in opposite directions.³³ Viewing lottery sales as an inferior good the second study found a positive relationship between decreasing income and rising ticket sales, suggesting that difficult financial situations trigger desperation and lead to increased lottery consumption.³⁴ Given the link between poverty and lottery purchases the New Jersey Lottery should limit the marketing of lottery games to low-income people and further emphasize gambling responsibly.

While NORC studied the lottery on a national scale, a Rutgers study conducted a geospatial statistical analysis to examine the relationship between lottery outlet density and population demographics in New Jersey. The researchers selected Middlesex County as the study's setting, an ethnically diverse and densely populated area. This report put forth two hypotheses. First, lottery outlet density would be higher in census tracts with a greater percentage of minority residents, such as Hispanics and African Americans. Second, lottery outlet density would be higher in areas with low median household incomes and high rates of poverty.³⁵

Interestingly, the study found that the percent of residents in poverty was significant and negatively related to the density of lottery outlets.³⁶ Yet, low-income people still spend a larger share of their income on the lottery. Additionally, the study found that the percent of land being commercially used was highly positively related to lottery outlet density. Finally, the percent of Hispanic residents was positive and significant, suggesting that lottery outlets are more likely to be located near Hispanic populations.³⁷ Still, this study only tested one county, thus its results may not be generalizable to the whole state.

A Risky Privatization Deal

In order to reduce administrative costs and help the State recover lost tax revenues, Governor Chris Christie pushed for the privatization of the New Jersey Lottery. In June 2013 the State awarded a 15-year contract to the Northstar New Jersey Lottery Group, making New Jersey the third state (after Illinois and Indiana) to privatize its lottery. Under the new deal, Northstar manages the sales and marketing while the State maintains ownership of the lottery and the ability to disperse prizes as well as oversee licensing, auditing, and security.³⁸ The State also benefited from Northstar's required one-time payment of \$120 million, which was added to the lottery's annual contribution to State institutions and education in FY2013. This helped balance the state budget for that year.³⁹

Northstar fully took over its new role on October 1, 2013.⁴⁰ In February 2014, after several months of Northstar control over marketing and sales, Carole Hedinger, Executive Director of the New Jersey Lottery, announced that the number of ticket retailers had increased by 152 since October 1st, making

the total count of active retailers surpass 6,500. The lottery director further stated that an additional 102 Wawa installations would be completed shortly.⁴¹ At a later public meeting in December the director remarked that a total of 7,249 licenses had been issued, which was 391 more than the amount reported in February.⁴²

In FY2014, Northstar missed its net income target by roughly \$55 million.

Moreover, in FY2015 the lottery is still not on track to meet its revenue.

Northstar has pledged to generate “at least \$1.42 billion of total additional net income for the State from lottery operations over the life of the contract with a potential actual increase in net income of \$6.88 billion.”⁴³ However, the 15-year contract requires the group to meet certain revenue targets. In the event that revenue targets are not achieved, Northstar will be penalized. If goals are met, Northstar is entitled to 5% of surplus net income.⁴⁴ Northstar initially received a credit of \$20 million towards shortfall payments, though in FY2014 about \$14 million was deducted for failing to meet its yearly net income target by roughly \$55 million.⁴⁵ Additionally, in FY2015 the lottery is still not on track to meet its revenue target.⁴⁶ If Northstar misses revenue targets for two years, its contract with the State could be canceled.⁴⁷ Recently, in December 2014 Illinois Governor Pat Quinn moved to terminate Northstar’s contract seven years early after the group “fell short of promised revenues to the state for three consecutive years.”⁴⁸

To realize a profit and boost income for the State, Northstar will have to increase ticket sales. In order to grow its customer base there is an increased risk that the contractor will target vulnerable groups through selective marketing and sales efforts. Importantly, lottery ticket purchases take up a larger percentage of income among poorer individuals. Having a private entity with a profit maximization goal in charge of the marketing and sales of lottery games is unwise given the regressive nature of lottery ticket purchases as well as the high social costs of problem and pathological gambling.

Northstar’s pledge of at least \$1.42 billion, or about \$95 million per year, of additional net income for the State over 15 years should also be considered from a different angle. If the State Lottery Law mandated that a minimum of 45%, rather than 30%, of gross revenues from ticket sales be allocated for contributions to State institutions and education each year, then from 2004 to 2014 an additional \$214 million on average would be provided to the State per year. If an additional \$214 million were realized each year over the next 15 years, then \$3.21 billion in additional revenue could be contributed to the State. As such, raising the percentage of ticket sales dedicated to contributions for State institutions and education could be an alternative way of raising additional funds for the State without the risks of bringing in a private contractor. Moreover, under the scenario described above, lottery prizes awarded as a percent of total ticket sales would average 52% from 2004 to 2014, well above the minimum of 45% of gross revenues that the State Lottery has set.⁴⁹

Recommendations

As it stands, the New Jersey Lottery is an inefficient operation. Despite rising ticket sale revenue, the lottery has reduced its contributions to State institutions and education, made misleading promises about how the State receives lottery funds, overlooked financial harm borne by low-income individuals, and signed an unproductive privatization deal. These major faults make the lottery a burden for the people of New Jersey. Returning the lottery's value will require several changes, including increasing the proportion of ticket sale revenue given to the State, plainly advertising how the State receives lottery funds, and regaining control over how lottery games are marketed to vulnerable groups. Only with these changes to the lottery can New Jerseyans really "win."

3. Stadiums and Horseracing

One of the major links between gambling and the New Jersey state government was established in the 1970s through a deal to pay for new sports stadiums with profits from horseracing bets. The dealmakers promised a brand new stadium that did not require either private investment or taxpayer money. At first, this arrangement sent millions to the State. However, as horseracing revenues dried up, the State has been forced to pay millions on remaining debts, and will continue paying these debts through 2026.

The story of “free” (i.e. expensive) stadiums paid for with gambling revenues illustrates the long-term costs of oversized promises and reliance on gambling revenue. This chapter traces the big promises and costly reality of relying on gambling revenues for major State endeavors. The end of the chapter also offers perspectives from the academic literature and a comparable example from Minnesota.

New Jersey’s “Free” (i.e. expensive) Sports Stadiums

Promises of Free Stadiums

In the early 1970s, the State successfully attracted the New York Giants football team to North Jersey by promising a brand new stadium in the Meadowlands. In order to pay for the stadium, the State simultaneously built the Meadowlands Racetrack. The plan, and promise, was that Racetrack profits would pay for the new stadium while taxpayers and the State would not have to contribute *anything*.⁵¹ To oversee all of this, the State created the New Jersey Sports and Exposition Authority (NJSEA) in 1971.^a The NJSEA, not the State, took on the debt obligations of the projects.⁵² The NJSEA and the overall plan had significant support from the governor and in the legislature.⁵³

*New Jersey Sports and Exposition Authority Act:
“Bonds and notes of the authority issued under
the provisions of the act shall not be in any way a
debt or liability of the State...and shall not create
or constitute any indebtedness, liability or
obligation of the State...”⁵⁰*

Initially, this plan worked perfectly. The Racetrack contributed huge revenues to the NJSEA and in the first six years the NJSEA sent \$60 million to the State after paying debt costs.⁵⁴ In the 1980s, they brought the Jets football team to Giants Stadium. The NJSEA also built the Brendan Byrne Arena (IZOD Center) to attract the New York Nets basketball team in the early 1980s. Soon, the New Jersey Devils and Seton Hall were also playing at the Arena. All of these operations were built on NJSEA land, built with NJSEA money, and operated by the NJSEA.

NJSEA’s Financial History Tells a Different Story

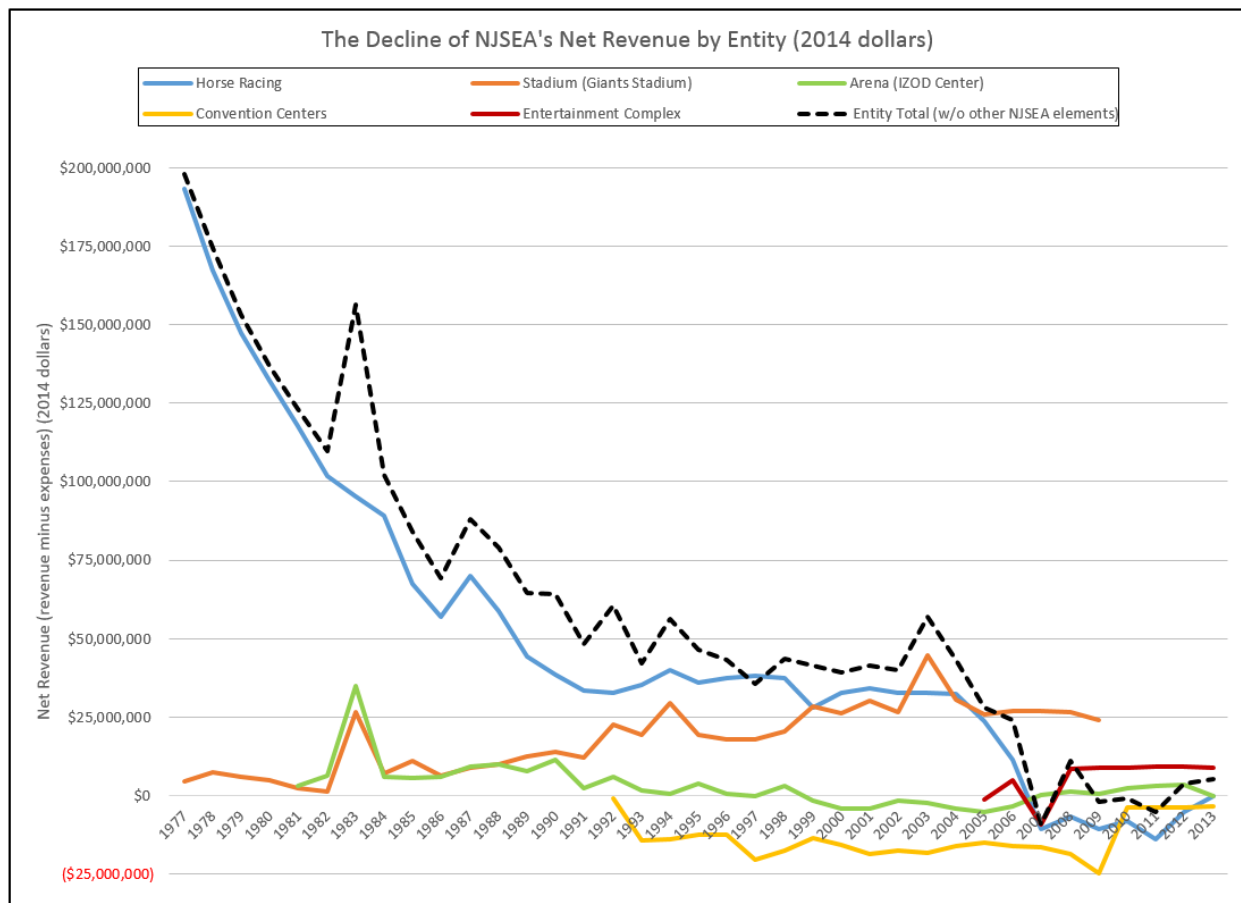
Even in NJSEA’s successful early years, there were signs of trouble. Racetrack profits decreased quickly and the Arena cost twice as much to build as expected.⁵⁵ To execute the plan for the racetrack and

^a The NJSEA is independent from the rest of the State departments and was authorized to purchase, own, and operate entertainment facilities. Initially, this simply included the Meadowlands Racetrack and Giants Stadium, but over time it added the IZOD Center (formerly Brendan Byrne Arena and Continental Airlines Arena), Monmouth Park racetrack, Atlantic City Convention Center, Historic Atlantic City Convention Center, Wildwoods convention center, Thomas H. Kean State Aquarium at Camden (since privatized), and Rutgers stadium and facilities.

stadium, the NJSEA borrowed about \$300 million, which they intended to pay back within 25 years.⁵⁶ The *New York Times* reports that in 1974, the credit rating firm Moody's doubted whether the Meadowlands Racetrack could generate enough revenue to cover the debt of the NJSEA.⁵⁷ Their prediction was correct and despite a good start, the NJSEA's wild success was short-lived.

NJSEA's finances obfuscate some of the downward trends. For example, the *Record's* John Brennan reports that the financial health of the IZOD Center is in the eye of the beholder. Basically, the NJSEA uses accounting methods that present the most favorable picture.^a For example, no one disputes that the IZOD ran an operating deficit from 1998 to 2007, but depending on who you ask, it ranged from \$18 million to \$139 million. However, the arena's \$77 million in debt is indisputable.⁵⁸

Figure 3.1: The NJSEA entities constitute the majority of the Authority's finances. This graph shows declining net revenue of the major NJSEA moneymakers in 2014 dollars.⁵⁹



^a Where does the discrepancy come from? Brennan identifies four components that are not included in the NJSEA's calculations that most private entities would include: (1) general and administrative expenses, (2) real estate taxes, (3) depreciation, and (4) interest owed.

Regardless of the murky finances of public authorities, it is clear that over time NJSEA's net revenues have plummeted.⁶⁰ Figure 3.1 shows each of the major NJSEA entities' net revenue.^a The dotted black line shows the total of the given entities. For the first decade, the Racetrack brought in millions, but it has decreased ever since. Giants Stadium was a reliable moneymaker, but most other entities have been relatively inconsequential. The convention centers have never made money for the NJSEA.⁶¹

With falling revenues, the NJSEA turned to the State to back its bonds and even to help with payments. Brennan illustrates, "A series of decisions by officials over time have left [the NJSEA] marooned, with significant structural costs and little means to pay for them other than dipping into the state treasury."⁶²

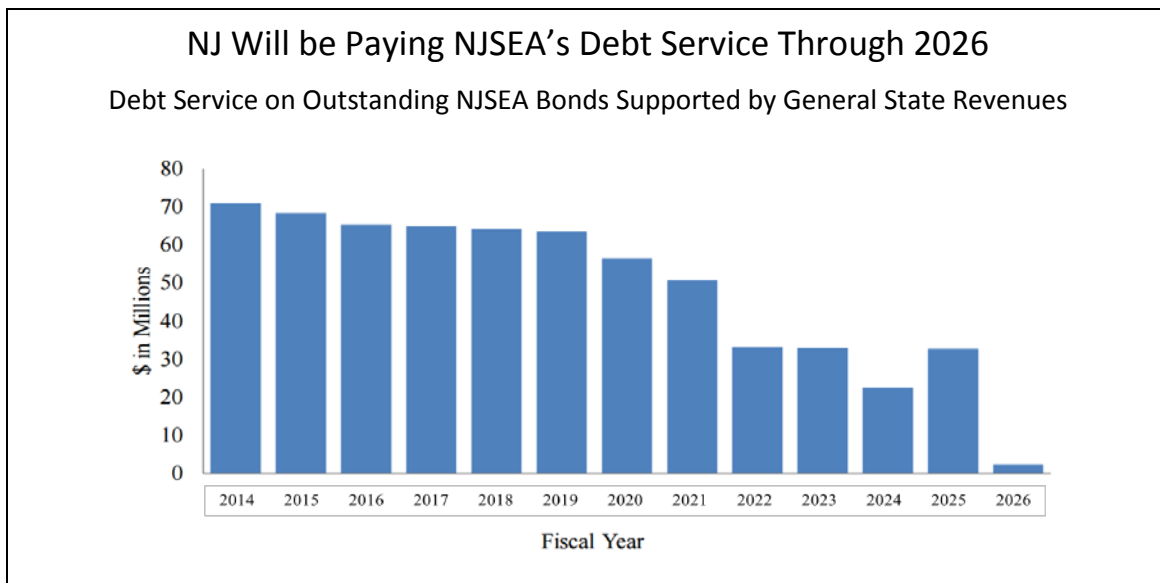
From 1976-1992, the NJSEA supported its debt through its own revenues. In 1992, when the NJSEA could no longer cover its capital needs the State officially began absorbing some of NJSEA's debt, partially because the State could get a better interest rate.⁶³ This shift was done via legislation. NJSEA received state contract bonds, which were "bonds with State appropriations behind them—not full faith and credit of the State of New Jersey."⁶⁴ In addition, from 1993-2010, the State sent the NJSEA over \$800 million in direct expenditures.⁶⁵ So, initially NJSEA revenues backed the bonds, but over time, "the Authority's [NJSEA's] revenue bonds have been refinanced with bonds supported by payments from the State."⁶⁶

