

Economic Impact of New Jersey Online Gaming: **LESSONS LEARNED**

SUBMITTED TO



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Executive Summary

SUBMITTED BY

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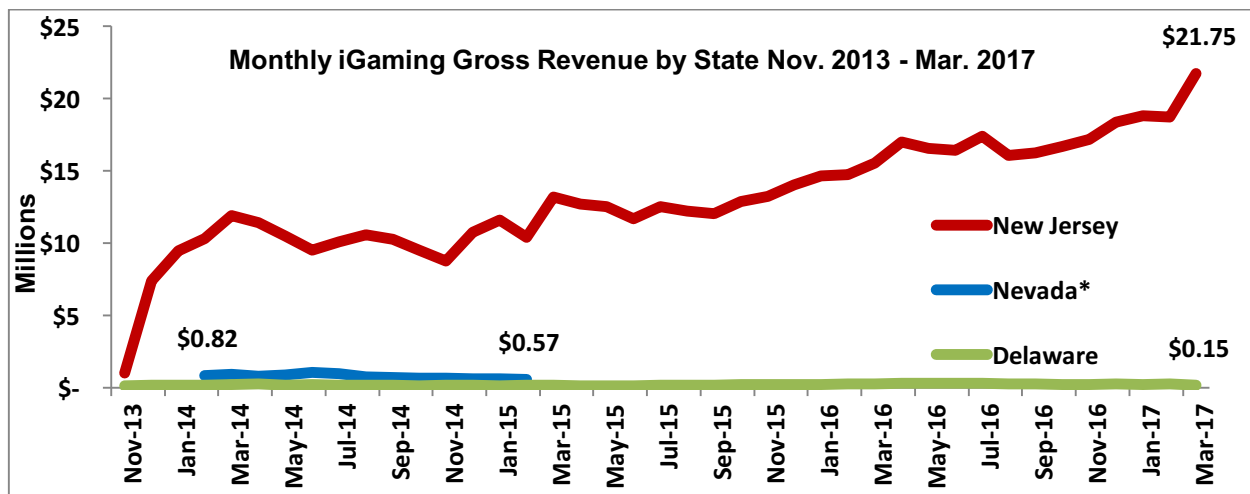
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Executive Summary

In November 2013, New Jersey became the third U.S. state to permit the legal operation of Internet gaming (“iGaming”). To date, New Jersey iGaming clearly has been the most successful of the three states, which include Nevada and Delaware. The State of New Jersey’s iGaming laws allow licensed Atlantic City casinos to operate all games allowed in their brick and mortar facilities. In addition, the casinos are able to partner with approved technology providers to operate multiple iGaming websites.

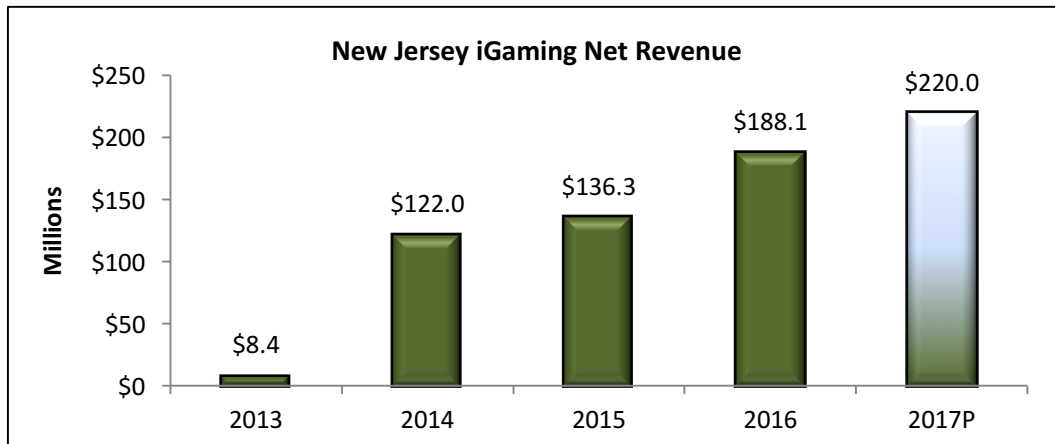
New Jersey iGaming has experienced strong and steady growth since its inception, putting it far ahead of Nevada and Delaware in terms of registered player counts, gaming revenue, and tax revenue.



