

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

SUBMITTED TO



EXECUTIVE SUMMARY

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SUBMITTED BY

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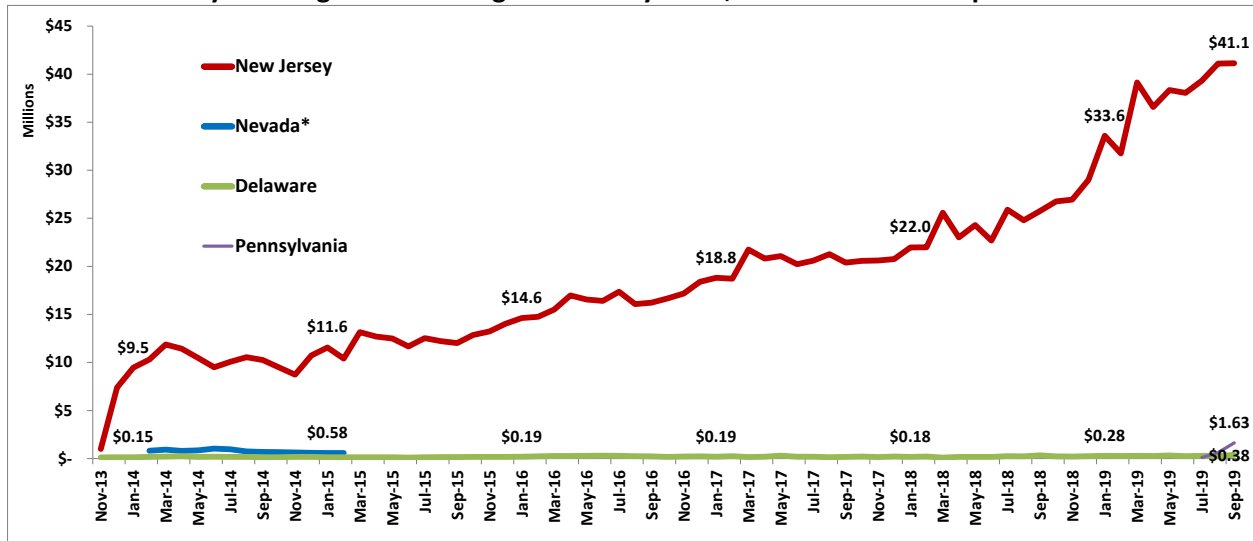
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Executive Summary

In November 2013, New Jersey became the third U.S. state to permit the legal operation of Internet gaming (“iGaming”). Measured by the objective metric of gross gaming revenue (“GGR”) generation, New Jersey has clearly implemented the most successful business model of the four states where iGaming is currently in operation in the U.S.

Monthly iGaming Gross Gaming Revenue by State, November 2013-September 2019



Sources: New Jersey Division of Gaming Enforcement; Nevada Gaming Control Board; Delaware Video Lottery; and Pennsylvania Gaming Control Board.