By 2002 NJSEA's total debt ballooned to about \$1 billion.⁶⁷ In 2009, when the authority was losing tens of millions of dollars annually and could no longer afford the payments, the debt service was fully transferred from the NJSEA to the State.⁶⁸ The recent construction of the American Dream mall and MetLife Stadium were privately funded. The NJSEA owns the land and earns rent from these endeavors.⁶⁹ In March 2015, the IZOD Center closed as it faced an estimated \$8 million annual loss.⁷⁰

In fiscal year 2015, the State is using general state revenues to pay \$68.5 million on the NJSEA debt service and an additional \$15 million for general NJSEA operations.⁷¹ There are still over \$440 million in outstanding bonds and Figure 3.2 shows that the State will be paying the debt service through 2026.⁷² A large amount of that debt is from Giants Stadium, which has been demolished, and the IZOD Center, which is closed.⁷³ Most of the NJSEA facilities are demolished, closed, or in private hands; the IZOD Center was the last entity directly operated by the NJSEA.⁷⁴ Senator Paul Sarlo (D-Wood-Ridge) comments, "[The NJSEA is] more of a landlord of private facilities on state-owned land now."⁷⁵

^a These numbers are from NJSEA financial statements, but the NJSEA has not used consistent reporting methods over time, so it is difficult to track their overall finances. The graph does not include other elements, such as interest payments, capital contributions, asset transfers, and so on. Despite the inconsistencies, the net revenue for each element clearly shows the NJSEA's declining finances.

Figure 3.2: This graph shows the annual payment due on NJSEA’s debt that is paid by the State.⁷⁶



Horseracing Troubles were Tied to NJSEA’s Troubles

The keystone of the NJSEA stadium deal was the expectation of huge revenues from horseracing gambling. Horseracing was popular in New Jersey going back to the colonial era.⁷⁷ The legality of horserace betting varied until pari-mutuel bets were allowed in 1939.⁷⁸ In the early years, there were limits on the number of tracks in the state, the number of racing days per year, and races were limited to daylight hours. These limitations have been relaxed over time to encourage bigger profits.⁷⁹

Prior to the 1971 deal, horseracing was doing really well and it appeared to be a safe bet to fund stadiums. In 1947, horseracing bets earned the State \$8 million;⁸⁰ in the 1950s, nearly 10% of state general fund revenues came from horseracing.⁸¹ However, this boom did not last. Nationally, “Horse race wagering from all sources (live and simulcast) peaked in 1977 and declined 69% over the next three decades.”⁸² This decline was unaffected by additions such as off-track betting and simulcast wagering.

Therefore, the NJSEA only had a small window of opportunity to reap the benefits from horseracing before the industry began shrinking in the 1980s. In 2010, as New Jersey horseracing was expected to lose \$22 million; a draft of a New Jersey state report on the relationship between horseracing and the NJSEA stated, “the business model is broken...THE STATUS QUO IS NOT SUSTAINABLE.”⁸³ This language was not included in the final report.⁸⁴

Since 2010, betting on horseracing—live, off-track wagering, Internet—has fluctuated, bringing in about \$320 million annually. But, the value of New Jersey’s purses has declined by half, breeding numbers have plummeted, and New Jersey has poor industry metrics compared to New York and Pennsylvania.⁸⁵ The industry is clearly suffering from competition from neighboring states.⁸⁶ Quite simply, the State says, “The New Jersey racing industry cannot compete long-term with the New York and Pennsylvania purse structures or breeders incentive programs.”⁸⁷ NJSEA stopped managing horseracing and it was privatized between 2010 and 2012.⁸⁸ Atlantic City Race Course closed January 2015.⁸⁹

Over the past several decades, pari-mutuel betting on horseraces has shifted from a boon for the State's budget to a subsidization of the horseracing industry.⁹⁰ Despite the floundering industry, advocates argue that the State must continue supporting this longstanding New Jersey industry. Senator Sarlo argues that, "the horsemen clearly need to be protected."⁹¹

NJSEA's Promises ≠ Reality

The NJSEA was founded with the intent that each of its new endeavors would "pump money into the state budget."⁹² Instead, today, it is draining the state budget of millions of dollars. The promise of free stadiums has turned into an extremely expensive enterprise for New Jersey and its taxpayers.

Steven Malagna, reporting for the *Wall Street Journal*, sums up the overarching trends of the NJSEA: "Although the project initially went according to plan, politicians could not resist continually refinancing the bonds, siphoning revenues from the complex into the state budget, and using the good credit rating of the [NJSEA] to borrow for other, unsuccessful building schemes."⁹³ The history of the NJSEA makes it clear that the promises of sports stadiums, and the reliance on gambling revenues, can have a power over governments and people that blind them to the real costs and consequences.⁹⁴

This story illustrates why gambling revenues should not be relied on exclusively to fund government programs and that *all* costs and benefits need to be weighed.

Stadium Schemes have not Worked Elsewhere Either

Academic Literature Questions the Premise of Publicly Funded Stadiums

Academic studies and analysis show that the people benefiting from sports stadiums are rarely the people paying. And, using gaming revenues to pay for sports stadiums may exaggerate this imbalance. Ideally, "The main goal of stadium financing should be to make those who benefit most by a particular stadium or arena, responsible for bearing the brunt of the cost burden."⁹⁵

Stadiums are advertised as a boost to local economies, but there is a broad consensus that the net economic benefit for surrounding areas is negligible, uncertain at best.⁹⁶ For example, a Baltimore study indicated that the economic benefits of a new stadium were exaggerated by 236%.⁹⁷ Not only do stadiums not contribute to local economies, but economists agree that they rarely support their own costs.⁹⁸ So, most stadiums across the country are subsidized with public money.⁹⁹ This impacts local, state, and federal budgets. When certain types of local bonds are used, the federal government subsidizes the low interest rates, thus "placing the cost burden upon *all federal taxpayers throughout the country*."¹⁰⁰ In New Jersey about 25% of the public subsidy for Giants Stadium was a federal subsidy; it was over 37% for the IZOD Center.¹⁰¹ The academic literature shows that for stadiums in general the local benefits are minimal and the costs are borne by many.

Stadium benefits are unequally distributed, which may be enhanced by using gaming revenues to finance stadiums. Commenting on the impact of sports stadiums, economists Dennis Coates and Brad Humphreys, argue that there is, "a hierarchy of winners and losers: homeowners and businesses that own their land and building in the revitalized area win, because the value of their property goes up; renters – residential and business – lose, because their rents increase while their wages or earnings remain unchanged."¹⁰² Regarding gambling funds, proponents argue that using gambling revenues to fund a stadium relieves the burden to taxpayers and gaming is voluntary. However, this puts the cost

burden on a smaller segment of the population who are not necessarily the beneficiaries of the sports stadiums.¹⁰³

The literature further exposes the reality that sports stadiums subsidized with public funding lead to disproportionate benefits to a few (primarily private entities) paid for by many taxpayers who are not enjoying the benefits.

Case Study: Minnesota's Bad Bet to Pay for New Stadium

Minnesota attempted to pay for a new football stadium with gambling revenues and it failed disastrously. The State faced a familiar conundrum: the Vikings football team was threatening to leave unless they got a new stadium and taxpayers were unwilling to pay for a stadium. The parties reached a deal where the Vikings pay 52% of the costs, the City of Minneapolis (stadium location) pays about 15%, and the State pays about 33%.^a

Feeling pressure, the State turned to a new source of revenue, electronic pull-tabs,^b to cover their portion of the costs.¹⁰⁵ Predictions indicated that the new gaming source could be a billion-dollar industry.¹⁰⁶ The pull-tabs were introduced in September 2012. This untested endeavor tanked. In the first year, state revenues were 5% of projections.¹⁰⁷ Businesses did not think it was cost-effective to install the games and gamers were largely unimpressed.¹⁰⁸ The State later learned that the outrageous predictions were provided by the gambling industry.¹⁰⁹

Nine months later, when it was clear the pull-tabs were not going to finance the State's portion of the debt, Governor Mark Dayton instead imposed a one-time cigarette tax and eliminated a corporate income tax loophole. The catch was that these changes were already planned for, but were redirected to the stadium.¹¹⁰ So, the difference had to be made up from general revenues, i.e. taxpayer contributions.

Minnesota's story is similar to New Jersey's in many ways. There were big promises and guaranteed protections for State funds, but in the end, gambling revenues are unreliable and the taxpayers end up paying for sports stadiums.

*One player observed that some of the e-pull-tabs are, "very interactive, just like a slot machine, pretty fun... Other ones, they're basically just like paper ones, except that they go beep."*¹⁰⁴

^a The stadium broke ground in December 2013 and is expected to open in July 2016.

^b Electronic pull-tabs are an iPad-like sized electronic device with games similar to paper pull-tabs.

Figure 3.3: Summary of the broken promises in Minnesota case study.

| Minnesota's Effort to Pay for Stadiums with Gambling Revenues: Promises vs. Reality | |
|--|--|
| Promise | Reality |
| Total cost = \$975 million | Total cost = \$1.027 billion ^a |
| Pay for the state portion using revenue from electronic pull tabs | Pay for the state portion using (1) a one-time cigarette tax, and (2) closing a corporate income tax loophole ¹¹¹ |
| Over 15,000 pull-tab installations throughout the state | 1,300 installations at 300 bars ¹¹² |
| First year revenue = \$35 million | First year revenue = \$2 million ¹¹³ |
| Daily sales per device in Sept. 2012 > \$300 | Daily sales per device in July 2013 < \$50 ¹¹⁴ |

^a Plus \$52 million entirely covered by the Vikings. Total current cost estimated in spring 2015.

4. Atlantic City

With the legalization of Casino Gambling by referendum in 1976, Atlantic City became the only true casino gambling destination on the East Coast. Nearly 40 years later, Atlantic City is in a crisis with casinos closing in the face of increased competition from neighboring states' casinos. This chapter discusses the State's and the Casino Industry's promises to Atlantic City, and their failure to deliver on those promises. Furthermore, it looks at the level of success the casinos had as a revenue source for New Jersey. Lastly, the chapter focuses on Atlantic City's future, and provides some recommendations for the resort town.

Atlantic City: A Gambling Destination

Despite the modern association with casino gambling, Atlantic City has not always been a gambling destination. It was, however, always a tourist destination even before legalized gambling. Atlantic City was so popular that in 1876, one hundred years before the city opened the first legal casino, the city found it necessary to build a second railroad line to accommodate the growing numbers of tourists traveling from Philadelphia to the shore town.¹¹⁵ The Pennsylvania & Atlantic City Railway Company ran seven round-trips a week for a much cheaper price than its competitor, which increased demand for trips to Atlantic City.¹¹⁶ By 1925, Atlantic City had 99 daily round-trip train rides in the summer season.¹¹⁷

Like other cities, Atlantic City has experienced economic downturns in the past.¹¹⁸ In the 1920s, in Atlantic City's Golden age, it was one of the United States' most popular tourist towns. The Absecon Island, where Atlantic City is located, saw major growth from the 1850s until the end of the Second World War.¹¹⁹ However, Atlantic City experienced a decrease in tourism with the advent of cars, cheap plane tickets, and air conditioning. Cars allowed people to take shorter vacations, planes allowed people to travel to more desirable tourism hubs, and air conditioning allowed people to stay home in the summer.

From the end of World War II until the mid-1970s Atlantic City needed new means to bring the economy back to its Golden Age. This "fix" came in 1976 when New Jerseyans voted to legalize casino gambling in Atlantic City. Gambling has always existed in Atlantic City. In Atlantic City's heyday, gaming was one of the main attractions, along with prostitution and alcohol use.¹²⁰ However, the 1976 referendum vastly increased the scale of gambling in the resort town.

The casinos quickly brought a much-needed revival to Atlantic City. The first casino to open was Resorts International in 1978, as it was the only hotel in Atlantic City that was large enough to legally house a casino^a.¹²¹ Soon after Resorts International's opening more casinos were built. Eventually there were twelve casinos. By the 1980s, Atlantic City was once again a premier tourist destination. Restored to its status 60 years earlier, it was the most popular tourist destination in the entire country.¹²²

^a A provision in the Casino Control Act that placed a minimum number of room criterion on casinos, making Resorts the only hotel that was eligible for a casino license at the time.

Atlantic City's economy certainly has relied heavily on casino gambling. The leisure and hospitality industry, which includes casinos, employs the largest number of people in Atlantic County of any industry. In January 2015, the leisure and hospitality industry employed 37,100 people of the 127,000-person workforce.¹²³ If the current economic downturn has taught us anything, it is that Atlantic City's economy is synonymous with casinos. The closure of four casinos in 2014 caused a ripple effect that resulted in the loss of approximately 8,000 jobs and, currently, the highest unemployment rate in New Jersey.¹²⁴

Gambling, the Savior that Was Promised?

Proponents of casino legalization saw casinos as the savior that Atlantic City needed. Steven Weisner, the campaign manager for the Committee to Revive Atlantic City, said "this was not a political campaign. This was a cause of life or death." If the referendum did not pass, it was akin to a deathblow to the city. There is no doubt that casino gambling helped to revitalize the economy. Casinos provided the jumpstart that Atlantic City needed, but it was not a permanent repair to the city's economic woes, or the State's for that matter.

"This was not a political campaign. This was a cause of life or death..."

The Casino Control Act (CCA), which passed in 1977 in order to regulate the casino industry, stated that the two desired outcomes of casino gambling were to revive Atlantic City's tourism and to act as a tool for urban redevelopment.¹²⁵ As noted, Atlantic City had a large tourism industry that was dying rapidly prior to casino legalization, and the casinos were meant to save it. The need for urban redevelopment was evident by Atlantic City's high unemployment and poverty rates at the time. Codified in the legislation was an optimistic promise that casinos would "fix" Atlantic City. Unfortunately, casinos did not fulfill these promises. Tourism initially increased dramatically, but it shifted almost exclusively to the casinos, leaving the rest of the city to fend for itself, and by many measures Atlantic City still faces major issues in urban redevelopment.