Sources: New Jersey Division of Gaming Enforcement; Nevada Gaming Control Board; and Delaware Video Lottery.
*Nevada Gaming Control Board ceased reporting Internet poker revenue as of February 2015.

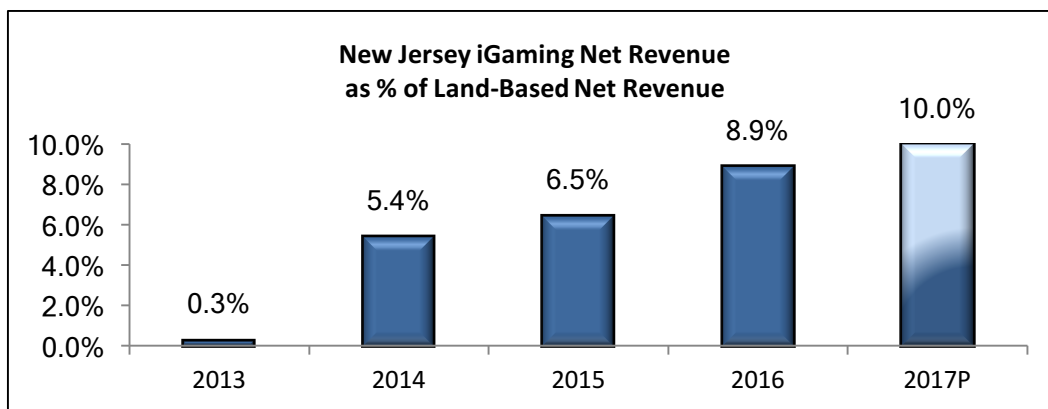
While New Jersey’s favorable outcome has been in part due to its larger population, a primary contributing factor has been its broader iGaming business model.

Since its first full year of operations, revenue has grown at a compound annual growth rate of 27%. In calendar year 2016, iGaming generated total gross gaming revenue of \$196.9 million, a 32% increase from 2015. Net gaming revenue, after subtracting all promotional gaming credits, totaled \$188.1 million, a 38% increase over 2015 revenues. New Jersey iGaming looks to continue this strong growth. Projections anticipate a 17% increase in gaming revenue in 2017.



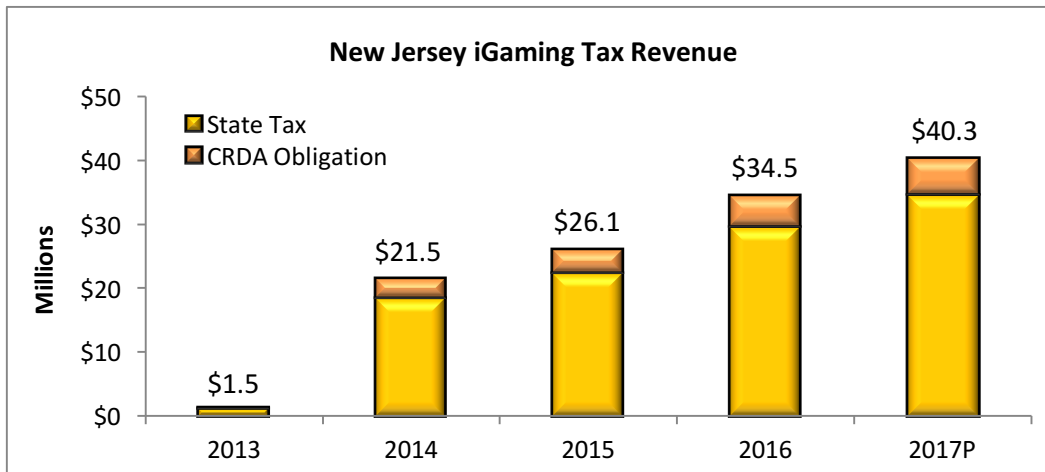
Sources: New Jersey Division of Gaming Enforcement; Nathan Associates/Victor-Strategies analysis.

New Jersey iGaming net revenue has grown from 5.4% of land-based net gaming revenue in 2014, its first full year of operation, to 8.9% of land-based net gaming revenue in 2016, and it is projected to reach 10% in 2017.