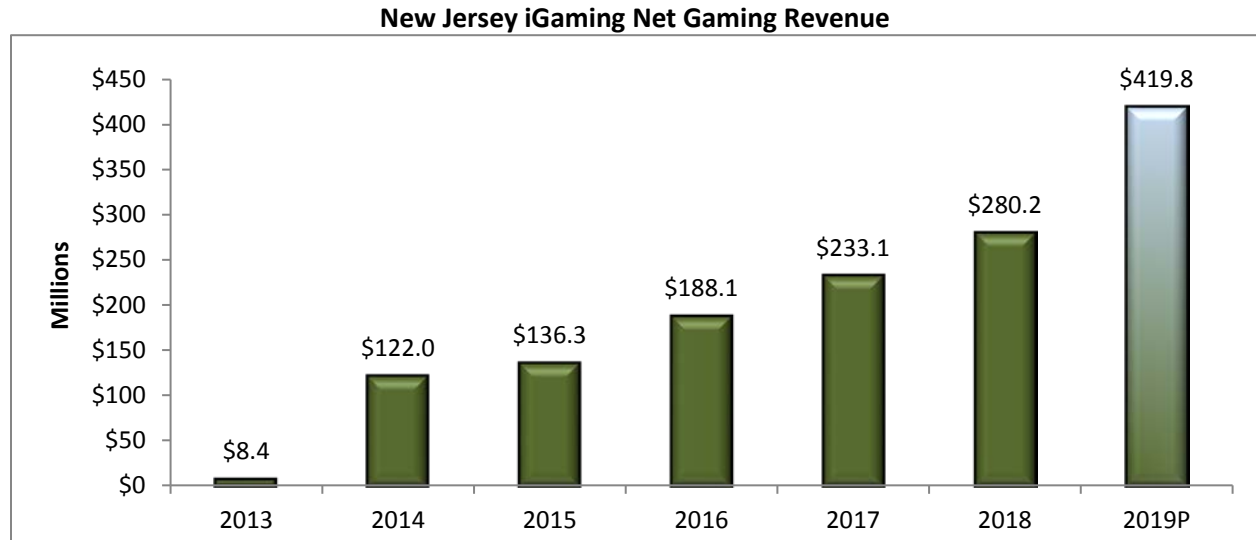
*Nevada Gaming Control Board ceased reporting Internet poker revenue as of February 2015.

New Jersey’s iGaming laws allow licensed Atlantic City casinos to operate all games permitted in their brick and mortar facilities, and partner with approved technology providers to operate multiple iGaming websites for each property. As a result, iGaming has experienced strong and steady growth in New Jersey since its inception, putting it far ahead of Nevada and Delaware in terms of registered player counts, gaming revenue, and tax revenue. Pennsylvania, which taxes iGaming at the same high rate as land-based casino gaming is still in its infancy and only time will tell how successful that state’s business model will be.

MARKET PERFORMANCE OF NEW JERSEY IGAMING

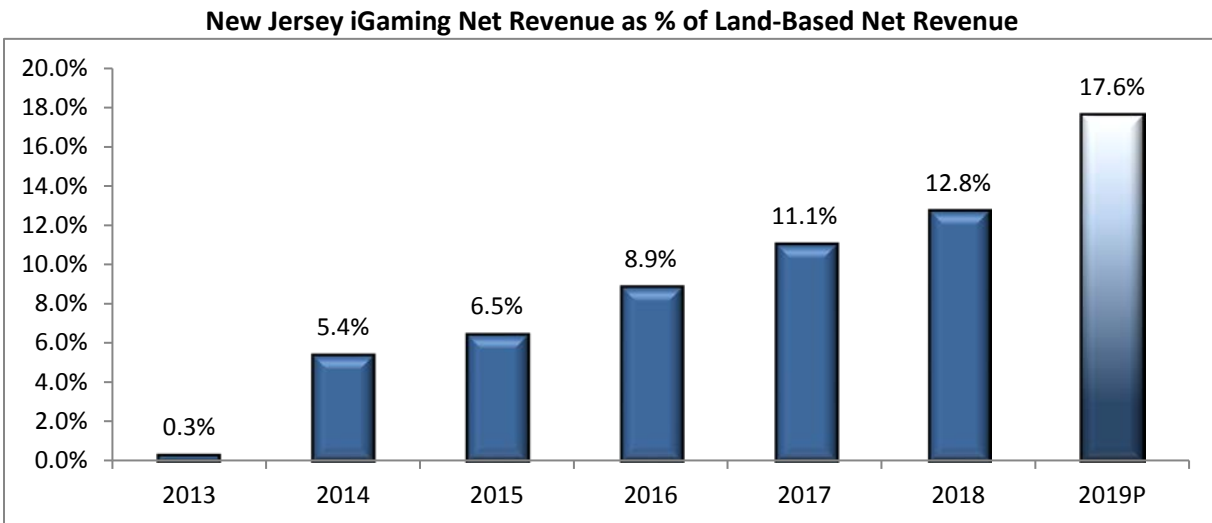
Since its first full year of operations, iGaming GGR has grown at a compound annual growth rate of 24.8%. In calendar year 2018, iGaming generated total GGR of \$299.1 million, a 21.6% increase over 2017. Through September 2019, GGR totaling \$339.0 million has already surpassed the 2018 total. If the remainder of 2019 yields the same average monthly performance as the first nine months (\$37.7 million in average GGR per month), GGR for all of calendar year 2019 is projected to total approximately \$452.0 million, a 51.1% increase over calendar year 2018.