As Casinos Flourished, the Rest of the Tourism Industry Declined

The casinos were meant to foster the growth of the rest of Atlantic City's tourism economy. The language of the law actually implies that casinos were never meant to be the singular piece of the City's tourism economy:

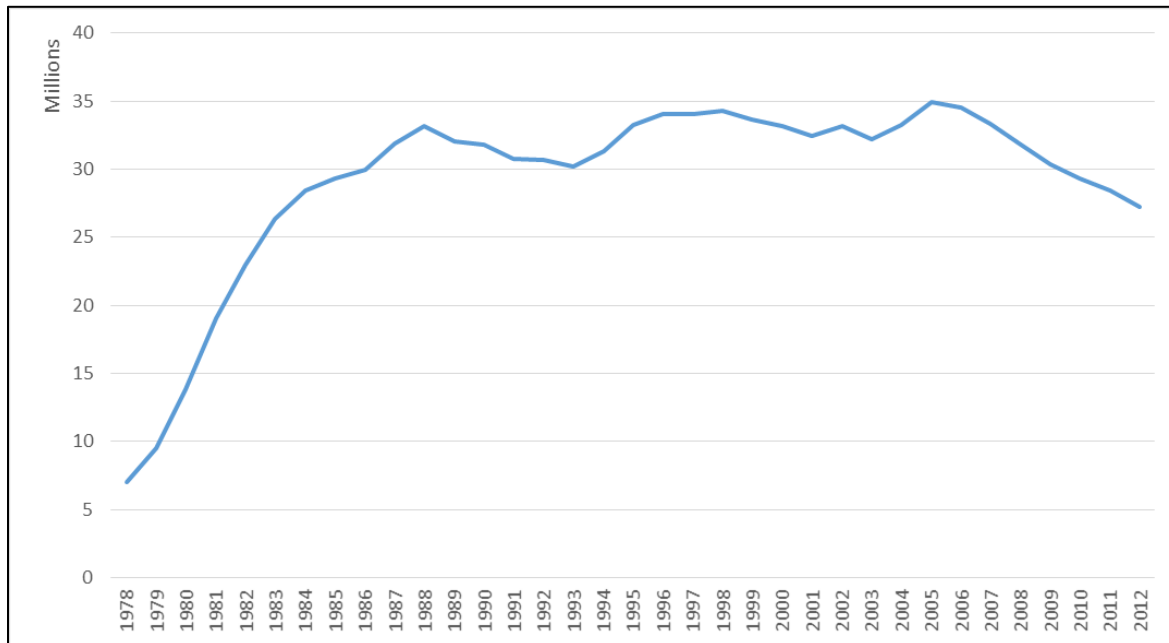
Restricting the issuance of casino licenses to major hotel and convention facilities is designed to assure that the existing nature and tone of the hospitality industry in New Jersey and in Atlantic City is preserved, and that the casino rooms licensed pursuant to the provisions of this act are always offered and maintained as an integral element of such hospitality facilities, rather than as the industry unto themselves that they have become in other jurisdictions.¹²⁶

The shore town did little to preserve the former tourism industry. Atlantic City flourished overall, but those gains were almost exclusively realized by the casino industry.

The number of visitors skyrocketed with the opening of Resorts International and the subsequent casinos (Figure 4.1). From 1978, the year that the first casino opened, to 1988 there was almost a five-fold increase in visitation to the City.¹²⁷ Despite the large increase in visitation, it is commonly agreed that the tourism boom only benefitted the casinos.¹²⁸ Many of Atlantic City's most iconic businesses

closed their doors shortly after casino gambling was legalized.¹²⁹ The Institute for American Values found that the only non-casino industries to flourish as a result of casinos have been pawnshops, check-cashing operations, and high-interest lenders.¹³⁰

Figure 4.1: Visitation Increased Dramatically at the Onset of Casino Gambling¹³¹



New tourists came to Atlantic City with no reason to leave the casinos and explore the rest of the city, because the casinos housed restaurants, shops, and other forms of entertainment inside their buildings.¹³² The Casino Control Act included a clause that limited applications for casino licenses to hotels with 500 or more rooms^a.¹³³ This limitation, which encouraged large resort-style casinos, made it extremely difficult for any other tourism-based businesses to compete with the casinos, because the casinos acted as oases that no one had to leave. The casinos also enjoy advantages that other local businesses do not. For instance, smoking is currently allowed in the casinos, but not in other establishments.¹³⁴

Figure 4.2, shows the results of this monopolization of the tourism industry.¹³⁵ Before casinos existed in Atlantic City there were 242 eating and drinking establishments. After casinos that number dropped steadily, and in 1996, was 142. The post-casino count includes eating and drinking establishments in the casinos. So, the shift to casino tourism is even greater than the numbers show.

Figure 4.2: Eating and Drinking Establishments¹³⁶

| | Pre- | Post-Casino ^b | |
|------|------|--------------------------|------|
| Year | 1977 | 1981 | 1996 |
| # | 242 | 160 | 142 |

^a This rule has been relaxed in recent years.

^b These numbers contain establishments within the casinos, as well. This means that the actual number of establishments left after the introduction of casinos is even lower than the chart conveys.

As expected, the casinos became an integral part of Atlantic City's tourism offerings, but it was never supposed to be the only part. With all of the factors working in opposition to the old tourism industry, other tourism sectors did not survive. Instead of helping the tourism industry, as was outlined in the Casino Control Act, the casinos defeated it and took over Atlantic City's tourism as their own.

A Lack of Urban Redevelopment

By many measures, the second outcome that the state legislature highlighted in the Casino Control Act, the urban development of Atlantic City, has also fallen short. The question of whether casinos have helped Atlantic City is difficult to answer, however key indicators suggest that the industry is not the most reliable or sustainable for the city. As shown in Figures 4.3 and 4.4 casino employment and total employment has been dropping for many years, lending to the claim that the Atlantic City casinos are not a sustainable job source.¹³⁷

Figure 4.3: Casino Employment Steadily Decreasing Since 1998.¹³⁸

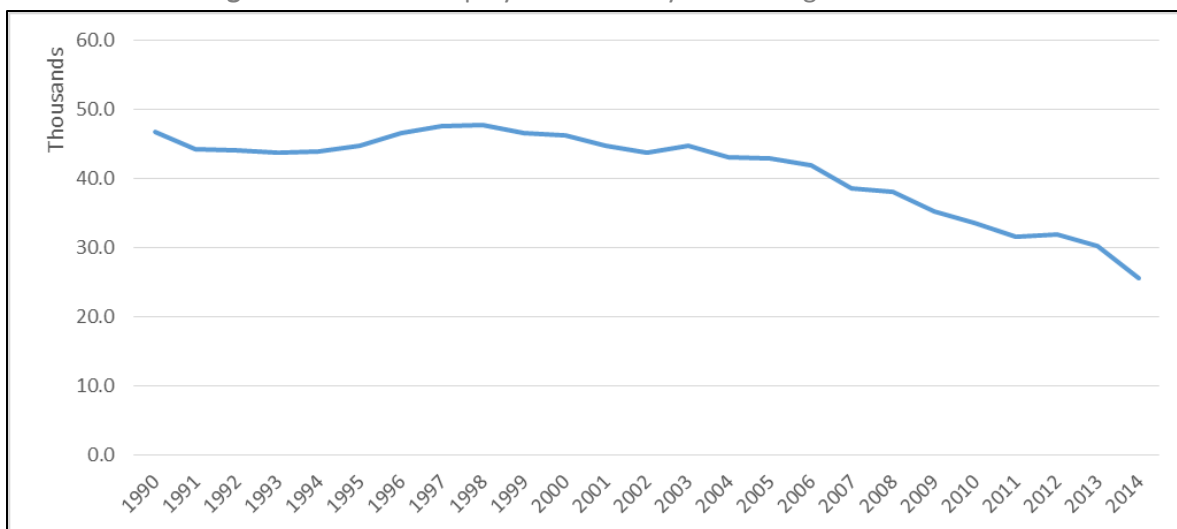
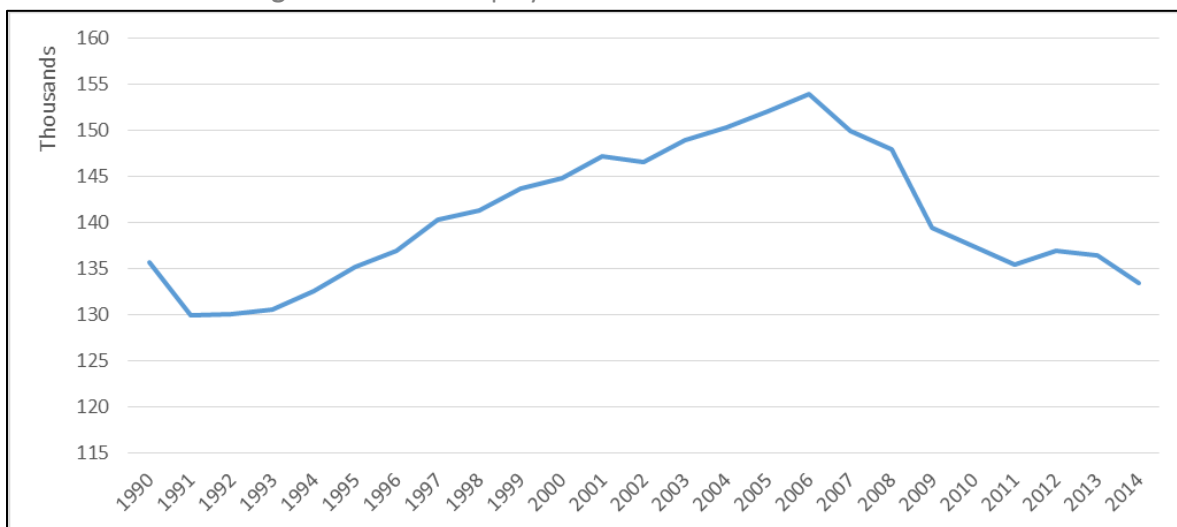


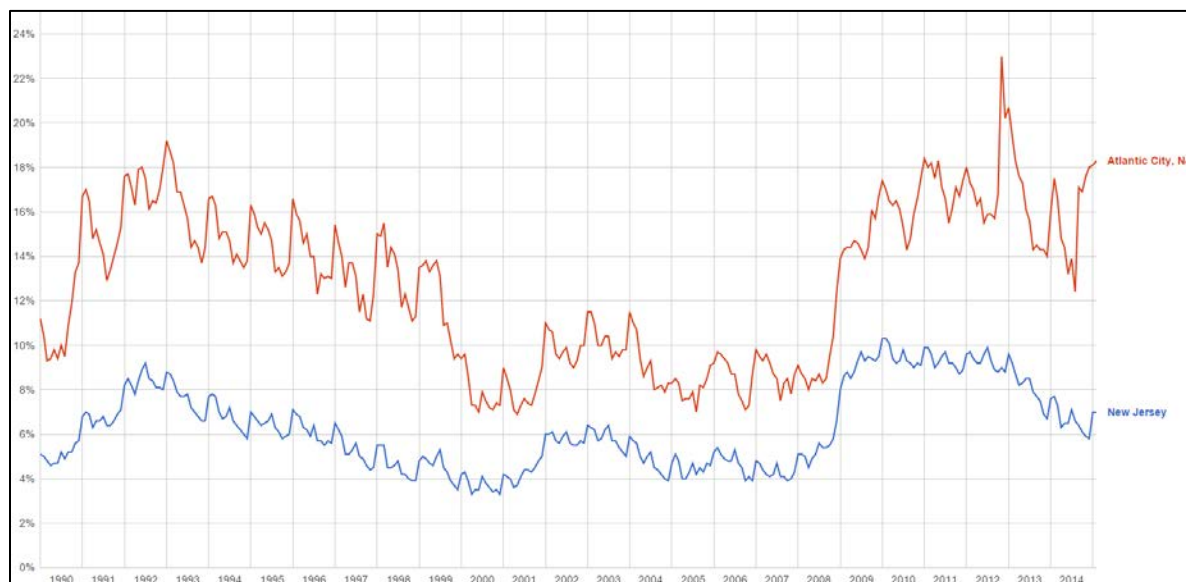
Figure 4.4: Total Employment Down to Pre-1995 Levels.¹³⁹



In February 2015, Atlantic City had the highest unemployment rate in New Jersey at 18.4%.¹⁴⁰ Many of its neighboring towns have been affected and also have very high unemployment rates. The US Census Bureau places Atlantic City's poverty rate at a staggering 34%.¹⁴¹

Initially, the casinos ushered in a large increase in jobs, but unemployment and poverty stayed at high levels within the city. As shown in Figure 4.5, unemployment in Atlantic City is consistently higher than the New Jersey average.¹⁴² A report published by the Federal Reserve of Philadelphia calls this the Labor Force Paradox.¹⁴³ A combination of policies since the inception of casinos, as well as other outside factors, has discouraged employment for a large portion of the city's population. The Federal Reserve report outlines some main contributors to the labor force paradox are policies that were written into the Casino Control Act, such as issues with the type of jobs offered at the casinos and a lack of work-readiness among the citizens of AC.¹⁴⁴

Figure 4.5: Atlantic City Unemployment is Consistently Higher than the State Average.¹⁴⁵



The work shifts offered by the casinos make it very hard for parents with children to gain employment. Due to the 24-hour nature of the casinos, two of the three shifts usually offered to casino workers are in the evening or overnight. Parents, especially single parents, find it difficult to get jobs when they can only work one of the three shifts that are offered. Compared to the rest of the State, Atlantic City has 2.5-times the number of female-headed families with a child under the age of 18.¹⁴⁶ This can cause issues in employment, especially when considering that the city has few affordable childcare options.¹⁴⁷

Despite many casino jobs being considered low-education jobs, a lack of work-readiness can play a major role in the ability of AC's workforce to find employment. As of the year 2000, only 61.8% of residents had a high school diploma, which is much lower than the 82.1% in the rest of the New Jersey.¹⁴⁸ Literacy rates are also much lower than in New Jersey as whole.¹⁴⁹

The cost of training is another work readiness issue unique to the casino industry, and it may be the largest impediment to employment for many of Atlantic City's residents.¹⁵⁰ Many of the casino jobs require that you have knowledge in one or two of the games that the casinos offer. To learn the casino games, the prospective employee has to pay for training upfront, before even applying for a job.¹⁵¹ This large cost is a major impediment to employment where poverty rates are high.

All of the above issues combined, and more which are outlined by the Federal Reserve report, can create the "Labor Force Paradox" that exists in Atlantic City. Even with such a large increase in the overall number of jobs in Atlantic City from the introduction of casinos, the city still faces large unemployment and has throughout the period in which casinos have existed. Legislators did pass a statute for casino revenue to go directly into revitalization of the city in the first iteration of the Casino Control Act. The next section explains this in more detail.

The Creation and Subsequent Destruction of the Casino Reinvestment Development Authority

In order to ensure that Atlantic City saw some benefit from the legalization of casino gaming and to, hopefully, prevent the issues that were discussed in the previous section, the Casino Control Act (CCA) included a provision for the casinos to pay a portion of their revenues directly to the redevelopment of Atlantic City.¹⁵² Casinos could use 2% of their revenue to invest into Atlantic City or they could hold on to the revenue for 5 years and pay it as a tax to New Jersey.¹⁵³ Every Casino chose the second option—they could let the money accrue interest and also get a federal rebate on the state tax. This left the second promise of urban redevelopment in Atlantic City unfulfilled.¹⁵⁴

The State recognized early on that there was a need to provide more help to Atlantic City.¹⁵⁵ In 1984 they amended the Casino Control Act to create the Casino Reinvestment Development Authority (CRDA).¹⁵⁶ This amendment to the CCA flipped the incentive for the casinos from paying more in taxes to actually contributing to the redevelopment of Atlantic City. Now there were two new options: spend 1.25% of their gross revenue on CRDA-issued bonds that are used for urban and economic development or pay a 2.5% tax to the State.^{a 157}

Originally, CRDA spent large amounts of money on urban, low-income housing. However, over time this policy changed.¹⁵⁸ In the original amendment to the CCA (that created CRDA), there was a ban on spending the funds for tourism-related endeavors. CRDA was intended to fulfill that second promise outlined in the CCA of urban revitalization for the casinos. Today, due to a series of legislative changes from 1993 onward, CRDA can spend funds on activities that directly benefit the casinos¹⁵⁹. This means that the casinos pay money into a fund that is then used to directly benefit them. This benefit comes from the small amount of casino revenue intended for the redevelopment of Atlantic City.