Source: New Jersey Division of Gaming Enforcement.

New Jersey iGaming also generated \$34.5 million in gaming taxes for New Jersey in 2016, including approximately \$29.5 million to the State and \$4.9 million locally via the Casino Reinvestment Development Authority (CRDA). This reflects a 32% increase over 2015. Gaming taxes are anticipated to total \$40.3 million in 2017.



Source: New Jersey Division of Gaming Enforcement.

As a result of the upfront capital investment in New Jersey iGaming facilities, equipment, and technology, and the ongoing annual operation of iGaming, there have been significant positive impacts on the New Jersey economy. From its inception in late 2013 through calendar year 2016, New Jersey iGaming has directly and indirectly generated:

- \$998.3 million in output (i.e., value of sales);
- 3,374 jobs (i.e., full-time equivalents);
- \$218.9 million in wages to employees; and
- \$124.4 million in tax revenue to state and local governments (including \$83.5 million in iGaming taxes).

2013-2016 Economic & Fiscal Impact of Investment in & Operation of iGaming on State of New Jersey				
Type of Effect	Output	Jobs	Wages	Taxes
Direct	\$522,275,192	821	\$60,264,506	\$97,582,620
Indirect	\$315,354,868	1,650	\$109,474,852	\$16,047,034
Induced	\$160,630,817	902	\$49,174,645	\$10,759,645
Total	\$998,260,877	3,374	\$218,914,003	\$124,389,299
Detail may not equate to total due to rounding. Output and Wages in 2017 Dollars. Jobs are measured as full-time equivalents (FTEs). Taxes include state and local taxes. Direct Effect was computed from data provided by industry participants. Indirect and Induced Effects were computed using input-output analysis. The Indirect Effect represents economic activity generated entities down the supply chain. The Induced Effect represents economic activity generated as a result of household purchases.				

In calendar year 2016 alone, the operation of iGaming (excluding investments) generated:

- \$381.3 million in output;
- 1,259 jobs;
- \$77.0 million in wages to employees; and
- \$49.9 million in tax revenue to state and local governments (including \$34.5 million in iGaming taxes).

2016 Economic & Fiscal Impact of Operation of iGaming on State of New Jersey				
Type of Effect	Output	Jobs	Wages	Taxes
Direct	\$198,112,979	278	\$17,300,974	\$39,673,982
Indirect	\$125,141,877	655	\$42,253,983	\$6,328,622
Induced	\$58,020,094	326	\$17,440,578	\$3,886,850
Total	\$381,274,949	1,259	\$76,995,535	\$49,889,454
Detail may not equate to total due to rounding. Output and Wages in 2017 Dollars. Jobs are measured as full-time equivalents (FTEs). Taxes include state and local taxes. Direct Effect was computed from data provided by industry participants. Indirect and Induced Effects were computed using input-output analysis. The Indirect Effect represents economic activity generated entities down the supply chain. The Induced Effect represents economic activity generated as a result of household purchases.				

New Jersey iGaming has also been a success from a regulatory perspective, especially considering its launch was accomplished within a nine-month timeframe. The state features some of the strictest iGaming regulation protocols in the world. Entirely new technologies were developed or implemented for U.S. state-mandated requirements, such as precise geolocation and regulatory monitoring of the diverse platforms being operated. The New Jersey Division of Gaming Enforcement established procedures for player identification and tracking which set the standard for state oversight of iGaming.

While New Jersey iGaming's rigorous standards have created some business challenges at times, they have successfully addressed the valid concerns voiced by opponents and skeptics of iGaming, and proven that legal intrastate iGaming can be successfully operated and safely regulated.

**Concern with iGaming:
New Jersey's Experience:**

Protecting players, operators, and the public

Players have guarantees that Internet games meet regulatory standards and operators are accountable. Thus, they can enjoy playing with assurances that they are interacting with trusted brands, protected from fraud and cheating, and enjoy the confidence that they will receive payouts when they win. Players are further

protected by mediation procedures, tools to manage the velocity of play, and the ability to exclude oneself not just from a single site but from the entire iGaming space. The integrity of the industry is protected by a stringent regulatory framework which aggressively vets operators, tests their platforms, constantly scrutinizes ongoing operations, and flags any irregularities for investigation.