Net gaming revenue, which subtracts all promotional gaming credits from GGR, totaled \$280.2 million in 2018, a 20.2% increase over 2017 revenues. New Jersey iGaming looks to continue this strong growth through the current year. Net Gaming revenue is projected to reach approximately \$419.8 million in net gaming revenue by year end 2019.



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

iGaming net revenue as a percentage of land-based casino revenue in New Jersey has grown from 5.4% of land-based net gaming revenue in 2014, its first full calendar year of operation, to 12.8% of land-based net gaming revenue in 2018, and it is projected to reach 17.6% in 2019.

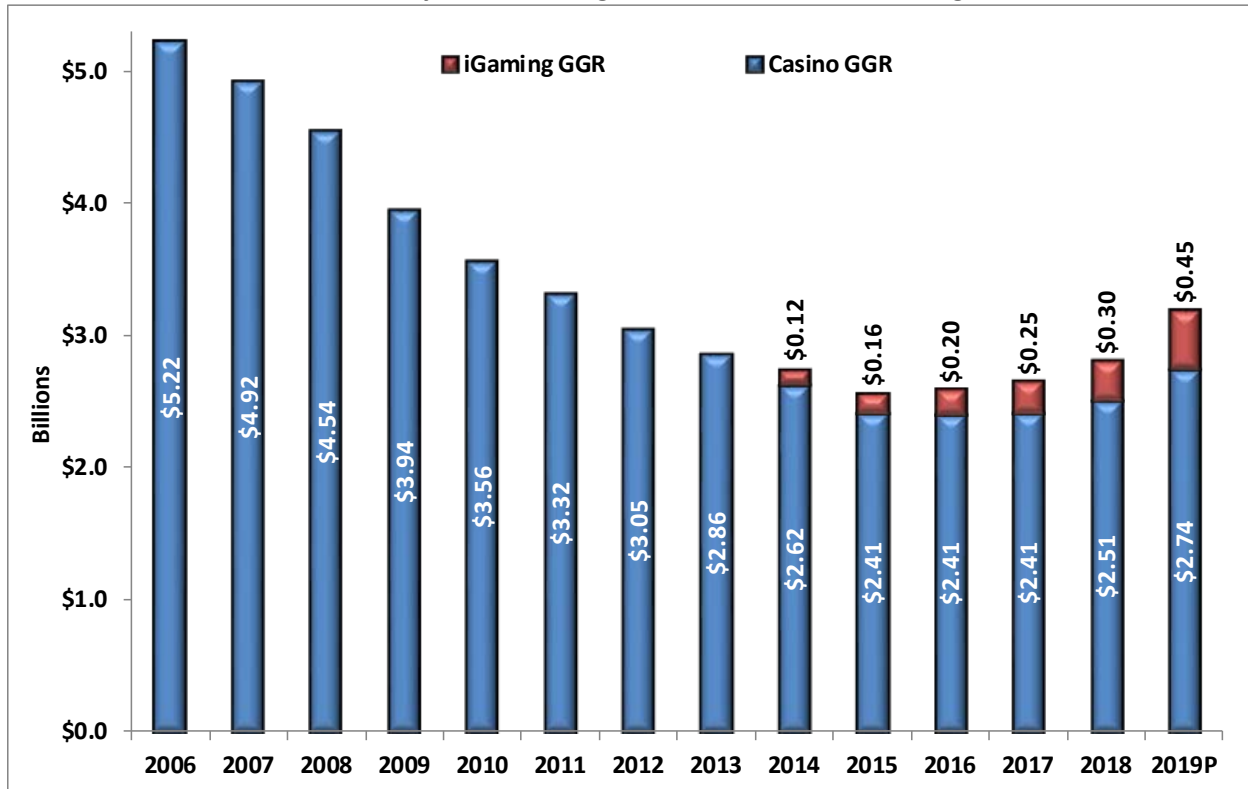


Source: New Jersey Division of Gaming Enforcement.

This revenue growth for iGaming has occurred without cannibalizing the revenue generated by brick and mortar casinos in Atlantic City. In fact, industry analysts generally agree that iGaming has been complementary rather than cannibalistic to land-based casino business. After a decade-long

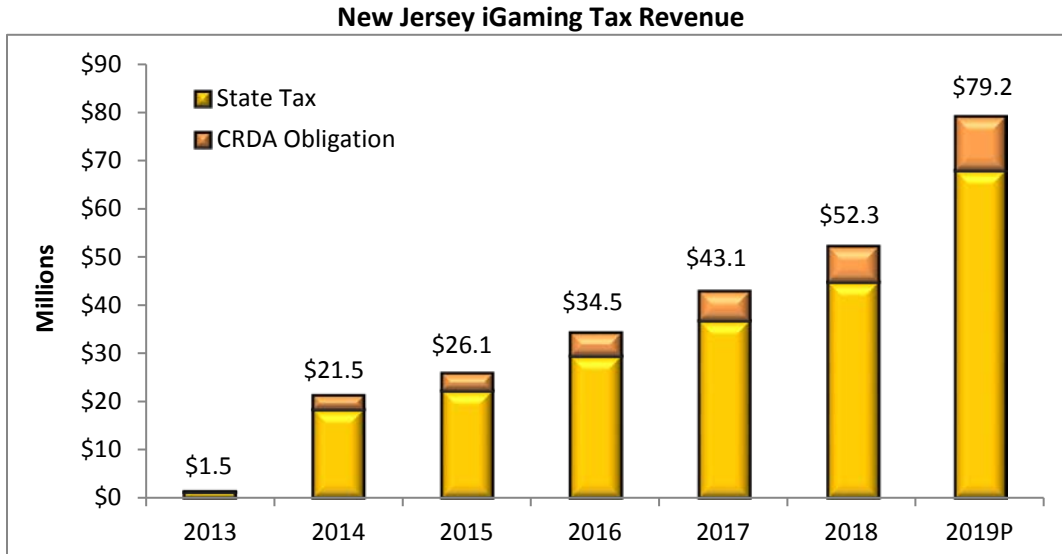
downturn in Atlantic City gaming revenue following the Great Recession and a significant increase in regional competition, the land-based casino market stabilized in 2017 and both land-based casino and iGaming revenues have experienced growth in 2017 and 2018. These phenomena provide strong evidence that multi-channel engagement is attracting new customers to the casino, increasing brand loyalty, and growing the overall player database rather than substituting online for brick-and-mortar visitation. Based on the current trajectory thus far in calendar year 2019, the New Jersey gaming industry as a whole will generate more than \$3 billion in GGR by the end of 2019, the first time this has happened since 2012, when there were 12 casinos operating in the city.

New Jersey Gross Gaming Revenue, Casino vs. iGaming



Source: New Jersey Division of Gaming Enforcement.

With this increase in gaming revenue has come a corresponding increase in tax revenue. New Jersey iGaming generated \$52.3 million in gaming taxes for New Jersey in calendar 2018, including approximately \$44.9 million to the State and \$7.5 million locally via the Casino Reinvestment Development Authority (CRDA). This reflects a 21.6% increase over 2017. Gaming taxes are anticipated to total \$79.2 million in 2019.