The most recent legislative changes came with the passage of the Tourism District Act in 2011, which carved out a tourism district for AC.¹⁶⁰ The act shifted CRDA's focus even further from urban redevelopment projects. As of 2013, the most expensive project CRDA funded in Atlantic City was Harrah's Conference Center, and they have similar projects directly benefiting several other casinos.¹⁶¹

Spending money to diversify tourism in Atlantic City is not a bad thing. In fact, in many ways Atlantic City is finally fulfilling the first outcome that was outlined in the CCA in 1977—revitalize the current tourism

^a The Casino Revenue Fund dedication is similar in significance to the lottery revenue dedication discussed in Chapter 2. It is a gimmick used to build support for legislation.

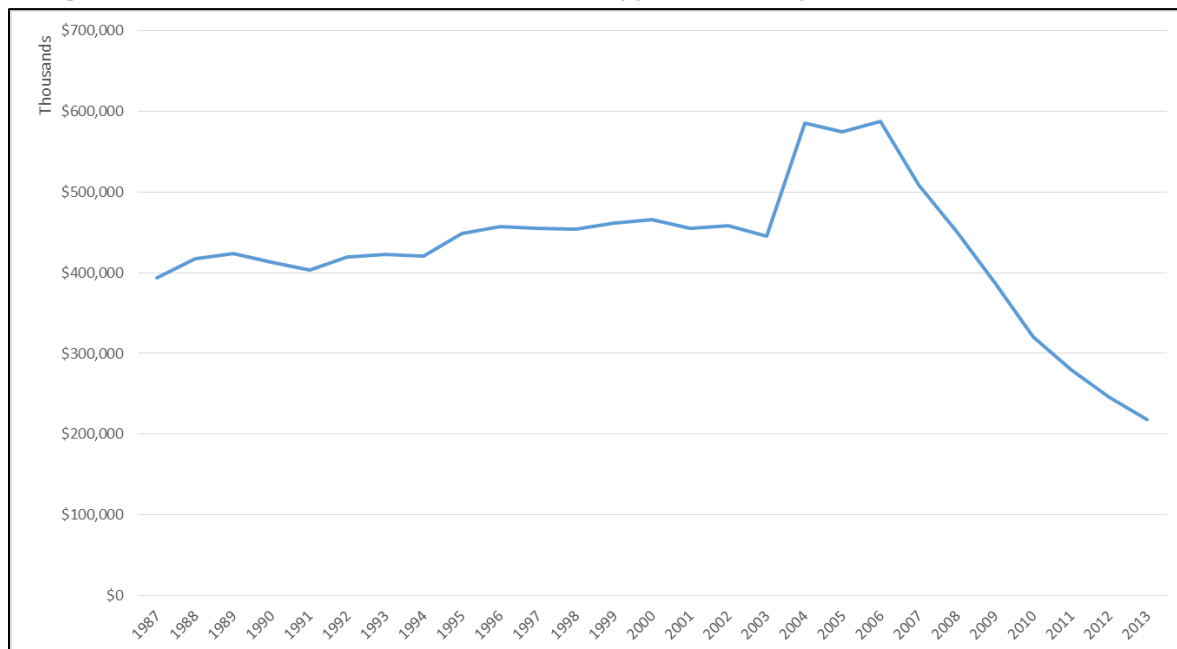
industry. CRDA is helping to improve the boardwalk, the beaches, and many other aspects of Atlantic City tourism. Unfortunately, CRDA is spending fewer resources to benefit the residents of Atlantic City. To be clear, there are many benefits to the spending that CRDA has done recently^a. This spending, however, is not the original purpose of CRDA.

The State has done a disservice to the most disadvantaged residents of Atlantic City. CRDA was supposed to provide a way for the casinos to spend a small amount of their revenue on investments in the city's redevelopment—childcare, education services, and low-income housing. It did that for a period of time. Now, the money that the casinos pay to CRDA is spent, in large part, on the casinos. The casinos should spend their *other* revenues on their own investment and growth. Despite the 1984 amendment to the Casino Control Act to fulfill the promise of urban redevelopment, over three decades later, the promise is still unfulfilled.

Failed Revenue Source for the State

Since the inception of Casino Gambling in Atlantic City, there has been an 8% state tax levied on all gaming revenue that the casinos earn¹⁶². The tax revenue is paid into the Casino Revenue Fund, which is dedicated to services for people with disabilities and the elderly^b.¹⁶³ The Casinos saw steady, but small, growth in revenue until 2006 when revenues began to decline rapidly (see Figure 4.6).¹⁶⁴ When adjusted for inflation, taxes on casino revenue paid to the State are currently lower than ever in history. Today, New Jersey is no longer the second largest gambling market in the country. That honor belongs to its neighbor, Pennsylvania.¹⁶⁵

Figure 4.6: Tax Paid on Casino Revenues has Dropped Drastically Since 2006 (2014 dollars).¹⁶⁶



^a The Harrah's conference center that CRDA is helping fund has led to 340 new construction jobs. It will also stimulate AC's economy when it is in use.

^b The Casino Revenue Fund dedication is similar in significance to the lottery revenue dedication discussed in Chapter 2. It is a gimmick used to build support for legislation.

Regional Competition

This economic decline may have been accelerated by a number of factors. The massive expansion in gaming and non-gaming tourism in Las Vegas since the early 1990s, the expansion of casino gaming in neighboring states, or, to some extent, an effect of the Great Recession are likely contributors to Atlantic City's decline. With Las Vegas and the Recessions playing minor roles, the biggest factor in Atlantic City's declining revenues is the expansion of gaming in neighboring states.¹⁶⁷

Las Vegas, from the 1990s to today, has seen large development. Much of this development has focused on bringing in tourists for non-gaming tourism. Given that Las Vegas has always been the largest gaming market, it is logical to conclude that their increased development has taken business from Atlantic City, but this does not seem to be the case. Atlantic City gets approximately 90% of its business from within a 75-mile radius.¹⁶⁸ So, although Vegas' development may be a factor in the loss of non-gaming tourism, it does not seem to have had much of an effect on New Jersey's gaming revenue or casino tax revenue.

Gambling is generally seen as "recession proof."¹⁶⁹ The decline in revenue generated by the casinos started in 2006, at least a year before the Great Recession would have an effect on the economy. Despite this, it is difficult not to attribute at least some of the lost revenue in subsequent years to the recession given the years in which the major decline happened. The Great Recession may have played a small role, but it was definitely not the major contributor to Atlantic City's sudden revenue collapse.

Pennsylvania, New Jersey's neighbor, legalized slot machines in 2004. In 2006, the first Pennsylvania casino, Mohegan Sun, in Pocono Downs opened. In 2010, they began to allow table games. As of 2012, five Pennsylvania casinos are located within close proximity to Atlantic City. The shore town effectively lost a major piece of its customer base. Figure 4.6 shows that the decline in revenues began in 2006, the same year that Mohegan Sun opened. The timeline of Pennsylvania increased gaming matches the loss in Atlantic City casino revenue tax in New Jersey. In 2006, revenues began to drop drastically, and continue to drop.

Recent research has shown that since the first two or three rival casinos opened, the effect of each new casino in Pennsylvania has diminished.¹⁷⁰ So, it seems as though the worst is over for Atlantic City in terms of competition from Pennsylvania. Still, the city must now survive in a world where they do not hold a monopoly on gaming on the East Coast.

Since the sudden collapse of revenue from Atlantic City the State has implemented or proposed new gaming options to generate revenue, which include online gaming and opening casinos in North Jersey. These options are discussed, in detail, in later chapters of this report.

New Jersey Casinos Pay Relatively Low Tax Rate

The legalization of casinos in Atlantic City gained support in the rest of the state with the argument that they would provide much needed tax relief at a time of fiscal crisis.¹⁷¹ In reality, even before New Jersey experienced this dramatic drop in revenue from the casinos the state saw drastically low revenues from casino gaming. The 8% tax rate that the casinos pay on gross gaming revenue is a relic of the past. As new casino markets emerge in other states the taxes imposed on those markets are consistently higher than in New Jersey.

Pennsylvania casinos pay a 34% tax on slot machine revenue, a 14% tax on table game revenue and a 34% tax on electronic game revenue¹⁷². Larger taxes on gaming revenue allowed Pennsylvania to collect

\$1.5 billion in 2012¹⁷³. New Jersey, a more established casino industry, collected only \$255 million in taxes in the same year.¹⁷⁴

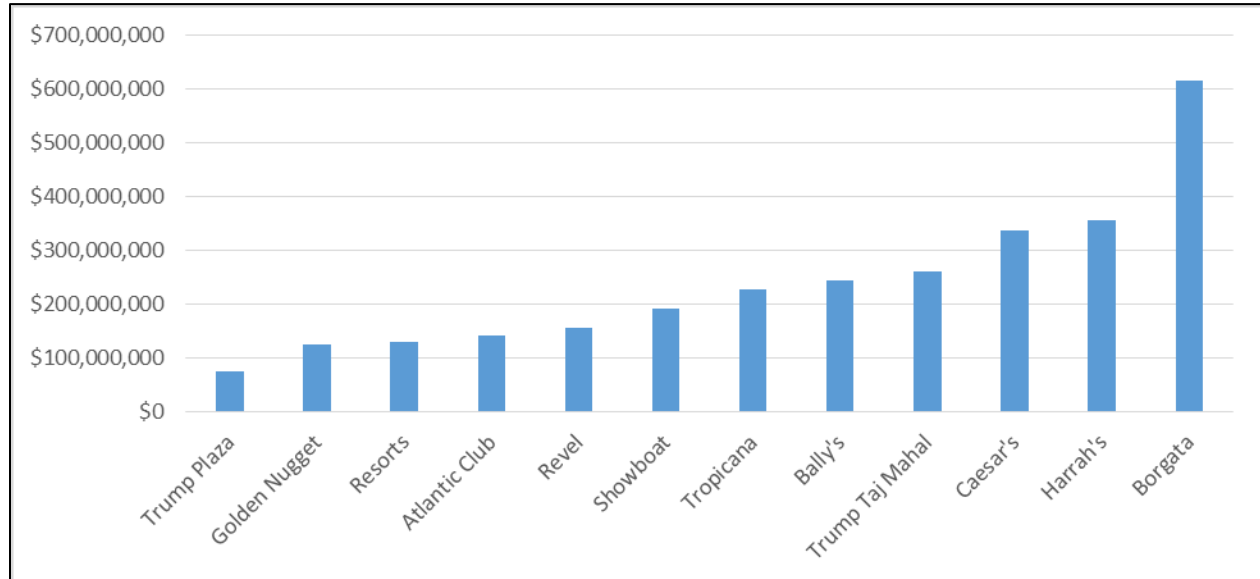
The Atlantic City casinos enjoyed this low tax rate for decades. It is now clear—with neighboring casinos implementing much higher tax rates—that the Atlantic City casinos enjoy a large discount in taxes. This is even more evident when considering the taxes that the casinos pay for the neighborhoods in which they reside. As stated previously, Atlantic City casinos pay 1.25% of gross revenue to CRDA. The Pennsylvania casinos pay 5% of slot revenue to the PA Gaming and Economic Development and Tourism Fund, and a 4% tax to the neighborhoods which house them.¹⁷⁵

The Recent Closure of Four Atlantic City Casinos

Of the twelve casinos that existed in 2013, the four that closed in 2014 were in the bottom half of revenue generators (see Figure 4.7)¹⁷⁶. The four casinos that closed—The Atlantic Club, Revel, Showboat, and Trump Plaza—represent a third of the casinos in AC, but only a fifth of the revenue. Only time will tell how many visitors of the four closed casinos will continue to come to Atlantic City, but it seems as though Atlantic City casinos will not lose much revenue over the loss of four casinos.^a As the current Mayor, Don Guardian, said, “...it's critical for Atlantic City to realize we are no longer the monopoly of gaming on the East Coast. If you build more and more casinos and don't increase the amount of people coming to them, you're sharing that wealth.”¹⁷⁷

Now, Atlantic City needs to find a new place in a market that is saturated with casinos, but it needs to do so in a way that will benefit the City and its residents.

Figure 4.7: Some Casinos Generate Much More Revenue Than Others¹⁷⁸.



^a The revenue loss will be somewhere between 0% and 20%, depending on how many customers of the closed casinos continue to come to Atlantic City's other casinos.

Recommendations

Today, Atlantic City exists in a different landscape than it did in the previous decades. As stated earlier, Pennsylvania has opened new casinos, but new casinos are not limited to Pennsylvania. New Jersey's other neighbors, New York and Delaware, have also opened casinos in recent years.¹⁷⁹ Despite this change in the business landscape, Atlantic City has survived, albeit with major issues that need to be addressed.

Atlantic City should bring the casinos in line with the spirit of the law that was passed in 1977 and ensure that casinos are an integral part of the tourist economy, but not that they do not make up the entire economy. The large size of the casinos makes this outcome impossible, because they drive out all other tourism. The recent closure of four casinos provides Atlantic City with an opportunity to diversify their tourism economy. The casinos will not provide such strong competition for the rest of the tourism economy.

The Casino Reinvestment Development Authority should revert to its roots and focus on urban revitalization. The Casino Reinvestment Development Authority was created in order to use the casinos as a tool for urban revitalization, as outlined in the Casino Control Act. The small portion of the casino's revenue that CRDA receives is now being used for the benefit of the casinos, which is not the original intent of the legislation. The establishment of the Tourism District is a great idea, but it should not be to the detriment of the residents of the City, who still live with record unemployment, extremely high poverty rates, low literacy rates, and high crime rates decades after the casinos were legalized to help them.

5. Online Gambling

With the launch of online gambling in November 2013, New Jersey residents can now gamble anytime and anywhere within the borders of the State. This chapter begins by providing an overview of the difficult path to legalizing Internet betting. Next, we examine the ease of wagering online, taxes imposed, and the scant revenues generated from online gambling. Lastly, this analysis details why the online gambling industry is unsustainable and should not be relied on by the State as a revenue source.

The Difficult Path to Legalizing Online Gambling

For many years, the federal government prohibited online gambling. Notably, profits made from online gambling only became acceptable when they were realized by U.S.-based businesses. The online gambling industry began in 1994 when the Caribbean twin-island nation of Antigua and Barbuda (hereafter known as “Antigua”), passed the Free Trade and Processing Zone Act. This Act allowed for “licenses to be granted to organizations applying to open online casinos.”¹⁸⁰ Four years later the U.S. began cracking down on overseas online gambling operators, charging 21 U.S. citizens connected with offshore online gambling sites with violating the Federal Wire Act of 1961.¹⁸¹

The Wire Act predated the Internet, yet its text still held sway over Internet betting. An often cited passage of the Act noted that “Whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility” for “any sporting event or contest...shall be fined under this title or imprisoned.”¹⁸² In the new era of online gambling there was much debate over whether the definition of “wire communication facility” applied to the Internet as well as argument over whether “any sporting event or contest” applied to gambling outside of sports.¹⁸³

There was much debate over whether the betting restrictions of the Wire Act applied to online gambling.