**Concern with iGaming:
New Jersey's Experience:**

Fraud and cheating

Fraud and cheating are concerns for all land-based casinos and Internet-based businesses. Preventing these activities requires constant vigilance and New Jersey's iGaming oversight is structured so that both regulators and operators monitor transactions 24/7. Stringent identity verification, account funding protocols, and comprehensive recording of all gaming transactions have been deployed to identify cases of suspected cheating or collusion and to initiate further investigation. Notably, iGaming credit card chargeback rates are similar to those of other online retail businesses.

**Concern with iGaming:
New Jersey's Experience:**

Money laundering

New Jersey Know Your Customer (KYC) procedures are the most rigorous instituted by any iGaming regulator, and comprehensive tracking of account funding and all gaming transactions discourages money laundering more effectively than previous land-based methods.

**Concern with iGaming:
New Jersey's Experience:**

Underage gambling

To date and to the extent of our knowledge in researching this report, no minors have succeeded in creating accounts and wagering as adults online in New Jersey. Strict KYC registration procedures and constant monitoring have proven effective at preventing underage gambling and may be more effective than land-based casinos' ID verification methods.

**Concern with iGaming:
New Jersey's Experience:**

Problem gambling

In contrast to previous studies, a newly released study by Rutgers University indicates that problem gambling prevalence rates in New Jersey have increased over time and are higher than in other jurisdictions. It does not conclude that iGaming is the cause (only about 5% of survey respondents were online-only gamblers). Dramatic differences observed in problem gambling prevalence between the two survey groups within this particular study raise questions and call for continued research to monitor problem gambling in New Jersey.

**Concern with iGaming:
New Jersey's Experience:**

Keeping iGaming within state borders

Geographic fencing, a fundamental requirement for state regulated iGaming, was implemented for the first time in a state with densely-

populated borders during New Jersey's iGaming rollout. State-of-the-art geolocation technology works effectively today, erring on the side of caution along densely populated state borders.

**Concern with iGaming:
New Jersey's Experience:**

Cannibalization of Atlantic City casinos

The introduction of iGaming has been complementary to casino gaming, producing incremental revenue and not cannibalizing land-based revenue streams. After a decade-long downturn in Atlantic City revenues following the Great Recession, and increased regional competition, the land-based casino market stabilized in 2016 and the first quarter of 2017 has seen growth in both land-based casino and iGaming revenues. Our findings provide strong evidence that multi-channel engagement is bringing new customers to the casino, increasing brand loyalty, and growing the overall player database rather than substituting online for brick-and-mortar customers and revenues.

**Concern with iGaming:
New Jersey's Experience:**

Gaming revenue and state taxes will be low

New Jersey's iGaming industry has generated steady and growing revenues since inception. Net gaming revenue and state and local taxes in 2016 were significant at \$188.1 million and \$34.5 million, respectively. Those revenues are estimated to increase to \$220.0 million and \$40.3 million, respectively, in 2017. This means that iGaming represented 8.9% of land-based casino revenue in 2016 and is projected to grow to 10% in 2017.

As a result of the regulations and procedures now in place, anyone located within New Jersey borders who enjoys playing casino-style games over the Internet has the ability to do so in a legal, regulated environment with the assurance of trusted brands and strong player protections. Legal, regulated iGaming allows these players to avoid offshore sites, which were estimated to generate \$5.9 billion from U.S. citizens in 2008.¹ The New Jersey model has proven that iGaming can be successfully operated under very stringent regulation in a single-state environment. New Jersey's experience provides valuable lessons for other U.S. states considering iGaming legalization in the future. Its successful operating environment and regulatory structure could be adapted to suit the individual needs of other state jurisdictions, accelerate implementation, and more quickly realize the benefits of legal, regulated iGaming.

This white paper was conducted by Nathan Associates Inc. and Victor-Strategies on behalf of the iDevelopment & Economics Association (iDEA). A peer review was conducted by academics from the International Gaming Institute at the University of Nevada, Las Vegas (UNLV).

¹ Malcolm K. Sparrow, Coleman Bazelon, Charles Jackson, *Can Internet Gambling Be Effectively Regulated?*, John F. Kennedy School of Government, Harvard University, December 2009.