Source: New Jersey Division of Gaming Enforcement.

ECONOMIC AND FISCAL IMPACT OF NEW JERSEY IGAMING

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. Not only is there the contribution of iGaming itself, but also secondary effects that result from the investment in and operation of iGaming. Secondary effects come about as player expenditures are subsequently spent by the gaming operators and then re-spent by suppliers and all employees throughout the economy. This phenomenon is often referred to as the “multiplier effect.”

From its inception in late 2013 through calendar year 2018, New Jersey iGaming has directly and indirectly generated:

- \$2.0 billion in output (i.e., value of sales);
- 6,552 jobs (i.e., full-time equivalents);
- \$401.0 million in wages to employees; and
- \$259.3 million in tax revenue to state and local governments (including \$178.9 million in iGaming taxes).

2013-2018 Economic & Fiscal Impact of Investment in & Operation of iGaming on State of New Jersey				
Type of Effect	Output	Jobs	Wages	Taxes
Direct	\$1,086,633,618	1,617	\$106,338,586	\$208,284,680
Indirect	\$604,206,501	3,240	\$202,395,710	\$30,614,394
Induced	\$305,637,895	1,695	\$92,295,157	\$20,387,157
Total	\$1,996,478,014	6,552	\$401,029,454	\$259,286,231

Detail may not equate to total due to rounding.
 Output and Wages in 2019 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 by entities down the supply chain. The Induced Effect represents economic activity generated as a result of household purchases.

In calendar year 2018 alone, the operation of iGaming (excluding investments) generated:

- \$553.6 million in output;
- 1,851 jobs;
- \$104.8 million in wages to employees; and
- \$74.4 million in tax revenue to state and local governments (including \$52.3 million in iGaming taxes).

2018 Economic & Fiscal Impact of Operation of iGaming on State of New Jersey				
Type of Effect	Output	Jobs	Wages	Taxes
Direct	\$300,782,930	481	\$22,866,018	\$60,317,472
Indirect	\$172,314,516	924	\$57,622,206	\$8,693,264
Induced	\$80,471,986	446	\$24,300,433	\$5,368,231
Total	\$553,569,432	1,851	\$104,788,658	\$74,378,967

Detail may not equate to total due to rounding.
 Output and Wages in 2019 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 by entities down the supply chain. The Induced Effect represents economic activity generated as a result of household purchases.

REGULATION OF NEW JERSEY IGAMING

New Jersey iGaming also continues to be successful from a regulatory perspective. The state features arguably the strictest and most robust iGaming regulatory model in the world today. This regime incorporates new technologies that have been thoroughly proven and tested over six years of practice. The New Jersey Division of Gaming Enforcement has established procedures and mandated requirements for precise geolocation, player identification, monetary tracking, and comprehensive monitoring of the all operating platforms that now serve as standards for state oversight of iGaming and other forms of interactive wagering in other U.S. states. To date, there has been no measurable evidence of increases in gambling harm, underage gambling, fraud, or money laundering as a result of the legalization of iGaming. New Jersey's iGaming industry has successfully addressed the valid concerns voiced by opponents and skeptics of legal iGaming and proven that geo-fenced interactive wagering can be successfully operated and safely regulated in an intrastate environment.

This white paper was conducted by Meister Economic Consulting and Victor-Strategies on behalf of the iDevelopment & Economics Association (iDEA).

Appendix A: About the Authors

Alan P. Meister, Ph.D.