One of the 21 U.S. citizens charged with violating the Wire Act was Jay Cohen, who operated the Antigua-based World Sports Exchange. Cohen contested the charge, but lost his case and was given a 21-month prison term and a fine of five thousand dollars.¹⁸⁴ In the aftermath, an attorney in El Paso, Texas notified the government of Antigua that he believed the U.S. had violated the General Agreement on Trade in Services, a World Trade Organization (WTO) Treaty. Subsequently, in March 2003 Antigua “initiated the dispute resolution process of the WTO to challenge the United States’ prohibition on the cross-border supply of online gambling services.”¹⁸⁵ Unfortunately for the U.S. the Dispute Panel ruled in favor of Antigua and later the WTO authorized Antigua to evade paying \$21 million annually in U.S. intellectual property rights.¹⁸⁶

Although the U.S. lost the case, a major development occurred during its long dispute with Antigua. In 2006, Congress passed the Unlawful Internet Gambling Enforcement Act, which made it “illegal for financial institutions to process payments for online wagers.”¹⁸⁷ As a result, in 2011 federal prosecutors charged three highly popular online poker sites (Absolute Poker, Full Tilt Poker, and PokerStars) located in Antigua and the Isle of Man with money laundering and fraud.¹⁸⁸

The United States' longstanding position against online gambling also radically changed that same year. In September 2011, responding to the New York and Illinois Lottery's request for clarification on whether online sales of lottery tickets violated the Wire Act, the Department of Justice's Office of Legal Counsel released a legal opinion reversing its longstanding position against online gambling. Internet betting could now be allowed as long as the "gambling operator and the customer are within the same state."¹⁸⁹

In September 2011, the Department of Justice reversed its longstanding position against online gambling.

Accordingly, the new opinion made clear that the Wire Act only applied to gambling on a "sporting event or contest" and that the payment restrictions of the Unlawful Internet Gambling Enforcement Act "do not apply to transactions within a single state."¹⁹⁰

In February 2013, less than two years after the federal government gave the go-ahead to state-based online gambling, New Jersey Governor Chris Christie signed the Internet gaming statute of the Casino Control Act, thus legalizing online gambling in the State. The new law permitted Internet betting for a 10-year period, limited the operation of gambling websites to Atlantic City's casinos, and imposed a 15% tax on gross online gambling revenues.¹⁹¹ The law also permitted the State to "enter into compacts for online poker tournaments" with other states that have legalized Internet betting.¹⁹² Governor Christie asserted that the State would earn "\$180 million from a 15 percent online-gaming tax" in FY2014.¹⁹³ However, from the start of online gambling operations in November 2013 to the end of June 2014, online gambling brought the State only \$10.7 million in revenue, well below the Governor's expectations.¹⁹⁴

Online gambling brought the State much less revenue than expected.

Gambling Anytime, Anywhere

Gambling on a computer is much more convenient than traveling to a casino. Easily accessible, online gambling allows people to make wagers at anytime and anywhere within the borders of the State.¹⁹⁵ There are 16 websites that the New Jersey Division of Gaming Enforcement permits players to gamble on. These sites fall under the purview of several casinos, including the Borgata, Caesars, Golden Nugget, Resorts Casino Hotel, and Tropicana.¹⁹⁶ On these websites, users 21 years of age or older can play a variety of games such as slots, roulette, blackjack, craps, video poker, and Texas hold'em poker. Each casino also offers a mobile app that allows players to gamble real money on the go.

Before betting online, a user must pass a "Know Your Customer" check that confirms their identity, age, and location using "public databases and other identity verification methods such as credit reporting agencies."¹⁹⁷ To ensure that players are within the borders of the State, casinos operators utilize geo-location technology. This technology works by verifying a player's location through a computer's Internet Protocol address and Wi-Fi signal.¹⁹⁸ On mobile devices such as smartphones, users must enable Wi-Fi and the Global Positioning System before being allowed to gamble.¹⁹⁹ After successfully connecting on a mobile device, players can gamble almost anywhere in the State.

Required Payments to the State

Online gambling operators pay higher taxes than casinos. The Internet betting statute of the Casino Control Act requires operators of online casinos to pay a 15% tax on gross Internet gambling revenues to the Casino Revenue Fund (CRF), which supports seniors and persons with disabilities living in New Jersey.²⁰⁰ In comparison, an 8% tax is placed on gross casino revenues.²⁰¹ Operators of online casinos must also pay a 2.5% tax on gross Internet gambling revenues to the Casino Reinvestment Development Authority (CRDA) while traditional casinos only have to contribute 1.25% of gross revenues.²⁰² The money that the 2.5% investment tax collects is used to support revitalization projects in Atlantic City.

Operators of online casinos pay a 15% tax on gross Internet gambling revenues to the Casino Revenue Fund and a 2.5% tax on gross online gambling revenues to the Casino Reinvestment Development Authority.

On top of the two taxes, operators of Internet gambling sites must pay \$250,000 annually to the New Jersey Division of Gaming Enforcement. Once paid, this fee is “deposited into the State General Fund for appropriation by the Legislature to the Department of Human Services.”²⁰³ Of the original payment, \$140,000 must be allocated to the Council on Compulsive Gambling of New Jersey and \$110,000 must be used for “compulsive gambling treatment programs in the State.”²⁰⁴

Big Promises, Little Payoff

Online gambling revenues have been much less than what was promised. Originally, the State projected \$180 million in revenues from online gambling in fiscal year (FY) 2014, though this estimate was later reduced to \$160 million.²⁰⁵ Revenue reports compiled by the New Jersey Office of Legislative Services show that from the start of online gambling in November 2013 to the end of FY2014 seven months later, Internet betting contributed a paltry \$10.7 million to the CRF.²⁰⁶ In FY2014, online gambling also contributed slightly less than \$2 million to the CRDA.²⁰⁷

While online gambling revenue fell vastly short of promised amounts, New Jersey fared better than the two other states that permit Internet betting. In Delaware, state officials had “counted on \$7.5 million in additional tax revenue” in FY2014, but due to a delayed rollout and one-time startup costs, online gambling, which debuted in November 2013, “made no net contributions to the state budget in fiscal 2014.”²⁰⁸ Moreover, in Nevada, which has legalized interactive poker since April 2013, Internet betting generated merely \$700,000 in tax revenue in FY2014.²⁰⁹ The trouble raising revenue elsewhere signals that wagering online may not be a sustainable enterprise.

From the start of online gambling in November 2013 to the end of FY2014 seven months later, Internet betting contributed a paltry \$10.7 million to the Casino Revenue Fund

Recommendation

The future of online gambling looks bleak. In the first eight months of FY2015, online gambling contributed only another \$10.7 million to the CRF.²¹⁰ Though four months remain in FY2015, revenues from online gambling appear flat, averaging just \$1.5 million per month. This figure is surprising given that nearly 506,000 Internet betting accounts have been created since November 2014 and payment-processing issues should no longer prevent players from wagering online.²¹¹

In FY2015, revenues from online gambling appear flat, averaging just \$1.5 million per month.

Besides revenue shortfalls, New Jersey residents have doubts about online gambling's ability to support Atlantic City. In a 2014 survey conducted by the Rutgers Eagleton Center for Public Interest Polling that reached 842 New Jersey adults through random digit dialing, 55% of respondents saw online gambling as "bad for Atlantic City, compared with just 5 percent saying it is a good thing."²¹² Moreover, in regards to playing online, only 7% of respondents who had gambled in Atlantic City also tried online gambling.²¹³

The value that wagering online brings to the State is minimal. Not only are New Jersey residents doubting the value of Internet betting, they are also not playing in the numbers needed to make this enterprise worthwhile for the State. Additionally, online gambling is not "pain free." The ease of playing online could further harm those susceptible to problem gambling. Overall, online gambling does not appear to be a sustainable enterprise, thus the State should not rely on the revenue that this activity generates.

Not only are New Jersey residents doubting the value of Internet betting, they are also not playing in the numbers needed to make this enterprise worthwhile for the State.

6. North Jersey Casinos

Developers and state legislators are seriously advocating for expanding casinos beyond Atlantic City and into North Jersey. Despite plummeting Atlantic City casino revenues, a saturated regional casino market, and a state history of disappointing gambling endeavors, advocates are steadfast. Senator Raymond Lesniak (D-Union) writes, “Two gaming sites in North Jersey have the potential to generate hundreds of millions in state and local tax revenue and create tens of thousands of desperately needed, good paying jobs.”²¹⁴ These big promises sound familiar.

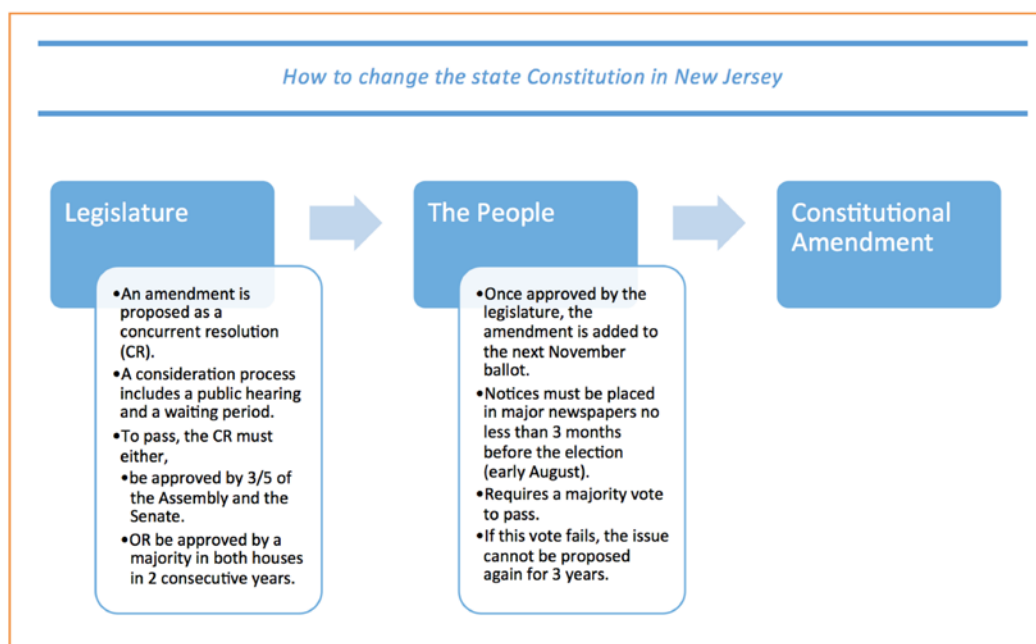
This chapter outlines the process for expanding casinos in North Jersey and discusses efforts already underway. Then, it examines the viability of more casinos and ends with recommendations for how to proceed. The fundamental question of this chapter is whether we are repeating our mistakes by believing exaggerated promises and going down the same expensive path we have taken before.

Expanding Casinos is a Serious Possibility

Atlantic City’s Constitutionally Protected Monopoly

In 1976, New Jersey voters approved a constitutional amendment allowing casino gaming in Atlantic City.^a Casinos outside of Atlantic City are prohibited according to the New Jersey Constitution, and any change to this law (e.g. allowing casinos elsewhere in the state) would require another constitutional amendment. Figure 6.1 outlines this process.

Figure 6.1: The process for changing the New Jersey Constitution.



^a Section VII §2

Atlantic City's monopoly was key to the city's success. In the 1970s, Atlantic City was within a 3-hour drive of 60% of Americans.²¹⁵ With a corner on the market, the city and the casino business grew continuously through the early 2000s.²¹⁶ However, as we have seen, Atlantic City's success has dwindled. Until recently, casinos were regional phenomena and drew crowds from large geographic areas, which was an advantage for the Atlantic City. Now, markets are local.²¹⁷ It has been a game changer.

Declining Casino Market

The Great Recession, new casinos in nearby states, and a restructuring of the gaming industry nationwide (there are now fewer gaming companies) have contributed to the recent downward spiral in Atlantic City.²¹⁸ For New Jersey, increased competition from nearby states has been significant. Since 2008, over 10 casinos have opened in neighboring states and New York is planning for three more.²¹⁹ Plus, New York City's moratorium on casinos expires in about 2022.²²⁰ Many casino industry experts characterize the northeast and mid-Atlantic casino markets as "oversaturated."²²¹ Brian Miller, a casino analyst, agrees, and adds, "At the end of the day, this is all a race to the bottom..."²²² On the other hand, he says there are still viable local markets.²²³

The casino industry has struggled nationally as well. In June 2014, Moody's, the credit rating service, downgraded the entire US gaming industry from stable to negative. They report that outside of Nevada gaming revenues have been declining and are predicted to remain flat over the next 12 to 18 months. The declines have been small, but this is not good performance given the improvement in the overall economy.²²⁴ New Jersey Senator Jim Whelan (D-Atlantic) agrees that the casino industry is on the decline.²²⁵

A Political Window of Opportunity

Until recently, casinos expansion in New Jersey seemed politically unfeasible given a north-south divide on the issue. North Jersey, which has more votes, would like to build new casinos, but South Jersey civil leaders want to protect Atlantic City. Several politicians, particularly Governor Christie and Senate President Stephen Sweeney (D-Salem), in the past have promised to support Atlantic City's monopoly until 2016.²²⁶

Nevertheless, recently there seems to be growing political will to try and expand casinos beyond Atlantic City.²²⁷ The turnaround came when major players, including Christie and Sweeney, relented.²²⁸ They have now indicated that they would support new casinos if some of the revenues were redirected back to Atlantic City. Supporters see this approach as a way for the state to pay Atlantic City back for the support casino revenues have offered the rest of the state in the past.²²⁹

The new plan for supporting Atlantic City has given politicians and developers the green light to go ahead on a constitutional amendment.²³⁰ Several legislators have already introduced the legislation required for expanding casinos and there are high hopes for adding an amendment this fall (2015). Senator Raymond Lesniak (D-Union) has been the primary instigator advocating for casinos in North Jersey.²³¹ Localities and developers have taken note of the shift and several have made proposals for casinos in North Jersey already.²³² Some now are even saying casino expansion is "inevitable."²³³

Serious Proposals for North Jersey Casinos are Already on the Table

The Meadowlands sports complex and Jersey City have made serious proposals for casinos in North Jersey. These proposals are outlined in Figures 6.2 and 6.3. While these two proposals appear to be frontrunners, many other localities are also vying for consideration—particularly Newark, Secaucus, Monmouth County, and Sussex County.²³⁴ The Meadowlands and Jersey City proposals are both in the early stages, but the smaller possibilities are not even this far along.

Legislation is Already Paving the Way

The Hackensack Meadowlands Agency Consolidation Act is helping to set the stage for new development (e.g. casinos) in the Meadowlands area. Assembly Speaker Vincent Prieto (D-Secaucus) and Senator Paul Sarlo (D-Wood-Ridge) pushed the 80-page bill (S2647/A3969) through the legislature quickly in December 2014, and Governor Christie signed it into law in February 2015. The Act folds the New Jersey Meadowlands Commission (NJMC) into the New Jersey Sports and Exposition Authority (NJSEA). It also adds 3% to the hotel tax (for a total of 18%) and ends a tax sharing process for the 14 municipalities under the NJMC.

The NJMC is a zoning and planning agency that oversees parts of 14 municipalities in Bergen and Hudson counties. Like the NJSEA, it is a “quasi-governmental” agency that is “in-but-not-of” the Department of Community Affairs.²³⁵ Its original purpose was to protect the local wetlands from overdevelopment, and take a regional approach to balancing environmental preservation with commercial, industrial, and residential development. Both the NJSEA and the NJMC have “distinct land-use missions generally within the same 30-square-mile territory” and both promote economic growth in the region.²³⁶ On the other hand, they sometimes have “conflicting mandates.”²³⁷

The Hackensack Meadowlands Agency Consolidation Act was sold as an effort to streamline bureaucracy and ease property tax burdens.²³⁸ However, it was not until after the legislators passed the bill that they, and others, realized there were serious problems.²³⁹ The Act moved control of Liberty State Park from the Department of Environmental Protection to the new combined Authority, potentially leaving it vulnerable to development.^a Also, it is unclear what will happen to the NJMC’s environmental mandates and scientific research initiatives, which have guided the organization to “reversing decades of environmental degradation in the sensitive North Jersey wetland.”²⁴⁰

The New Jersey Sierra Club, New Jersey Future, Friends of Liberty State Park and others have been harsh critics of the new law.²⁴¹ Opponents say the Act is an effort to create a more “business-friendly regulatory agency.”²⁴² Prieto and Sarlo say it will, “make it easier to attract jobs and economic development in the region... We are addressing some of the region’s toughest problems in a fiscally responsible way.”²⁴³ Both the bill’s sponsors and Governor Christie have vowed to fix the problems with further legislation, which was introduced in February (A4196/S2866) and passed the Assembly in March, but has not made further progress.²⁴⁴ Environmental groups are still unsatisfied.²⁴⁵

^a The man behind the Jersey City casino proposal, Paul Fireman, owns the Liberty National Golf Club, which is next to Liberty State Park, and happens to be next to the proposed side of the new casino. The Liberty National Golf Club was built in 2006 at a cost of \$250 million; it was built over a toxic landfill.

Figure 6.2: Summary of the proposal to build a casino in Jersey City, New Jersey.

Jersey City Proposal

Overview: Paul Fireman, Boston’s billionaire venture capitalist and Reebok founder, is proposing to build a massive casino tower located along New Jersey’s Hudson Waterfront, also known as the “Gold Coast.” He also happens to own the extravagant Liberty National Golf Club next door. Although Fireman is the face of the Jersey City proposal, there may be more supporters behind the scenes.²⁴⁶

Proposal: The proposal’s details were first reported in July 2014, but Mayor Fulop and Mr. Fireman began discussing the project as early as 2013.²⁴⁷ The tower, “Liberty Rising,” is planned to be 95-stories, which rivals 1 World Trade Center. It is expected to cost \$4.6 billion to build, which would be among the largest construction projects in the US.²⁴⁸ Key features of the multi-use proposal include a high-end casino, convention center, shops, residences, a hotel, the world’s largest observation wheel, and a racecar track with a 100,000+ seated stadium.²⁴⁹

The *New York Times* describes the proposal: “Mr. Fireman appears to have thrown a greatest hits of unbuilt projects into a blender — Donald J. Trump’s plan for a Nascar racetrack on Staten Island, a giant Ferris wheel in the New Jersey Meadowlands — with one of the super towers from Manhattan’s emerging Billionaire’s Row and a dollop of gambling to spice it up.”²⁵⁰ Proponents claim the project would target high-end gamblers: Mayor Fulop says it would not be, “just some dumb slot machines.”²⁵¹ He also reports that 90% of the property has been secured and private investment is in place.²⁵²



Promises: Advocates say that the world-class facility with views of Manhattan will attract \$5 billion in investments, create 25,000 jobs, and bring in hundreds of millions of dollars in revenue annually.²⁵³

Jersey City Mayor Steve Fulop has claimed that the new casino “would be the highest-grossing in North America”²⁵⁴ and touts the projects potential for job creation, tax relief, and tourism.²⁵⁵ Senator Lesniak says, “It has the wow factor ... It will blow away Macau as a destination place for gaming.”²⁵⁶

Concerns: Friends of Liberty State Park oppose the racecar track and the transportation congestion the site would create because of potential damage to Liberty State Park.²⁵⁷ Also, the details are sparse and negotiations have not been public. Fireman has been meeting with other public officials across the State behind closed doors for months, possibly as early as 2013.²⁵⁸ WNYC reports that “the facts are hard, even impossible to pin down, because very few people connected to the plan will talk.”²⁵⁹

Figure 6.3 Summary of the proposal to build a casino in the Meadowlands Sports Complex area.

Meadowlands Proposal

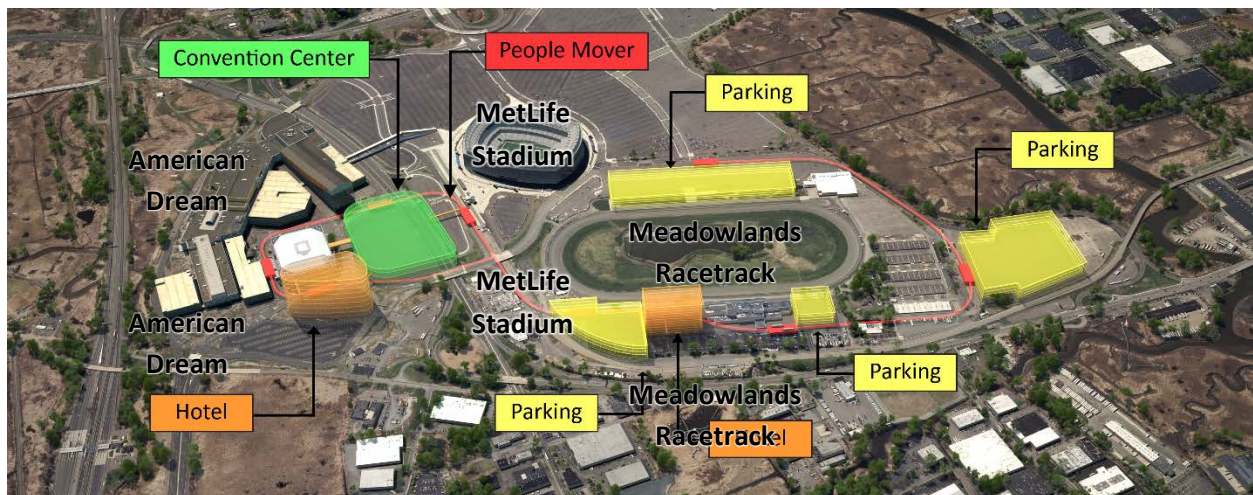
Overview: On August 19, 2014, the Meadowlands Chamber of Commerce, a local business group, made a proposal for a complex of casinos integrated into the existing Meadowlands sports complex. The group includes executives from firms such as Goya Foods, Hartz Mountain Industries, and Onyx Equities.²⁶⁰ Jeff Gural, owner of the Meadowlands Racetrack, has made it clear that he would like to operate any possible casinos in the Meadowlands.²⁶¹ As opposed to the Jersey City proposal, these casinos would target average gamers, not “high-rollers.”

Proposal: Developers proposed building two hotels, one near the mall and one near the racetrack, with a total of 2,000 rooms. The plan calls for as many as four casino sites—possibly at each hotel, the track, and convention center—with 325 gaming tables and 8,000 slots. There were also ideas to add a mix of themed spaces aimed at different audiences.²⁶² The casino at the racetrack would be similar to Racinos in nearby states. The proposal also includes a near one million square foot convention center, 20,000 additional parking spaces, and a 1.5-mile monorail, or people mover.²⁶³ The Racinos could be implemented within months, but the development would take years to build.²⁶⁴

The presented cost was \$1.2 billion. It does not appear that investors have been secured and developers will likely seek a mix of public and private funding. There is speculation that the convention center (\$175 million) and the people-mover (\$65 million) would be publicly funded.²⁶⁵ Developers say “Billions of dollars in revenue would come several years later.”²⁶⁶

Promises: The casino complex proposal claims the project will create 7,000 construction jobs and 11,040 permanent jobs in total across whole proposal.²⁶⁷ Jim Kirkos, president of the Meadowlands Chamber of Commerce, argues the nearby attractions—the American Dream, MetLife Center—will consistently bring people to the casinos.²⁶⁸ He says all of these projects will be conducive to one another.

Concerns: Major players—the Jets, the Giants, Meadowlands Racetrack, and American Dream developers—had not yet been consulted.²⁶⁹ The American Dream developers have already had conflicts with the sports teams, so it is especially important for a casino project to work with all stakeholders.²⁷⁰



If We Could Have New Casinos, Would We Want Them?

Many Unanswered Questions Remain

While developers tout the benefits of job creation and economic growth of new casinos, they have yet to address many other issues that would be necessary for a successful arrangement.

Infrastructure: If any new casinos are going to be as successful as claimed, they are going to require significant infrastructure support—roads, public transit, water, sewage, etc. As of now, it is unclear what the actual needs are, who will pay for them, and how the increased traffic will affect nearby neighborhoods, businesses, and parks.²⁷¹ Experts estimate that the cost burden of new casinos is often greater for local jurisdictions than for state governments.²⁷² Local and statewide taxpayers have already contributed tens of millions of dollars into infrastructure supporting the Meadowlands sports complex. How much more should the State spend providing for the casino industry?

Financing: While the Jersey City proposal seems to have private investors lined up, the Meadowlands option's financing is uncertain. Spokesmen for the Meadowlands proposal say they have interested investors, but admit none are secured.²⁷³ Further, they have indicated that they may seek some public funding.²⁷⁴ Once voters allow for new casinos through a constitutional amendment, the legislature could act on its own to use public money to support the casino(s). It should be clear whether public money will be used to develop new casinos and how this will benefit the public welfare.

Taxes: Another unanswered question is how any new casinos would be taxed. Currently, the effective tax rate on Atlantic City casinos is the second lowest in the country, after Nevada, at 9.25%.²⁷⁵ This is too low. However, some casino experts warn that there is an “inverse relationship between tax rates and capital investment.”²⁷⁶ So, rates that earn the State large amounts of money may deter investment. The tax rate needs to strike a balance. Legislation that has been introduced imposes a much higher tax rate on casinos in North Jersey—66%,²⁷⁷ and one potential casino operator said he would pay up to a 50% tax rate.²⁷⁸

Location: Even though most people assume new casinos would be in the Meadowlands area, that is not a given. A constitutional amendment could limit the geography for new casinos, like it did with Atlantic City, or limit the number of additional licenses allowed. Either way, how would we decide where new casinos would be allowed?

Who will benefit?: There are big promises of jobs and tax revenues from developers, but the history of Atlantic City and of the NJSEA indicate that over time these promised benefits often turn into costs borne by taxpayers. Also, benefits, or potential costs, will not likely be equally distributed between developers, local government, state government, local residents, Atlantic City, the environment, and others. An observer of Atlantic City notes, “For many of the citizens of Atlantic and Cape May counties, their lot has improved. For some, it has not. For others, it may have become worse. Casino gaming is not a panacea.”²⁷⁹

Atlantic City—competition: Much of Atlantic City's advantage has been being the only game in town—or, at least in the State. Would new casinos in North Jersey cut into Atlantic City's already dwindling market? Jersey City casino advocates don't think so.²⁸⁰ At least, that is not their intent.²⁸¹ Some even go so far as to say new casinos would help Atlantic City.²⁸² Senator Lesniak writes, “You will hear people argue that expansion of gaming in North Jersey will kill Atlantic City, but I am here to tell you it is what

will save Atlantic City... We need to unite to save the whole state!”²⁸³ However, Alex Bumazhny, director of gaming, lodging and leisure at Fitch Ratings says, “Having another casino in northern New Jersey would be pretty detrimental to Atlantic City.”²⁸⁴

Atlantic City—supportive funding: In the current political environment, approval for new casinos would require provisions for funneling a portion of new casino profits back to Atlantic City. For example, Jersey City developers have already agreed to send \$100 million to Atlantic City for 10 years.²⁸⁵ Atlantic City Mayor Jim Whelan argues that Atlantic City money went to support other state ventures in the past; now is the time to “reciprocate” and send money to AC.²⁸⁶ The Star Ledger Editorial Board agrees, arguing that the entire state is responsible for the fate of Atlantic City.

However, these hypothetical arrangements leave many unanswered questions. If new casinos are sending money to the State through taxes and to Atlantic City, will they be able to make significant profits? Is money the answer to Atlantic City’s problems? What happens if Atlantic City is still struggling in ten years? Not everyone sees the benefits of funneling money to Atlantic City and some doubt whether the arrangement to send money to Atlantic City will pass the “smell test” with voters.²⁸⁷ During Atlantic City’s successful decades, they had more than enough money and did not use it well. They did not invest in the city’s future.²⁸⁸ James Wortman observes that, “having a lot of money does not ameliorate the problem. In fact, in many cases it only makes matters worse.”²⁸⁹ If New Jersey wants to support Atlantic City, is this the best approach?

Success of New Casinos Questionable

Economic Benefits

Developers guarantee that their casino plans will alleviate high unemployment rates and budget struggles.²⁹¹ Senator Lesniak claims new casinos will bring the State millions in revenues and create jobs.²⁹² Senator Sarlo says that an additional benefit would be paying back NJSEA’s losses.²⁹³

“Just put a casino in there, all these financial problems of the sports authority are solved, end of story.” - Senator Sarlo²⁹⁰

However, the economics of the casino industry are not so crystal clear. It is not easy to calculate the social and economic costs and benefits of casinos.²⁹⁴ While the casino’s experts claim massive benefits, other experts do not necessarily agree. Steven Perskie, a former judge, advisor to Gov. James Florio, and state senator, was the primary author of what became the New Jersey Casino Control Act. He says, “The gaming market is what it is, and will grow and contract according to its own economics. Putting a facility in North Jersey is not going to grow gaming in North Jersey. At best, it will stay even and take away some of what’s now in Atlantic City. Why the state would want to do that... is beyond me...”²⁹⁵ Another expert more generally adds, “A significant body of evidence suggests that as more states legalize gambling, the likelihood that gambling will provide economic benefits decreases and the chance that casinos will appear in places where a majority of residents do not want them increases.”²⁹⁶

Market Viability

Casino advocates also argue that there is a significant and available market of gamers from New Jersey and New York City currently going to Bethlehem, Pennsylvania or Yonkers, New York.²⁹⁷ If only we could build new casinos in North Jersey, we could capture those profits for New Jersey that are currently going to our neighbors, they say.²⁹⁸ For example, the Jersey City proposal is focusing on the New York market; there are 12 million adults within a 1-hour radius of the proposed site.²⁹⁹

However, the viability of this market is uncertain. Casino markets are never going to line up perfectly with state lines. If New Jersey voters approve new casinos in North Jersey, and if they are able to capture some of the business currently leaving the state, then by the same logic the other states will want to recapture part of the revenues going to New Jersey. It is a perpetual cycle that has already led to a saturation of the regional casino market.³⁰⁰ Every time the pieces of the pie get smaller. Steven Perskie comments, “The notion that you could build a major facility in Jersey City and then have New York say, ‘OK, we’re going to allow everybody to go across the river and make money in New Jersey’ is insane. It isn’t going to keep any significant number of dollars in New Jersey that otherwise would have gone across the border; it just won’t.”³⁰¹

Also, it is not clear that New Jersey is losing that much business to its neighbors. In January 2014, Stockton College published the results of a randomized poll of New Jerseyans. Of the people who had gambled in a casino within the prior 12 months, over 83% had gambled in Atlantic City, about 28% had gambled in Pennsylvania, and only 8% had gambled in New York; nearly 13% had gambled in Nevada and over 10% had gambled abroad.³⁰² Not that many gamers are leaving the state to gamble, and the ones going abroad and to Nevada are not likely to choose North Jersey over these destinations.