Dr. Meister is CEO and Principal Economist at Meister Economic Consulting. He specializes in the application of economic analysis to litigation, regulatory, public policy, and business planning and operations matters. He has extensive experience analyzing economic issues related to the gaming industry, including commercial casinos, racinos, Indian gaming, card rooms, and online gaming. His consulting work has included industry and market analyses, economic and fiscal impact studies, public policy analysis, feasibility studies, evaluations of regulations, surveys, damage analysis, and economic research, analysis, and expert testimony in litigation and regulatory matters. His clients have included gaming operators, industry suppliers, investors, governments, and gaming associations. Dr. Meister has also conducted years of independent, scholarly research on the gaming industry and authored a number of publications, most notably his annual study, the *Indian Gaming Industry Report*, which has been cited by the U.S. Supreme Court. He has presented his work at various academic, professional, and industry conferences and testified before the California State Senate on gaming issues. Furthermore, his consulting and scholarly work have been used in matters before the U.S. Supreme Court, World Trade Organization, and U.S. Department of the Interior. Dr. Meister leads the Gaming consulting practice at Nathan Associates.

Of particular note have been the following consulting and scholarly projects in New Jersey:

- Dr. Meister co-authored with Mr. Eugene Johnson a study that provided an in-depth review of New Jersey online gaming and quantified the contribution of online gaming to the New Jersey state economy.
- Dr. Meister co-authored with Dr. Clyde Barrow a peer-reviewed academic paper on market saturation in the gaming industry. The paper examined various gaming markets, including Atlantic City, and developed various metrics for measuring market concentration and determining whether markets were saturated.

In his public policy work, Dr. Meister has conducted economic analysis to identify and measure the effects of: construction, expansion, and operation of various types of businesses; regulations; legislation; taxation; the passage of ballot initiatives; government programs and services; publicly funded projects; sporting and entertainment events; commercial and mixed-use developments in low-income areas; and medical research. His work has included economic and fiscal impact analyses, assessments of the contribution of businesses and industries to the economy, cost-benefit analyses, and surveys.

Prior to joining Nathan Associates, Dr. Meister was a teaching assistant for five years at the University of California, Irvine, where he assisted with teaching courses on probability, statistics, econometrics, and survey design. In addition, he worked for a market research firm that implemented surveys for the motion picture industry.

Dr. Meister holds a Ph.D., M.A., and B.A. in Economics from the University of California, Irvine.

E. Eugene Johnson, MBA

Gene Johnson is an Executive Vice President of Victor-Strategies. He has over 30 years of experience in the gaming industry, including more than seven years with Atlantic City casinos. This experience ranges across the areas of market research, strategic planning and analysis, MIS, and quality assurance. Over his career, Johnson has managed and conducted extensive qualitative and quantitative surveys and focus groups with gamblers of all types, including casino players, poker players, bingo and charitable game players, and online gamblers.

One of his focuses has been research and analysis of online gaming. He has consulted with numerous gaming companies, trade associations, and governments in North America, including recently in the states of New Jersey, California, Massachusetts, and West Virginia. Services have included market analysis, market sizing, player perceptions, attributes of attraction, player loyalty and satisfaction, new product development and testing, and website usability and application functionality. In New Jersey, Mr. Johnson recently co-authored with Dr. Alan Meister that provided an in-depth review of New Jersey online gaming and quantified the contribution of online gaming to the New Jersey state economy.

Prior to Victor-Strategies, Mr. Johnson founded EE Johnson Research, a marketing research and consulting firm specializing in the casino industry, with secondary specialization in entertainment, tourism and travel, financial services, and credit cards. EE Johnson Research eventually became part of Spectrum Gaming Group, where he served as Senior Vice President for Market Research and Internet Studies.

Mr. Johnson holds a BA from Washington College and an MBA from the University of Phoenix. He also holds a CQA certification from the Quality Assurance Institute. He is a member of the American Society for Quality, American Marketing Association, and Qualitative Research Consultants Association. Mr. Johnson remains an active member of QRCA and was a speaker at that organization's 2011 annual convention on the topic of identifying and analyzing influential attributes of attraction for gambling centric destination resorts.