Timing

Developers stress the urgency of developing before the market shrinks too much or New York cuts into the business; they say that we are losing millions by not acting now.³⁰³ The rhetoric is strong. Lesniak argues, “Atlantic City has realized a loss of billions of its annual gaming revenue to these states and it is not coming back if we do not act NOW!...Our only option to take back this critical revenue for our great state and save Atlantic City is the expansion of gaming to North Jersey.”³⁰⁴

However, even if there were a strong market for North Jersey, there would be a very short window of opportunity for new casinos to capitalize on it. With the necessary constitutional amendment and building time, it would be years before a casino in North Jersey could be open for business. The new casinos will draw greater competition from nearby states and prompt them to build as well. Casino advocates argue that we are missing an opportunity.³⁰⁵ But, an opportunity for what? Why are we racing into a mediocre or declining industry that is likely to get even worse in the near future? The State may make some money in the short-term, but then what?

Voter Approval

Lastly, it is unclear whether a ballot initiative to change the constitution would have enough voter support. A 2014 survey of businesses^a indicated that only 60% strongly believe that a Meadowlands casino would be a “valuable economic benefit to the region.”³⁰⁶ Another 2014 poll of New Jersey voters indicated opposition to new casinos ranging from 44 to 50%.³⁰⁷ A constitutional amendment requires approval from a majority of voters.

Recommendations

New Jersey’s history with casinos, the NJSEA, horseracing, and so on clearly indicate that relying on gambling in public finances is a bad bet. Also, while gambling can be beneficial, it is not likely to live up to its huge promises. Taking these lessons, how should we proceed in North Jersey?

^a The survey consisted of a small group of business leaders in Bergen, Hudson, and Essex counties. The survey had a 19% response rate with 93 respondents.

Do We Want Casinos in North Jersey? Maybe.

The history of gaming endeavors in New Jersey and the many unanswered questions about current proposals for casinos in North Jersey suggest there are reasons for concern about expansion. Why are we racing into a mediocre or declining industry? The State may make some money in the short-term, but then what? However, this does not mean that we should not allow new casinos.

Perskie reminds us that that whether something has been a success or a disappointment depends on what your expectations were.³⁰⁸ Clearly, in today's context, if we expect to see a boon to the tourism industry and a big impact on the state budget—as is promised—then we are going to be very disappointed. However, these proposals may not be innately bad. If the many unanswered questions can be addressed adequately, new casinos in northern New Jersey may be beneficial overall. But, they won't save the state budget by bringing in big revenues; they are not likely to be a long-term mainstay of the economy; and the public may actually need to spend some money to ensure their success. Are we willing to accept that?

If We Expand Casinos in North Jersey, How Should We do it?

The cautionary tales throughout this report do not necessarily mean that gambling and public support are a fatal mix. It means that we need to critically analyze all of the costs and benefits and realize that the reality will not likely be as big as the promises. Also, we need to be very careful about any role the State plays so that we do not hurt the budget in the future. When considering new casinos in North Jersey, we need to do the following:

First of all, proponents need to adequately address several issues:³⁰⁹

- Who will benefit? Who will have to pay? How will these two pieces align fairly?
- Is there a long-term market for these casinos?
- Who will provide, and pay for, supporting infrastructure?
- Will they draw business away from Atlantic City?
- How much, if any, money would be diverted to Atlantic City?
- How does funneling money to Atlantic City actually help Atlantic City? Will it simultaneously allow North Jersey casinos to remain profitable?
- How many casinos will we allow? And, where?
- What would the taxes be?
- If new casinos in North Jersey were able to bring business currently going to Pennsylvania and other surrounding areas back to New Jersey, would those increased revenues outweigh the other costs and risks of building new casinos?
- What is the plan for when our neighbors build even more casinos and add even more competition?
- Will there be adequate services to address social costs and gambling addiction?
- Are there other means to achieving the same ends?

Second, we need to adjust expectations. New Jersey will never be the casino capital of the East Coast ever again. Third, we need to protect the state budget. The intent is not to create a barrier to gambling. Developers should be free to build casinos and operate them within the regulatory framework and people should be free to gamble. However, the State should not need to invest taxpayer money in these projects, and the State must not be susceptible to bailing out the industry as it has in the past.

7. Social Costs of Gambling

Gambling has large negative impacts on both individuals and society. The American Psychiatric Association (APA) classifies gambling as an addictive disorder that is associated with poor quality of life and impairment in well-being. The APA notes that the “essential feature of gambling disorder is

persistent and recurrent maladaptive gambling behavior that disrupts personal, family and/or vocational pursuits.”³¹⁰ Accordingly, gambling is not “pain-free” on the individual level. What is more, the huge costs of gambling on society demonstrate that gambling is also not “pain-free” on the societal level. In this way, both society and individuals suffer from the effects of gambling addiction.

This chapter begins by discussing New Jersey’s limited funding for problem gambling services, characteristics of people with gambling addictions, and prevalence rates. Next, it examines gambling’s high costs on society, which include bankruptcy and debt, productivity and job losses, harm to family members, crime, and health and mental health care expenditures. Subsequently, it covers how social costs of gambling are quantified. Finally, treatment options and their costs will be considered and several policy recommendations will be presented.

New Jersey’s Limited Spending on Problem Gambling Services

This section covers the amount of money dedicated to problem and pathological gambling services in New Jersey, types of services funded, and the per capita allocation for services. In New Jersey State fiscal year (FY) 2013, the problem gambling service budget of the Department of Human Services (DHS), Division of Mental Health & Addiction was just \$850,000. Monies for problem gambling services come from casino fines, forfeited casino winnings, and the racing industry.^a

All DHS funds are transferred to the Council on Compulsive Gambling of New Jersey (CCGNJ) for the administration of problem gambling services. The CCGNJ serves as the state affiliate to the National Council on Problem Gambling (NCPG). In FY2013, the CCGNJ operated on a budget of \$934,000, with a majority of funds derived from the DHS state grant. In addition, since Internet betting began in November 2013, each operator of an online casino contributes \$140,000 to the CCGNJ for problem gambling services and \$110,000 for problem gambling treatment on an annual basis.³¹¹ As such, we can expect funding for problem gambling services and treatment to be greater in the future.

There is a high degree of variability in the problem gambling services that states fund. These differences are generally rooted in the original legislation that dedicated monies for services and are likewise caused by budget restraints that prevent expansion of services. Surveys also found that in 2013, state funding levels for problem gambling services were correlated with the number of individuals treated, gambling revenue, and the number of problem gamblers.³¹² Furthermore, previous research shows that state allocations for treatment services made up 50% of the total gambling services budget; between 2010 and 2013 that figure dropped to 37%.³¹³ States with the most funding directed more money towards treatment than any other service category, while states with the least amount of funding followed inconsistent patterns. For example, some agencies reorganized their budgets and allocated more monies for problem gambling prevention, media, and helpline services instead of treatment services.³¹⁴

^a Monies appropriated for gambling services was outlined in the New Jersey Constitution under the Casino Control Act (Pamphlet Law 1977 c.110). Making changes to the monies allotted for gambling services is difficult. A commission known as the “Casino Revenue Fund Advisory Commission” reviews the programs funded by the Casino Revenue Fund and makes recommendations concerning existing or proposed programs and evaluates the need for additional or expanded programs and advises the Legislature. Once approved by the Legislature, it requires approval from a majority of the voters before it becomes a constitutional amendment. See Figure 6.1 for the process of changing the NJ State Constitution.

Due to the varying sizes of state populations, funding for services are more comparable when funding is viewed on a per capita basis. The average per capita allocation among the 39 states with state funded services is \$0.32, however, the national average falls to \$0.25 when the 11 states without dedicated funding are included.³¹⁵ New Jersey's per capita public investment in 2013 was only \$0.10. From 2010 to 2013, Pennsylvania, Delaware, and Massachusetts increased their per capita spending on problem gambling service while Nevada, New York, and New Jersey decreased their per capita investment.³¹⁶

Demographics and Prevalence Rates

We next discuss the population characteristics of problem and pathological gamblers. We will also address the characteristics of people who call the New Jersey Problem Gambling Helpline. Severe problem gamblers are classified as pathological gamblers. Pathological gamblers are often the young, elderly, poor, minority groups, and less educated.³¹⁷

Men are more likely to become pathological, problem, or at-risk gamblers, than women.³¹⁸ African Americans and Native

Americans have higher rates of pathological and problem gambling than other minority groups.³¹⁹ The current national average rate of problem gamblers is about 2.2%.³²⁰ The New Jersey adult prevalence rate is 2.8% (190,624 citizens in SFY 2013), which is higher than the national average.³²¹ Notably, the prevalence rate among youth is often higher than the adult population. The average "past year" rate of problem and pathological gambling among adolescents was 20%, compared to 11% for adults. Adolescent gamblers are especially vulnerable because they have a higher risk of developing gambling problems.

The current national average rate of problem gamblers is about 2.2%. The New Jersey adult prevalence rate is 2.8% (190,624 citizens in SFY 2013).

Helplines are generally one of the first services established by states for problem gamblers. The New Jersey Problem Gambling Helpline received roughly 1,600 "calls for help" in 2011; 1,400 in 2012, and 1,300 in 2013.³²² The number of hits on their website (www.800gambler.org) has increased over the last several years as well, from 768,000 in 2011 to 816,000 in 2012, and to 989,000 in 2013. The most common form of gambling mentioned among individuals who called the helpline were casinos machines

The average "past year" rate of problem and pathological gambling among adolescents was 20%, compared to 11% for adults.

(32%), and casinos tables (32%) followed by the lottery (18%), sports betting (5%), and Internet betting (3%). In contrast, the primary forms of gambling mentioned among adolescents included the lottery, card, and sports betting.³²³ Additionally, the average income of individuals who called was roughly \$56,000 in 2013 dollars and the average gambling debt was \$18,000.^a The biggest precipitating event leading to a helpline call was financial problems (75%). On average, 70% of callers were male and 29% were female. The average caller was 44

years old; 61% of callers were White, 17% African American, 5% Hispanic/Latino, 5% Asian, and 12% were unspecified.³²⁴

^a All figures are adjusted for inflation to 2014 dollars, unless otherwise noted.

High Costs to Society

This section will review how pathological and problem gamblers place costs on society. In particular, we will discuss bankruptcy and debt, productivity and job losses, harm to family members, crime, and health and mental health care. Societal costs that are not addressed include social services, suicide, domestic violence, and child abuse.

Bankruptcy and Debt

In one of the few studies to address bankruptcy, Ladouceur et al. found that 18 to 28% of males and 8% of females in treatment and attending Gamblers Anonymous (GA) had declared bankruptcy.³²⁵ History shows that personal bankruptcy rose within the first year of a casino's operation, dropped between the fourth and seventh year, and then rose again in the eighth year.³²⁶ Other causes of bankruptcy included income loss as well as family and marital problems. Yet, medical debt was found to be a much more common cause of bankruptcy, accounting for 62% of all bankruptcy filings.³²⁷ Therefore, bankruptcies due to gambling problems account for a small portion of total U.S. bankruptcy filings, but bankruptcy is relatively common for problem gamblers.

Though the majority of gamblers do not file for bankruptcy, they can still carry average debts ranging from \$109,000 to \$218,000.³²⁸ In comparison, the average personal debt in 2011 was merely \$7,000.³²⁹

When debt is compared to income, pathological gamblers owed \$1.20 for every dollar of annual income while non-gamblers owed only \$0.60. Debt and financial losses also place tremendous stress on a gambler's family, resulting in less household expenditures.

When debt is compared to income, pathological gamblers owed \$1.20 for every dollar of annual income while non-gamblers owed only \$0.60.

Productivity & Job Losses

The impacts of pathological gambling in the workplace include decreased productivity, loss of employment, lost wages, and reliance on social welfare programs.³³⁰ Pathological and problem gamblers may become less productive at their job, miss work to gamble, or come in late because of gambling. Remarkably, Lesieur found that between 69 to 76% of pathological gamblers missed work in order to gamble.³³¹ In addition, other studies show that loss of employment affects 21 to 36% of gamblers.³³²

Harm to Family Members

Due to financial hardship resulting from gambling problems, families experience many difficulties, including divorce, domestic violence, and child abuse and neglect.³³³ Among GA members who got divorced or separated from their spouse, over a quarter attributed their divorce or separations to their gambling problems.³³⁴ Divorce literature states that the biggest consequence of gambling related divorce is the lowered well-being of the spouse and children. Furthermore, children of problem and pathological gamblers have lower academic or occupational achievement, are more likely to engage in delinquent behavior, and have a greater chance of becoming a problem or pathological gambler.³³⁵

Crime

We next examine crimes committed by pathological and problem gamblers and whether crimes are linked to the presence of a casino. The types of crimes committed by problem and pathological gamblers include embezzlement, defaulting on financial obligations, tax evasion, and fraud. Some pathological

gamblers commit crimes in order to pay debts, pay bookies, and have more money to gamble. Pathological and problem gamblers have higher rates of arrest and incarceration than the non-gamblers. About one-third of problem and pathological gamblers report having been arrested, compared to less than 5% of the non-gambler population.³³⁶ Average arrest costs per pathological and problem gambler are \$1,800 and \$1,400, respectively. Moreover, the rate of incarceration for problem and pathological gamblers is 10 to 20 times greater compared to non-gamblers.³³⁷ Lifetime incarceration costs per problem and pathological gambler are roughly \$1,000 and \$2,500, respectively.^a

Crime rates surrounding gambling sites should take the visitor population into consideration; otherwise the crime rate could be artificially inflated. Various studies that adjust for visitors, including research on Atlantic City, have been unable to tie increased crime rates directly to the presence of a casino.³³⁸ One theory suggests that jobs created from a casino's presence provide an alternative to crime, thereby diminishing crime rates. However, a study conducted by Grinols et al. shows that violent and property crimes increase due to the presence of a casino. Yet, a more recent analysis shows that the presence of a casino is not a predictor of property crimes such as larcenies, burglaries, robberies, motor vehicle thefts, and assaults.³³⁹ Furthermore, when motor vehicle thefts were examined by Fall, et al., casinos were found to reduce theft rates. Research on crime rates is mixed, however, it is not necessary to direct additional funds for police services to prevent property crimes in an area near a casino.³⁴⁰ Additionally, we suggest that additional research be conducted to determine the impact of casinos on embezzlement, fraud, prostitution, and alcohol-related crimes.

Health Care and Mental Health

Financial, family, occupational, and legal problems lead to a variety of health issues, including depression, anxiety attacks, cardiac problems, migraines, and high blood pressure.³⁴¹ A National Opinion Research Center (NORC) survey estimated that personal health expenditures for pathological gamblers are about \$4,400 per gambler, and annual mental health expenditures per pathological and problem gambler average \$508 each year.³⁴² In addition, pathological and problem gamblers show high rates of suicidal ideation and attempts.³⁴³

Quantifying the Social Costs of Gambling

This section will cover how the social costs of gambling are quantified, discuss problems in quantifying costs, and raise potential issues affecting cost estimates. The number of adults in New Jersey that suffer from problem gambling is roughly 133,000, while the adult pathological gambling population consists of about 66,500 people.³⁴⁴ The New Jersey's 2009 annual social cost estimate was \$254 million. Each pathological gambler costs society roughly \$1,700 annually and \$15,000 over a lifetime. In comparison, every problem gambler costs society about \$1,000 annually and \$7,500 over a lifetime.³⁴⁵ These figures translate into annual costs of \$7 billion and lifetime costs of \$58 billion.^{b,346} Lifetime cost estimates include bankruptcy, arrests, incarceration, and divorce. Yearly cost estimates include unemployment, welfare benefits, gambling treatment, and diminished physical and mental health. Thus, annual costs should be increased to incorporate lifetime costs. Furthermore, NORC cautions that these estimates

^a Total costs are prorated across all pathological and problem gamblers and based on total corrections spending from the 1996 US Department of Justice (USDOJ) data, and then adjusted for inflation to 2014 dollars.

^b Based on multiplying the estimated prevalence of pathological and problem gamblers with the annual and lifetime costs in 1998 dollars, and then converted to 2014 dollars.

cannot quantify all the consequences of problem and pathological gambling such as the psychological of a divorce.

There has been little agreement among researchers on how to quantify gambling's social costs. Part of the issue is competing approaches used to calculate costs (i.e. cost of illness, public health impacts, and economic).³⁴⁷ According to economic literature, a "social cost" is something that causes a "decrease in societal wealth."³⁴⁸ Missed work, productivity loss, and being let go from work are sometimes classified as internalized costs and therefore not included in some social cost estimates. Similarly, unemployment compensation, bankruptcy, theft, welfare, and food stamps can be classified as wealth transfers. Studies show that the average annual social cost estimates vary from \$560 to \$52,000 per gambler.^{a,349}

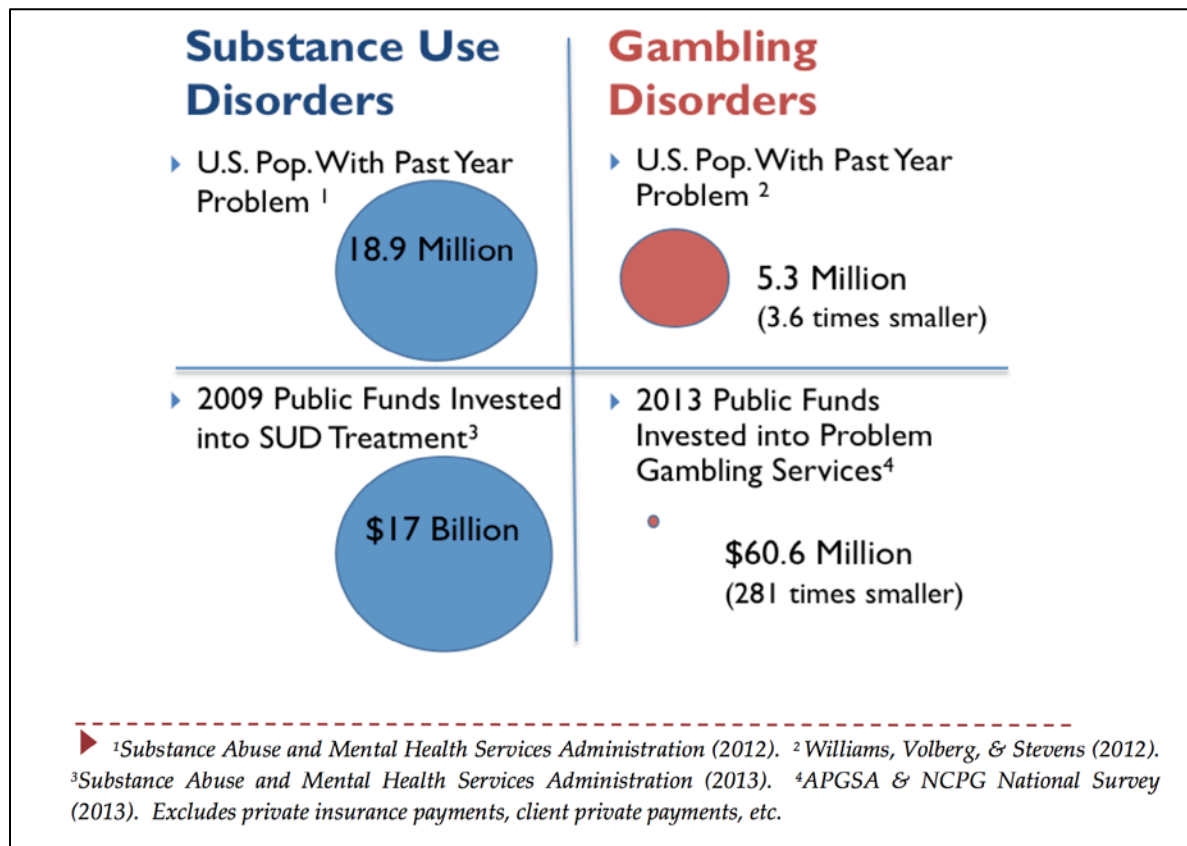
A comparison of the prevalence and public spending of substance use disorders (SUD) treatment and problem gambling services in the United States are displayed in Figure 7.1. SUD's are 3.6 times more common than gambling disorders; yet public funding for substance abuse treatment is 281 times greater than funding for problem gambling services.

Social cost estimates are especially hard to quantify when gambling addiction is combined with other disorders.³⁵⁰ A meta-analysis of population studies indicated that problem and pathological gamblers had high rates of co-occurring disorders.³⁵¹ Pathological and problem gambling commonly co-occurs with depressive, personality, bipolar, panic, anxiety, nicotine, alcohol, and substance abuse disorders.³⁵² Studies of pathological and problem gambling in substance abuse treatment showed that the prevalence rate of problem and pathological gambling is approximately 23 and 14%, respectively.³⁵³ Studies show that half of gamblers have a co-occurring alcohol and/or substance abuse disorder.

It is difficult to attribute social costs solely to a gambling disorder when an individual has a co-occurring disorder, thereby affecting cost estimates. Furthermore, since social cost estimates are sensitive to a researcher's assumptions, policymakers should use caution when interpreting these studies. However, according to Kindt, the social costs of gambling will increase if society does not take an active role in combating and preventing this disorder.³⁵⁴

^a Since these averages come from various studies, they have not been adjusted for inflation.

Figure 7.1: Comparison of Prevalence and Public Funding for Substance Use Disorders and Gambling Disorders in the U.S.³⁵⁵



Treating People with Gambling Problems

In this section we discuss various treatment approaches for pathological and problem gambling and evaluate their effectiveness. Different categories of treatment include self-help interventions, professional treatments, and pharmacological treatments. It is important to keep in mind that literature regarding treatment options and their effectiveness is sparse since the field is relatively new.

Self-help interventions are non-professional treatments that an individual can do more or less independently, and are more affordable than professional treatment.³⁵⁶ Gamblers Anonymous (GA), bibliotherapy (workbooks), Internet-based interventions, and telephone or in-person therapy are several self-help options.^a Studies that have evaluated GA show a high recidivism rate; however, there is some evidence that GA may serve to enhance outcomes of those receiving professional treatment.³⁵⁷ Most studies indicate that self-help interventions combined with some form of therapist contact improved engagement and outcomes for treatment seeking pathological gamblers.³⁵⁸ For example,

^a Individuals experiencing gambling problems can take advantage of the Division of Gaming Enforcement's (DGE) expanded New Jersey Casino Gambling Self-Exclusion Program. This program enables individuals to self-exclude themselves from all Atlantic City casino facilities and all Internet gambling activities, or for all Internet gaming only. Self-exclusion programs range from one year, five years, or a lifetime. Alternatively, for individuals that do not want to gamble on credit, they can suspend their credit privileges at all Atlantic City casinos via an in person or written request to DGE.

motivational telephone support combined with self-help workbook materials showed promise in the treatment of a gambling addiction.³⁵⁹

Several studies have not found any consistently beneficial types of professional treatments. However, Cognitive Behavioral Treatment (CBT) has received the most research support and has been shown to be effective in the short-term, and, in some instances, reduce long-term problem and pathological gambling behaviors.³⁶⁰ CBT is a form of counseling, where individuals work with a therapist to identify and challenge thoughts that lead to undesirable behaviors.³⁶¹ What is more, evidence shows that brief and motivational interventions may be useful for engaging gamblers at earlier stages of their addiction.³⁶² Brief interventions can “consist of phone contact, a brief therapy session, or any form of individualized contact lasting several 45-minute sessions.”³⁶³

Pharmacological treatments for pathological gambling include antidepressants, opioid antagonists, atypical antipsychotics, mood stabilizers and other agents. Research has produced mixed results; however, evidence suggests that antidepressants, opiate antagonists, and mood stabilizers show short-term efficacy in the treatment of pathological gambling.³⁶⁴ More studies need to be conducted to determine the effectiveness of pharmacological treatments, thus professional interventions should remain the first line of treatment for gambling disorders.³⁶⁵

Cost of Treatment

In this section, we examine the number of individuals that seek and need treatment as well as those that receive treatment in New Jersey. Additionally, we discuss the costs of treatment and several obstacles in meeting the service needs of problem gamblers.

Only 3% of pathological gamblers seek professional treatment each year. Yet, in 2012 approximately 5.8 million pathological gamblers needed treatment in the U.S.³⁶⁶ In SFY 2013, approximately 191,000 New Jersey adults were believed to have a gambling disorder. In FY 2012, 332 individuals received state funded gambling outpatient treatment and 16 individuals received residential treatment.³⁶⁷ CCGNJ offers outpatient treatment services at an average case cost of under \$500, yet nationally the average cost per individual treatment episode was nearly \$1,200.^a Data shows that inpatient treatment facilities, which generally keep patients for several weeks, can cost of up to \$10,000 per gambler.³⁶⁸

The largest obstacle in meeting the service needs for problem gamblers was lack of funding, followed by a lack of public awareness of services available. Even though pathological gambling is recognized as a medical disorder, most insurance companies and managed care providers do not cover treatment. On top of limited financial resources among those seeking help, the lack of coverage limits treatment options.³⁶⁹ A lack of public awareness about the availability of problem and pathological gambling treatment was also found to be linked to lower than expected treatment enrollments.³⁷⁰

^a Costs are based on 2012 estimates. However, CCGNJ treatment services have remained relatively constant over time.

Recommendations

Problem and pathological gamblers have high rates of co-occurring disorders; therefore treatment providers should screen individuals for common co-occurring disorders. Additionally, in substance abuse treatment settings, treatment providers should evaluate individuals for gambling disorders.³⁷¹

Furthermore, since individuals that start gambling at a younger age run a higher risk of developing gambling problems, it is important to focus on prevention as well as implement measures to address problem and pathological gambling among adolescents.³⁷² Lastly, more research should be conducted in order determine the best treatment options for gambling addiction.

Policymakers, voters, and researchers should be aware of the drawbacks in quantifying social costs, while aiming to enhance the aid given to problem and pathological gamblers. If gambling expands in New Jersey, there should also be an increase in funding for problem gambling services. Without increased funding, the social costs of problem and pathological gambling will further erode the benefits of gambling.

8. Conclusion

The many areas of gambling in New Jersey all tell a similar story: unfulfilled promises. Gambling is often seen as an easy, “pain free” fix to revenue shortfalls. However, there are many hidden costs of gambling, such as addiction, disproportionate risk taken by lower-income individuals, questionable economic development, and unemployment consequences.

Gambling is not a cure-all for the state budget. It has been consistently shown that gaming activities are not sustainable. Moreover, adding new forms of gambling, such as online gambling and more new casinos, does not necessarily guarantee that the State will realize additional revenue. In the future, expanding legalized gambling cannot be expected to provide greater benefits to the State.

Furthermore, tax dollars should serve the public, not the gaming industry. Scholars identify two conditions for a public use entity: (1) it must be used by the public, and (2) it must enhance the general welfare of the public.³⁷³ Gambling appeals to a portion of the state’s population, thus condition one is met. However, it is not clear that there is a net benefit to the general welfare. Notably, gambling addiction costs society \$254 million per year.³⁷⁴

We are not saying that gambling is inherently bad, but that it is risky for the State, its benefits are not equally distributed to all New Jerseyans, and we need to be cautious of the big promises made. This report has identified three themes for gambling in New Jersey that have guided our recommendations: (1) Gambling revenues are often unsustainable and are relied upon too much in the State’s budget; (2) Gambling is not “pain free;” and (3) Gambling may be acceptable, but should not be relied on for more than it can offer and all costs and benefits must be weighed.

The State Lottery has proved to be a relatively stable source of revenue for New Jersey, and it is difficult to imagine getting by without it. However, the lottery is most popular among low-income people, so the poor disproportionately contribute to this form of State revenue. Further, the funds allotted for education and other State initiatives does not actually increase funding in those areas. Also, the State has made compromises to maintain player interest in the lottery that may not lead to the long-term sustainability of this revenue source. Going forward, officials should increase State contributions, increase transparency, and cautiously market to vulnerable groups.

The story of horseracing and sports stadiums in New Jersey highlights the dangers of relying on gambling revenues to fund public endeavors. Here, gaming revenues supported entertainment projects for a while, but over time the State has sent millions to the New Jersey Sports and Exposition Authority for expenses and debt payments. The reality is in sharp contrast to the “free” stadiums promised initially. This example needs to be a cautionary tale for other gambling ventures.

Again, the theme of unsustainability is shown through Atlantic City’s story. Casinos were seen as a silver bullet to save the dying tourist destination. However, revenues ended up primarily supporting the casinos themselves, rather than reinvesting those profits in the rest of the city. Also, while casinos have thrived, local residents suffer challenging job markets and high unemployment rates. The casinos helped some, but the benefits were not shared by everyone in Atlantic City, and now the city faces big challenges.

Online gambling was supposed to be a boon for the State. However, the initiative has been a bust. Many other gambling sectors have seen success for a time, but online gambling has yet to take off. This is yet another example of the State seeking a quick budget fix and not realizing a sustainable revenue source.

Despite Atlantic City's troubles and a volatile history with gambling, many are proposing new casinos in North Jersey. Advocates argue that they are necessary in order to recapture gambling profits currently going to Pennsylvania and New York, and may even be used to help Atlantic City. However, many unanswered questions remain and it is unclear how long the new casinos could be viable. Here, while we do not object to the new casinos outright, we urge decision makers to demand a full analysis of the costs and benefits, consider the future viability of the market, and protect the State and taxpayers from present and future costs.

New Jersey is also working to expand sports betting. The legislature, the people, and Governor Christie approved sports betting, but the issue has been held up in the courts. The State has continued to push for legalization in hopes that the endeavor will bring much needed revenue to the State.³⁷⁵ Many view legalizing sports betting as a necessity for the State. However, similar gambling initiatives have shown that the costs and benefits are not so clear cut and there are no silver bullets when it comes to the State budget.

Finally, we would like to bring attention to the often ignored social costs of gambling. The monetary, social, and health costs of problem gambling are real and substantive. While experts do not agree on one method to quantify these costs, it is clear that gambling takes a toll on many individuals, families, and ultimately our whole society. It is also clear that New Jersey significantly underfunds gambling addiction services. We recommend that New Jersey do more to serve problem gamblers and any new form of gambling must contribute funds for problem gambling services.

New Jersey and gambling have had wild successes and stark failures. Our history demands caution moving forward.

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